Stock Code 9931

Hsin-Kao Gas Co., Ltd.

2022
Annual Report

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Lookup URL: http://mops.twse.com.tw

Spokesperson Name: Wan Chia-Hua

Title: Board of Directors Secretary

Telephone: (07) 531-5701 Ext. 676

E-mail: None

Deputy Spokesperson Name: Huang Luo-Hui

Title: Finance Manager

Telephone: (07) 531-5701 Ext. 626

E-mail: None

Company address and telephone:

Address: No. 56, Dayi Street, Yancheng District, Kaohsiung City

Telephone: (07) 531-5701～16

E-mail: hsinkao.gas@msa.hinet.net

Website: http://www.hkgas.com.tw

Stock transfer agency:

Name: Capital Securities Corporation

Address: B2, No. 97, Dunhua South Road Section 2, Da'an District, Taipei City

Telephone: (02) 27023999

Website: http://www.capital.com.tw

CPAs for financial statements in the most recent year

Names: Chou Yin-Lai, Cheng Chien-Hsiu

Firm name: Baker Tilley Clock & Co.

Address: 14F, No. 111, Nanjing East Road Section 2, Taipei City

Telephone: (02) 2516-5255

E-mail: clock.ks@msa.hinet.net

Any exchanges where the Company's securities are traded offshore: None

Company Website: http://www.hkgas.com.tw

2022 Annual Report

Contents

One. Letter to Shareholders

Statistics of the Real Estate Development Association of Kaohsiung: there were 55 building construction projects throughout 2022, involving a total of 10,572 households, with an annual growth of around 12%. The total sales were worth NTD149.3 billion, with an annual growth of around 45%. The housing market remained heated. There were 36 stand-alone house construction projects in 2022, involving 399 households in total, with an annual growth of around 68%. The total sales were worth NTD8.5 billion, with an annual growth of around 34%, indicating that the demand for stand-alone houses remains high on the market. In 2023, with increase raises by central banks around the world and tightened funds, in addition to the amendment to the “ “ in the beginning of this year after other prior policies such as House and Land Transactions Income Tax 2.0 and the control over loans available from the central bank, short-term investors will back out of the market and hence it is for sure that the “sales” on the domestic housing market will drop and a “price reduction” is also inevitable. Although obvious falls are yet to be noted in terms of housing prices, the trading volume has revealed obvious declines on the housing market. Once the trading volume on the housing market drops, prices will begin to be modified, too. During the SARS pandemic in 2003 and the financial storm in 2008, the housing market plummeted yet it bounced usually in around a year. The “window of opportunity” was only open for a short period of time. Homeowners usually hesitate longer than investors. Once they come around, prices have gone back up for a while on the housing market. The current “window of opportunity” that is opened with the housing market calming down, however, may last longer than before. The “price freeze” may last up to 2025. Homeowners have sufficient time to look around and make their selections; nevertheless, they need to be patient and insightful. The winter for investors, after all, is the spring for homeowners. An observation of the trends on the housing market over the past 30 years reveals that supply and demand is the primary influential factor. The supply surged last year and hence more supply and demand will appear for the short term. As soon as the housing calms down, homeowners can examine carefully the fundamentals of a house and spot their best opportunities and purchase their ideal homes. Collection of carbon charge will begin in 2024 and the construction sector is known to be a high energy-consuming one. The increased cost from the carbon charge for the builders will be reflected in the selling prices of houses and gradually push up housing prices. It is uneasy for the housing market to become heated again right away this year or next year.

Throughout 2022, for-profit users included in the promotion were Yuli Kitchen, TKK Fried Chicken at Taroko Sports, SKM Park, McDonald's, ODAY, JARDINE FOOD, Chaoyangsihai Soymilk, Wowprime Corp., Full Taste, McDonald’s, Master Food, ENJOY WARMTH, Chunchuan Korean House, DianDianXin Restaurant, TAI Urban Resort, Tofu Restaurant, FEASTOGETHER, Si Hai Soy Milk, Honkaku, Wei Sheng Investment, Thai Town Cuisine, Hexion Thai Restaurant, HUMAX EAST, KURA SUSHI ASIA, SABOTEN, Xingshueh Kindergarten, etc.

According to the applicable requirements of the Natural Gas Enterprise Act, related major expenses of the Company recently are presented as follows:

I. The construction of the circular pipeline network from Dazhong Road to Benguan Road and from Yangming Road to Chengqing Road continues.
II. To fulfill the requirements of the “Regulations Governing the Installation and Repairing of Disaster Prevention-related Facilities for Natural Gas Enterprise Transmission and Storage Equipment”, “related regulators” disaster prevention facilities have been installed in separate stages since 2017. At present, 41 are completed and 9 are ongoing.
III. Re-piping to Avoid Conflicting with Light Rail
IV. Statistics of pipeline maintenance and care and service fees of users in buildings throughout 2022 show a total of NTD16.73 million.

The description on the 2022 annual operating results and the review of budget implementation as follows: Unit: NT$ Thousand

Item	Budget	Actual (Parent Only)	Attainment Rate%	Actual (Consolidated)
Operating Revenue	1,222,419	1,247,480	102%	1,247,480
Operating Costs	(1,017,497)	(1,021,142)	100%	(1,021,142)
Gross Profit	204,922	226,338	110%	226,338
Operating Expense	(62,434)	(66,279)	106%	(68,245)

Non-operating income and expenditure	58,824	53,458	91%	62,496
Financial Costs	-	(304)	-	(754)
Net Income	161,050	173,284	108%	174,357
Earnings per share	1.46	1.57	108%	1.57

V. Profitability： Unit: NT$ Thousand

Item	Parent Only Financial Statement	Rate %	Consolidated Financial Statement	Rate %
Total Assets	5,185,273	Return on Assets 3.41	5,496,911	Return on Assets 3.27%
Shareholders' Equity	2,355,287	Return on Equity 7.27	2,398,668	Return on Equity 7.18%
Profit before tax	213,213	Profit Before Tax to Capital Stock 19.31	219,835	Profit Before Tax to Capital Stock 19.91%
Profit Margin	13.89	-	13.98	-

Business Plan of Current Year (2023): the goal is to expand the user base to 4,000 households and the amount of gas sold is about 63,242 kWh; the expected operating income is NTD1,269,769 thousand and the after-tax net profit is NTD162,994 thousand, with the earnings per share being NTD1.48.

Future Development Strategy: Besides providing the gas to the domestic use of citizens as operation to promote the prosperity and the progress of the society, the natural gas operators also with the responsibility of maintaining urban public safety. In future, the company will be actively planning and executing the mechanism of maintenance management and the measures of responding to the incidents to provide the citizens with the needs of living facilities and the ensuring citizens more safety and reliable, in addition to the cooperation of pipeline burying and providing the seamless gas supply pipeline network in the road construction of the redevelopment zone.

The effect of external competition: Although the rapid urban development in the Kaohsiung City, the new installed users were mainly from the new-built multifamily residential buildings and catering industry. The promoting of natural gases is not easy due to the high percentage of old communities of detached houses and flats in downtown of those with conservative in outlook were mainly use LPGs. In addition, newly-built houses and the dormitory of schools were using solar energy instead of gases due to the the southern part of Taiwan with long duration of sunshine in summer, rarely rain in autumn and winter. Grand hotels, hospitals, saunas, motels and others were use heat pump and cheap oil fuels. All of these above affecting on the willingness of use of natural gases in external factors.

The effect of legal environment and the overall business environment: Compared to the household consumption of natural gases has gradually decrease, the operators of LPGs and the solar power water heaters were less restricted by the laws and regulations, lower management costs, transactions made by cash, with high profit and with stable operation. Except the conversion to alternative energy resources, the reason for that is the new energy laws and regulations also restrict the operational benefits of natural gases businesses. The government has promoting to replace the oil-fired boiler or coal-fired boiler with gas-fired boiler in these recent years, use of natural gas as the fuel to reduce the air pollution significantly. The natural gas characterized with low carbon emission, dispatchable, the rapidly start and stop and others, collaborate with the renewable energy as the base load and load-following power plant, and be the main contributor to the power system in this critical energy conversion timing (to meet the gas power generation to the 50% of the total electricity generation in 2025). All of the above, the demand for natural gas will be increasing substantially, and how to stabilize the supply of the natural gases will be the most critical issue.

Examine Research and Development Work:

I. Comply with the definition of regulator stations and the construction requirements of its related monitoring systems in accordance of the Natural Gas Enterprise Act, to meet the requirement of the laws and regulations.

II. Thirteen sessions of professional technical training were held throughout 2022, including 5 for professional technicians of contractors. There are also 10 sessions of workshops where abnormal cases and emergency responses were discussed throughout the year.

III. The industrial safety supervising team will visit each workplace irregularly to guide the personnel to comply with the occupational safety related laws and regulations, to avoid the occurrence of occupational injuries.

In honor of our corporate social responsibilities, we will continue to work with the government by developing and promoting constructions in order to proactively improve the quality of service and gas supply safety for users. Hsin Kao expects that his employees honor the safety symbol by paying more attention to assure safety. It is also expanding its user base under the slogan “Hsin Kao, Your Best Partner to Persistent Success”. It is our hope to win recognition and secure sales as a safe brand and trademark that people trust.

Chairman Chen, Chien-Tung

Two. Company Profile

I. Company Profile

(I) Date of establishment: December 15, 1983

(II) Company address: No. 56, Dayi Street, Yancheng District, Kaohsiung City Telephone: (07) 531 5701

(III) Paid-up capital amount: NT$1,104,305,530

II. Company history:

1983: Formally established Hsin-Kao Gas Co., Ltd. and began to lay pipelines in the business area.

1985: Officially started gas supply business using liquefied petroleum gas.

1991: Changed to supplying of natural gas in order to cooperate with government policy.

1999: Stock was listed on the OTC market.

2000: Stock was listed on the main market.

2005: The Energy Commission of the Ministry of Economic Affairs stipulated the implementation of separate accounting.

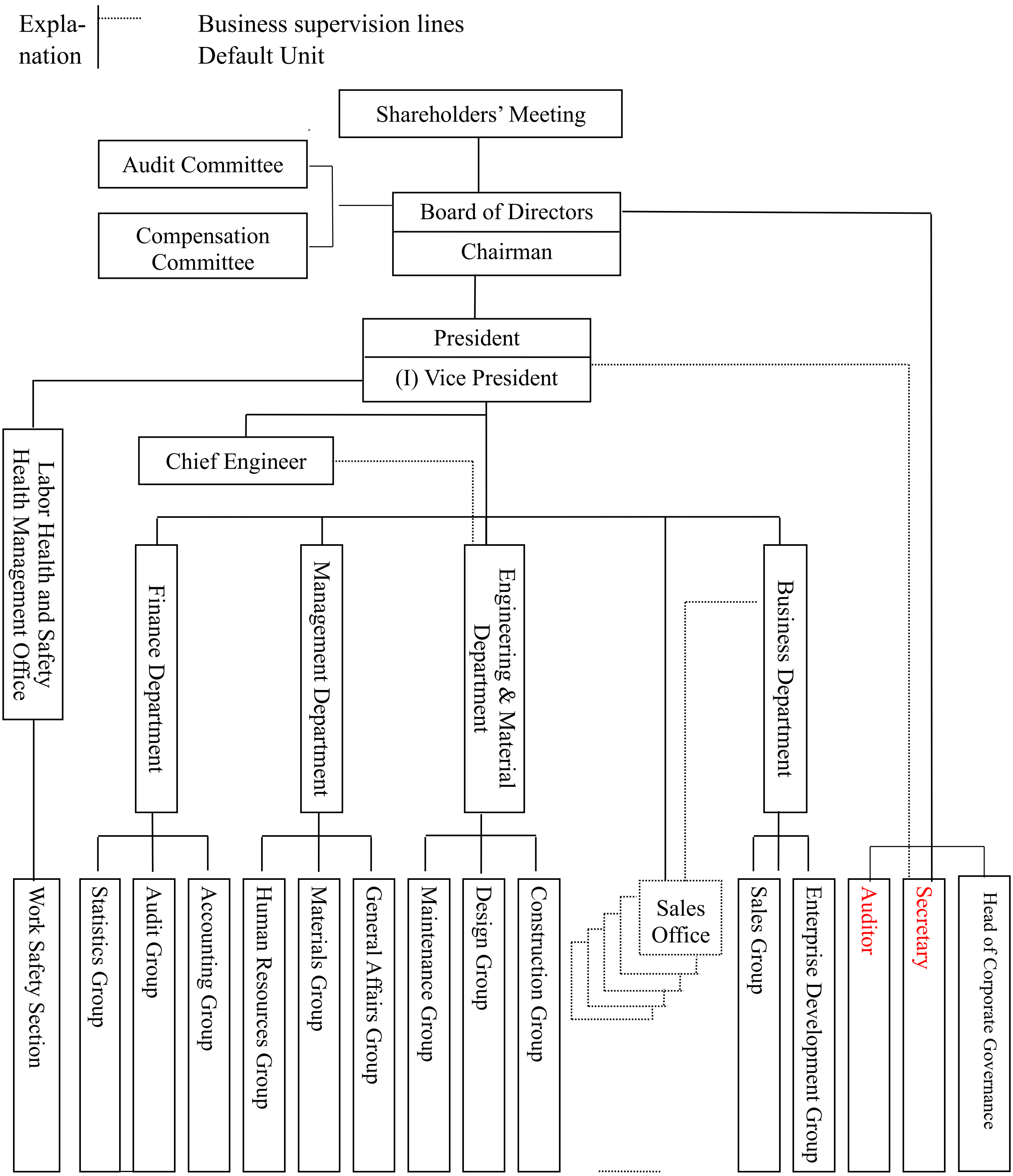
2006: In response to regulations of the Bureau of Energy of the Ministry of Economic Affairs, gas pricing was adjusted from a basic rate to a basic fee plus a volume fee and meter deposits were to be returned.

2022 Through the publication date of the annual report, the Company did not have merger and acquisition activities, investments in affiliated enterprises, and corporate reorganization; massive transfer of shares or the replacement of the directors, supervisors, or major shareholders holding more than 10% of the shares; or changes in managerial control, material change in operating methods or type of business, and any other matters if material significance that could affect shareholders' equity.

Three. Corporate Governance Report

I. Company Organization

(I) Organizational System (Revised through the letter from the Company [Xin-Gao-Guan-No. 005] dated August 8, 2022)



(II) Business operations of major departments:

1. Business Department: User development, gas transmission pipeline planning, meter reading charge management.
2. Engineering & Material Department: pipeline design, engineering (inner and outer pipe) construction, installation (removal) of meters, and equipment maintenance.
3. Management Department: Personnel management, procurement, issuing and receiving payments, and general affairs.
4. Finance Department: Accounting management, income and expenditure review, working capital management, investment management, and stock management.

II. Information on directors, supervisors, the President, vice presidents, associate managers, and supervisors of various departments and branches

(I) Information on the President, vice presidents, associate managers, and supervisors of various departments and branches

Unit: Shares April 15, 2022

Job Title	Nationality	Name	Gender	Date of Election (Appointment)	Shares held		Shares held by spouse and minor children		Shares held in the name(s) of others		Principal Experience (Education)	Office(s) concurrently held in other companies	Spouse or relatives within the second degree of kinship or closer acting as managerial officers			Where the general manager or equivalent (top manager) and the chairman is the same person, or spouse or relative within one degree of kinship to the other
					Number of shares	% of shareholding (%)	Number of shares	% of shareholding (%)	Number of shares	% of shareholding			Job Title	Name	Relationship	
President	Republic of China	Chen Jung-Hsin	Male	2019.07.15	0	0	0	0	None	None	Graduate of the US Naval War College Director; Head of Veterans Affairs Council	None	None	None	None	None
Vice President	Republic of China	Huang Chin-Hsiung	Male	2018.03.19	91,737	0.08	37,415	0.03	None	None	Graduated from Department of Mechanical Engineering, National Kaohsiung University of Applied Sciences. Manager, Hsin-Kao Engineering & Material Department	None	None	None	None	None
Manager, Finance Department	Republic of China	Huang Luo-Hui	Female	2007.06.01	0	0	0	0	None	None	Graduate of the Department of Accounting of Tunghai University. Bank auditor, assistant manager, certified public accountant. Passed the internal auditor and Class B special examinations.	None	None	None	None	None

(II) Director and Supervisor Information

April 15, 2022 Unit: Thousand shares

Job Title	Nationality or Place of Registration	Name	Gender Age	Date of Election (Appointment)	Term of office	Date first appointed	Shares held at the time of appointment		Number of shares currently held		Number of shares currently held by spouse and minor children		Shares held in the name(s) of others		Principal experience (Education)	Office(s) concurrently held in the Company and in other companies	Spouse or relatives within the second degree of kinship or closer acting as other supervisors, directors, or supervisors			Where the chairman and the general manager or equivalent (top manager) is the same person, or spouse or relative within one degree of kinship to the other
							Number of shares	% of shareholding	Number of shares	% of shareholding	Number of shares	% of shareholding	Number of shares	Shareholding ratio			Job Title	Name	Relationship	
Chairman Director	Republic of China	Chen Chien-Tung	Male 67	2020.06.08	3 years	1993.06.08	3,648	3.57	3,940	3.57	65	0.06	4,476	4.05	Master of Finance, Tamkang University; President, Hsin-Kao	Chairman, Hsin-Kao Chairman, Hexin	Director	Chuang Wen-Yuan	Spouse	None
Director	Republic of China	Chuang Wen-Yuan	Female 60	2021.02.08	3 years	2021.02.08	3,648	3.57	3,940	3.57	0	0	0	0	Master of Management, Kaohsiung Normal University; Chairman, Tongde Investment Co.	None	Chairman	Chen Chien-Tung	Spouse	None
Director	Republic of China	Huang Chin-Hsiung	Male 65	2020.06.08	3 years	2014.06.09	3,648	3.57	3,940	3.57	37	0.03	0	0	Graduated from Department of Mechanical Engineering, Kaohsiung University of Applied Sciences; Project Manager, Hsin-Kao	Hsin-Kao Co. Vice President	None	None	None	None
Director	Republic of China	Chen Jung-Hsin	Male 65	2020.06.08	3 years	2019.07.15	21,743	21.26	23,482	21.26	0	0	0	0	Graduate of the US Naval War College Head of Veterans Affairs Council; Director	Hsin-Kao Co. President	None	None	None	None
Director	Republic of China	Teng Wen-Han	Male 62	2020.06.08	3 years	2014.08.01	21,743	21.26	23,482	21.26	0	0	0	0	Graduated from the Law and Business School of Chung Hsing University. Vice Chief, Department of Stastics and Information	None	None	None	None	None
Director	Republic of China	Chen Kuo-Sheng	Male 61	2021.02.20	3 years	2021.02.20	1	0	1	0	0	0	0	0	MSc in Resource Management, Postgraduate Institute, National Defense University. Chief of Division of Budgeting and Division of Financial Management and Accounting, Comptroller's Office; Deputy Director and Director of Comptroller's Office.	Chairman, Rongqiao Investment Co.	None	None	None	None
Director	Republic of China	Huang Kun-Tsung	Male 61	2022.01.13	3 years	2022.01.13	0	0	0	0	0	0	0	0	Graduated from the Army Academy of National Defense University. Director of University Military Training Office; Director and Head of Veterans Service Office	None	None	None	None	None
Director	Republic of China	Kuo Yu-Lin	Male 61	2022. June 29	3 years	2022. June 29	0	0	0	0	0	0	0	0	Graduated from the Department of Civil Engineering, Chung Cheng Institute of Technology, qualified through the Special Civil Service Transfer Examination for Military Personnel, Director of Chiayi Veterans Service Office, Director of Kaohisung Veterans Home.	Director of Kaohsiung Veterans Home.	None	None	None	None
Independent Director	Republic of China	Chen Po-Hsun	Male 56	2020.06.08	3 years	2017.06.12	0	0	0	0	0	0	0	0	Bachelor of Finance, HPU, Hawaii, USA; Chairman, Top High Image	None	None	None	None	None
Independent Director	Republic of China	Fang Wei-Lien	Male 52	2021.07.12	3 years	2021.07.12	1	0	1	0	0	0	0	0	Ph.D. in Business, Institute of Accountancy, National Taiwan University. Accounting firm partner accountant; Adjunct Assistant Professor, Accounting Department, Ming Chuan University.	None	None	None	None	None
Independent Director	Republic of China	Cheng Wan-Chen	Female 40	2021.07.12	3 years	2021.07.12	0	0	0	0	0	0	0	0	Bachelor of Laws and Commerce, University of Sydney, Australia. Senior Manager, High-End Client Department, UBS; Manager, Tax and Legal Services Department, PwC Taiwan; Consultant, PwC International Financial Advisory Co., Ltd.	None	None	None	None	None

Remarks:
1. Chen Chien-Tung, Chuang Wen-Yuan, Huang Chin-Hsiung are corporate representatives of Tongde Investment Co., Ltd.; the number of shares held at the time of appointment were 3,648 shares and 3,940 thousand shares with a shareholding rate of 3.57%; the number of shares currently held is 3,940 thousand shares with a shareholding rate 3.57%; director compensation totals NT$2,049,796.
2. Teng Wen-Han, Chen Jung-Hsin and Kuo Yu-Lin are representatives of the Veterans Affairs Council; the number of shares held at the time of appointment was 21,743 thousand shares and the holding percentage was 21.26%; the number of shares currently held is 23,482 thousand shares and the shareholding rate is 21.26%; director and supervisor remuneration is NT$770,898.
3. Council corporate representative Yu-Lin Kuo succeeded Kun-Tsong Huang.
4. Chen Kuo-Sheng is corporate representative of Rongqiao Investment Co., Ltd.; number of shares held at the time of appointment was 1 thousand shares; the number of shares currently held is 1 thousand shares; the shareholding ratio is 0%; director compensation is NT$646,449.

5. Chen Chien-Tung concurrently served as Chairman of the Company's subsidiary Hexin International Co., Ltd. during the previous disclosure period.
6. The above personnel did not work in the Company's CPA firm during the previous disclosure period.

Table 1: Major Shareholders of Institutional Shareholders

April 15, 2022

Name of institutional shareholder	Major shareholders of institutional shareholder
Tongde Investment Co., Ltd.	Chen Chien-Tung holds 27.23%, Chuang Wen-Yuan holds 31.50%, Chen Ying-Te holds 21.12%, and Chen Shang-Te holds 20.15%
Veterans Affairs Council	Government corporation
Rongqiao Investment Co., Ltd.	Veterans Affairs Council 37.8%, Hsin Hsin Cement Enterprise Corporation 12.57%

Table 2: Major shareholders of major shareholders that are institutions as referred to in Table 1

April 15, 2022

Institution name	Major shareholders of institution
Hsin Hsin Cement Enterprise Corporation	China Steel Corporation 30.80%, Veterans Affairs Council 28.26%

Information of Directors and Independent Directors (I)

I. Disclosure of directors’ professional qualifications and independence:

Condition / Name	Has at least five years of relevant working experience and the following professional qualifications			Degree of independence												Number of other public companies where he/she/it concurrently serves as an independent director
	Lecturer or above in a department related to business, legal affairs, finance, accounting or area related to the Company’s business at a public or private college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience required for business, legal affairs, finance, accounting, or Company business	1	2	3	4	5	6	7	8	9	10	11	12	
Chen Chien-Tung			✓			✓		✓	✓	✓	✓	✓		✓	✓	0
Chuang Wen-Yuan			✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	0
Huang Chin-Hsiung			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chen Jung-Hsin			✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Teng Wen-Han			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Huang Kun-Tsung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Kuo Yu-Lin			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chen Kuo-Sheng			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chen Po-Hsun			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Fang Wei-Lien	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Cheng Wan-Chen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note 1: Each director and independent director who meet the following conditions during the two years prior to the election and during the term of office are required to mark “✓” in the space under the code of each condition.

(1) He/she is not a servant of the Company or its affiliate.

(2) Not a director or supervisor of the Company or its affiliates. (However, in the case of independent directors established and concurrently serving in the company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)

(3) Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ names, in an aggregate amount of one percent or more of the total number of outstanding shares of the Company or ranking in the top ten in holdings.

(4) Not management personnel of those listed in (1), or someone having a relationship with those listed in (2) or (3) including a spousal relationship, a second-degree kinship or closer, or an immediate blood relative within three degrees of kinship.

(5) Directors and supervisors who are indirect shareholders who hold more than 5% in total of the company’s total issued shares, the top five shareholders, or an appointed representative acting as a company director or supervisor in accordance with Article 27, Paragraphs 1 or 2 of the Company Act, or an employee thereof. (However, in the case of independent directors established and concurrently serving in the company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)

(6) Not a director, supervisor, or employee of another company controlled by the same person with more than half of the shares with voting rights on the company’s board of directors. (However, in the case of independent directors established and concurrently serving in the company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)

(7) Not a director (governor), supervisor (audit committee member), or employee of another company or institution whose chairman, general manager, or equivalent position is the same person as that of the Company, or the spouse thereof. (However, in the case of independent directors established and concurrently serving in the company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)

(8) Not a director (governor), supervisor (audit committee member), or manager of a specific company or institution having financial or business dealings with the Company, or a shareholder holding 5% or more of shares. (However, if a specific company or institution holds more than 20% of the total issued shares of the Company but not more than 50%, and the established independent director concurrently serves in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)

(9) Not a partner, director (governor), supervisor (audit committee member), manager, or spouse thereof of a company or institution that provides commercial, legal, financial, financial, accounting services or consultation to the company or any affiliate of the Company for amounts exceeding NT$500,000 in the past two years. However, for members of the Remuneration Committee, Public Acquisitions Review Committee, or M&A Special Committee who perform their functions and powers in accordance with the relevant laws and regulations of the Securities and Exchange Act or the Corporate Mergers & Acquisitions Act, this limitation shall not apply.

(10) He/she is not the spouse or relative within the second degree of kinship of another director.
(11) He/she does not fall into the circumstances in the provisions of Article 30 of the Company Act.
(12) No provision to be elected by a government or juristic person or their representative under Article 27 of the Company Act.

II. Diversity and independence of directors:

(I) Director diversity:

The Company operates natural gas sales and gas pipeline installations with a focus on natural gas pipeline installations and maintenance. Therefore, one director must have an engineering background and professional skills in engineering and in gas pipeline and natural gas. In order to meet the needs of diversification, we have also focused on investing in financial products and the construction industry over the past 10 years. For the sake of effectively managing and supervising the Company's finances and complying with laws and regulations, 6 directors hold business degrees and are business management professionals in areas such as finance and accounting and 2 directors majored in other management areas. The Company has 9 directors (including 3 independent directors) including 7 males and 2 females; all 9 seats are held by nationals of the Republic of China. The budget target was achieved in 2021. Net profit after tax was NT$237,364 thousand, user growth was 2.5%, and investment income came to about NT$83 million.

(II) Independence of the Board of Directors:

The Company has 9 directors. Among them, 3 seats are held by independent directors, accounting for one third.

2 of the 9 directors are spouses; the other seven seats are held by directors with no spousal relationships or relatives within the second degree of kinship.

All directors are free from the circumstances stipulated in Paragraph 3 and Paragraph 4, Article 26-3 of the Securities and Exchange Act.

Information of Directors and Independent Directors (II)

Condition Name	Professional qualifications and experience	Conformity to the status of independence	Number of other public companies where he/she/it concurrently serves as an independent director
Chairman Chen Chien-Tung	Specialty: Financial management, operations, investment management Experience: Former bank director; director and supervisor of public listed (TWSE-listed) company; President and Chairman of Hsin-Kao Co.	Spouse of Director Chuang Wen-Yuan	Not applicable
Director Chen Jung-Hsin	Specialty: Project management Experience: Head of Naval Shipbuilding Development Center and Veterans Affairs Council; Director of Shin Shin Passenger Transport, Shin-Hu, and Shintao Gas Co.	Conformity	Not applicable
Director Huang Kun-Tsung	Specialty: Management Experience: Inspector, Veterans Affairs Council; director of university military training office; Head and Director of Veterans Service Office	Conformity	Not applicable
Director Kuo Yu-Lin	Specialty: Management Experience: Director of Chiayi Veterans Service Office, Director of Kaohsiung Veterans Home.	Conformity	Not applicable
Director Chen Kuo-Sheng	Specialty: Resource Management, Finance/Accounting, Audit Experience: Chief of Division of Budgeting and Division of Financial Management and Accounting, Comptroller's Office; Deputy Director and Director of Comptroller's Office; Chairman, Rongqiao Investment Co.	Conformity	Not applicable
Director Chuang Wen-Yuan	Specialty: Operations management Experience: Director in finance industry; director of public listed (TWSE-listed) company; Chairman of Tongde Investment Co.	and spouse of Chairman Chen Chien-Tung	Not applicable
Director Huang Chin-Hsiung	Specialty: Natural gas conduits and ancillary equipment installation projects Experience: Works Manager and Technology Vice President of Hsin-Kao Co.	Conformity	Not applicable
Independent Director Chen Po-Hsun	Specialty: Corporate management Experience: Chairman and Consultant, Top Technology Corporation	Conformity Self, spouse, or relative within the second degree of kinship are not directors, supervisors, or employees of the Company or affiliated enterprises; and has not provided business, legal, financial, accounting, and other services to the Company or its affiliates in the last 2 years.	None
Independent Director Fang Wei-Lien	Professional qualifications: Certified Public Accountant, Ph.D. in Business Experience: Adjunct Assistant Professor, Accounting Department, Ming Chuan University; accounting firm CPA partner; independent director of Chitec Technology and Guang Peng Industrial Co.	Conformity Self, spouse, or relative within the second degree of kinship are not directors, supervisors, or employees of the Company or affiliated enterprises; and has not provided business, legal, financial, accounting, and other services to the Company or its affiliates in the last 2 years.	2
Independent Director Cheng Wan-Chen	Professional qualifications: Registered CPA, CPA Australia Experience: Senior Manager, High-End Client Department, UBS Taipei Branch; Manager, Tax and Legal Services Department and Private Wealth Service Department, PwC Taiwan; Senior Consultant, PwC International Financial Advisory Co., Ltd.	Conformity Self, spouse, or relative within the second degree of kinship are not directors, supervisors, or employees of the Company or affiliated enterprises; and has not provided business, legal, financial, accounting, and other services to the Company or its affiliates in the last 2 years.	None

(III) Remuneration paid to directors and independent directors

Unit: NT$ thousand

Job Title	Name	Remuneration for Directors								Ratio of the total amount of A, B, C and D vs. net profit after tax		Remuneration from concurrently serving as employee								Ratio of the total amount of A, B, C, D, E, F and G to net profits after tax		Remuneration received from investee companies outside of subsidiaries, or from the parent company
		Remuneration (A)		Retirement Pension (B)		Remuneration for Directors (C)		Business execution expenses (D)				Salaries, bonuses, special expenditures, etc. (E)		Retirement pension (F)		Remuneration for Employees (G)						
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company: Amount in cash	The Company: Amount in shares	All companies in the financial statements: Amount in cash	All companies in the financial statements: Amount in shares	The Company	All companies in the financial statements	
Chairman	Chen Chien-Tung	0	0	0	0	0	0	0	0	0	0	3,089	3,089	0	0	165	0	165	0	1.88	1.87	0
Director	Chen Jung-Hsin	513	513	0	0	0	0	0	0	0.29	0.29	2,890	2,890	0	0	0	0	0	0	1.96	1.95	0
Director	Huang Chin-Hsiung	5	5	0	0	0	0	0	0	0	0	2,226	2,226	0	0	119	0	119	0	1.35	1.34	0
Independent Director	Cheng Wan-Chen	520	520	0	0	141	141	0	0	0.38	0.38	0	0	0	0	0	0	0	0	0.38	0.38	0
Independent Director	Chen Po-Hsun	520	520	0	0	141	141	0	0	0.38	0.38	0	0	0	0	0	0	0	0	0.38	0.38	0
Independent Director	Fang Wei-Lian	520	520	0	0	141	141	0	0	0.38	0.38	0	0	0	0	0	0	0	0	0.38	0.38	0
Director	Palit Group Limited	1,524	1,524	0	0	566	565	0	0	1.21	1.20	0	0	0	0	0	0	0	0	1.21	1.21	0
Director	Veterans' Affairs Council	508	508	0	0	438	438	0	0	0.55	0.54	0	0	0	0	0	0	0	0	0.55	0.55	0
Director	Yung Chiao Investment	501	501	0	0	141	141	0	0	0.37	0.37	0	0	0	0	0	0	0	0	0.37	0.37	0

The policy, system, standards and structure of the remuneration packages of the Independent Directors and explain the relevance of the amount of remuneration paid to them based on factors such as responsibility, risk and time commitment: The payment criteria are generally identical to those for general directors.

Besides those disclosed in the above table, remuneration paid to directors in the most recent year for having provided services to all companies covered in the financial statement (such as working as a consultant who is not an employee): none.

Schedule of Remuneration Ranges

Range of remuneration paid to each director of the Company	Director name			
	The total amount of the first four remuneration items (A+B+C+D)		The total amount of the first seven remuneration items (A+B+C+D+E+F+G)	
	The Company	All the companies shown in the financial report	The Company	All the companies shown in the financial report
Less than NT$1,000,000	Chien-Tung Chen, Chin-Hsiung Huang Veterans Affairs Council, Yung Chiao Chen Jung-Hsin, Chen Po-Hsun Fang Wei-Lian, Cheng Wan-Chen	Chien-Tung Chen, Chin-Hsiung Huang Veterans Affairs Council, Yung Chiao Chen Jung-Hsin, Chen Po-Hsun, Fang Wei-Lian, Cheng Wan-Chen	Veterans Affairs Council, Chen Po-Hsun Fang Wei-Lian, Cheng Wan-Chen	Veterans Affairs Council, Chen Po-Hsun Fang Wei-Lian, Cheng Wan-Chen
NTD 1,000,000 (inclusive) – NTD 2,000,000 (exclusive)			Huang Chin-Hsiung	Huang Chin-Hsiung
NTD 2,000,000 (inclusive) – NTD 3,500,000 (exclusive)	Tongde Investment Co.	Tongde Investment Co.	Tongde Co., Chen Chien-Tung, Chen Jung-Hsin, Huang Chin-Hsiung	Tongde Co., Chen Chien-Tung, Chen Jung-Hsin, Huang Chin-Hsiung
NTD 3,500,000 (inclusive) – NTD 5,000,000 (exclusive)				
NTD 5,000,000 (inclusive) – NTD 10,000,000 (exclusive)				
NTD 10,000,000 (inclusive) – NTD 15,000,000 (exclusive)				
NTD 15,000,000 (inclusive) – NTD 30,000,000 (exclusive)				
NTD 30,000,000 (inclusive) – NTD 50,000,000 (exclusive)				
NTD 50,000,000 (inclusive) – NTD 100,000,000 (exclusive)				
Over NTD 100,000,000				
Total	9 seats	9 seats	9 seats	9 seats

Remuneration of President and vice presidents

Unit: NT$ thousand

Job Title	Name	Salary (A)		Retirement pension (B)		Rewards and Special expenses etc. (C)		Employee compensation amount (D)				Ratio of total amount of A, B, C, and D as percentage of income after tax (%)		Any remuneration received from reinvested businesses other than subsidiaries
		The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company		All companies included in the financial statements		The Company	All companies included in the financial statements	
								Amount in cash	Amount in shares	Amount in cash	Amount in shares			
President	Chen Jung-Hsin	2,426	2,426	0	0	464	464	0	0	0	0	1.67	1.66	0
Vice President	Huang Chin-Hsiung	1,857	1,857	0	0	369	369	119	0	119	0	1.35	1.34	0

Table of Remuneration Scales

Range of remunerations paid to general manager(s) and deputy general manager(s)	Name of General Manager and Deputy General Manager(s)	
	The Company	All companies within the consolidated statements
Less than NT$1,000,000		
NTD 1,000,000 (inclusive) – NTD 2,000,000 (exclusive)		
NTD 2,000,000 (inclusive) – NTD 3,500,000 (exclusive)	Chen Jung-Hsin, Huang Chin-Hsiung	Chen Jung-Hsin, Huang Chin-Hsiung
NTD 3,500,000 (inclusive) – NTD 5,000,000 (exclusive)		
NTD 5,000,000 (inclusive) – NTD 10,000,000 (exclusive)		
NTD 10,000,000 (inclusive) – NTD 15,000,000 (exclusive)		
NTD 15,000,000 (inclusive) – NTD 30,000,000 (exclusive)		
NTD 30,000,000 (inclusive) – NTD 50,000,000 (exclusive)		
NTD 50,000,000 (inclusive) – NTD 100,000,000 (exclusive)		
Over NTD 100,000,000		

(4-1) Remuneration of top five executives with the highest remuneration of a TWSE/TPEX listed company

Unit: NT$ thousand

Job Title	Name	Salary (A)		Retirement pension (B)		Bonuses and special expenses (C)		Employee compensation amount (D)				Ratio of the total amount of A, B, C and D vs. net profit after tax (%)		Renumeration received from investee companies outside of subsidiaries, or from the parent company
		The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company	All companies included in the financial statements	The Company		All companies included in the financial statements		The Company	All companies included in the financial statements	
								Amount in cash	Amount in shares	Amount in cash	Amount in shares			
President	Chen Jung-Hsin	2,426	2,426	0	0	464	464	0	0	0	0	1.67	1.66	0
Vice President	Huang Chin-Hsiung	1,857	1,857	0	0	369	369	119	0	119	0	1.35	1.34	0
Finance Manager	Huang Luo-Hui	1,467	1,467	0	0	301	301	91	0	91	0	1.07	1.07	0
Engineering & Material Manager	Chiang Chin-Yi	1,402	1,402	0	0	294	294	90	0	90	0	1.03	1.02	0
Business Assistant Manager	Yang Chia-Ling	1,310	1,310	0	0	278	278	83	0	83	0	0.96	0.96	0

In the most recent year, full-time employees of the Company who are not in supervisory positions and whose average annual salary is less than NT$500,000: None

(IV) Names of managerial officers entitled to employee bonuses and amounts entitled

Unit: NT$ thousand March 31, 2022

<table>
<tr><th></th><th>Job Title</th><th>Name</th><th>Amount in shares</th><th>Amount in cash</th><th>Total</th><th>As percentage of income after tax (%)</th></tr>
<tr><td rowspan="3">Manager</td><td>President</td><td>Chen Jung-Hsin</td><td rowspan="3">0</td><td rowspan="3">210</td><td rowspan="3">210</td><td rowspan="3">0.12%</td></tr>
<tr><td>Vice President</td><td>Huang Chin-Hsiung</td></tr>
<tr><td>Finance Supervisor</td><td>Huang Luo-Hui</td></tr>
</table>

The scope of the application of managers is stipulated by the former Securities and Futures Commission of the Ministry of Finance in letter Tai-Cai-Zheng-San-Zi-No. 0920001301 dated March 27, 2003. Its scope is as follows:

(1) President and equivalent
(2) Vice president and equivalent
(3) Associate manager and equivalent
(4) Head of Finance Department
(5) Head of Accounting Department
(6) Other persons who have the right to manage affairs and sign for the Company

(V) Anlysis of ratios of remuneration paid to directors, supervisors, the President and vice presidents of the Company and of all companies in the consolidated financial statements to net profit after tax in the parent company only or individual financial statements in the last two years; and explanation of the correlation between the policies, standards, and combinations of payment, and the relation between procedures for determination of remuneration, business performance and future risks:

1. Analysis table of remuneration for directors, supervisors, the President, and vice presidents Unit: NT$ thousand

ID classification	2021				2022			
	The Company's	financial statements all companies therein	Proportion after tax Net profit (%)		The Company's	financial statements all companies therein	Proportion after tax Net profit (%)	
Director	5,364	5,364	2.26	2.21	6,179	6,179	3.57	3.54
Supervisors	112	112	0.05	0.05	0	0	0	0
President	2,949	2,949	1.24	1.22	2,890	2,890	1.67	1.66
Vice President	2,284	2,284	0.96	0.94	2,345	2,345	1.35	1.34
Total	10,709	10,709	4.51	4.41	11,414	11,414	6.59	6.55

2. Remuneration policy, standards and combinations of payment, and procedures for determining remuneration:

(1) Matters concerning the President, vice presidents, CFO and Chief Accountant, and other persons who have the right to sign the Company's management affairs shall be handled in accordance with Article 32 of the Personnel Management Regulations.

(2) Remuneration of directors and supervisors:
Except for the stipulations given in the Articles of Incorporation on distributions of earnings, salaries shall not be higher than the highest grade salary in the Company's employee salary scale; and the payment standard shall be submitted to the Board of Directors for resolution after being set by the Remuneration Committee.

(3) Dividend policy:
If the Company's year-end final accounts reflect a current net profit, any

losses should be made up for and then 10% of the balance shall be allocated to legal reserve, and the amount of the shareholder's equity deduction that occurred in the current year will be set aside as special reserve. The rest shall be combined with the accumulated undistributed surplus earnings at the beginning of the period and the adjusted amount of undistributed surplus earnings in the current year, in addition to paying dividends and setting aside replacement reserves, whose amounts are to be authorized by the Board of Directors.

The dividends referred to in the preceding paragraph may be retained in whole or some as undistributed surplus earnings by resolution of the shareholders' meeting. Funding needs with future capital budget planning shall be measured according to the overall environment and industry growth characteristics of the Company and in line with the Company's long-term financial planning. After first using retained earnings to finance fund requirements, cash dividends shall primarily be distributed if there is no major capital expenditure for the remaining surplus. Partial stock dividends shall be distributed in the case of major capital expenditures. The stock dividend distribution ratio will be between 20% and 100%, and the cash dividend will be between 80% and 0%.

Remark: This article is as per the amendment content approved by the 2019 General Meeting of Shareholders.

3. Business performance:
   (1) Operating revenue for 2021 was NT$1,193,172 thousand, after-tax earnings came to NT$242,638 thousand, and after-tax earnings per share was NT$2.15.
   (2) Investment income in 2021 came to NT$30,963 thousand.
   (2) Relevance of future risks: None.

IV. Corporate Governance Report

(I) Information on the operation of the Board of Directors

The Board of Directors met 6 times in the most recent year and directors and supervisor attendance was as follows:

Job Title	Name	Number of times actually attending (observing) B	Frequency of attendance	Actual attendance (observation) rate (%) [B/A]	Note
Chairman	Tongde Investment Co., Ltd. Chen Chien-Tung	4	0	100%	
Director	Tongde Investment Co., Ltd. Chuang Wen-Yuan	4	0	100%	
Director	Tongde Investment Co., Ltd. Huang Chin-Hsiung	4	0	100%	
Director	Veterans Affairs Council: Chen Jung-Hsin	4	0	100%	
Director	Veterans Affairs Council: Huang Kun-Tsung	2	0	50%	Retired on June 29, 2022
Director	Veterans Affairs Council: Kuo Yu-Lin	2	0	50%	Succeeded Huang Kung-Tsong on June 29, 2022
Director	Rongqiao Investment Co., Ltd.: Chen Kuo-Sheng	3	1	75%	
Independent Director	Chen Po-Hsun	4	0	100%	

Independent Director	Fang Wei-Lien	4	0	100%	
Independent Director	Cheng Wan-Chen	4	0	100%	

Other matters to be recorded:

1. If any of the following occurs in the operation of the Board, specify the date, the session, the content of the motion, the opinions of the Independent Directors, and the response of the Company to the opinions of the Independent Directors: None
   (1) Matters specified in Article 14-3 of the Securities and Exchange Act.
   (2) Further to the aforementioned matters, any adverse opinion or qualified opinion of the Independent Directors against the resolutions of the Board that have been noted in the record or declared in writing.
2. For recusal of directors from motions due to conflicts of interest, specify the names of the Directors, the content of the motions, the reasons for recusal, and the participation in voting: No such situation
3. TWSE/TPEx listed companies should disclose information such as the evaluation cycle and period, evaluation scope, method, and evaluation content of self (or peer) evaluations of the Board of Directors:

Evaluation cycle	Evaluation period	Evaluation scope	Evaluation method	Evaluation content
Implemented each year	January 1, 2022 to December 31, 2022	The overall board of directors Individual director members Functional Committee	Director self-evaluation	Detailed as stated

1. These Measures are formulated in accordance with Article 37 of the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies as well as the Company's "Regulations of Board of Directors Self-Evaluation or Peer Review" in order to implement corporate governance and enhance the functions of the Company's Board of Directors, establishing performance targets to enhance the operational efficiency of the Board, in order to carry out the 2021 Board of Directors Performance Evaluation. The scope of evaluation includes performance evaluation of the overall Board of Directors, individual directors and functional committees.

2. Performance evaluation process

(1) The 2021 Board of Directors Performance Evaluation was handled in the form of a Board of Directors internal self-evaluation and director members' self-evaluations. The Secretary's Office collected information about Board of Directors activities, and distributed the self-evaluation questionnaire to the directors to fill in individually.

(2) The evaluation results were recorded at the end of January 2022 after uniform collection of the questionnaire data by the Secretary's Office in accordance with scoring standards of the evaluation indicators, and they were submitted as a report to the Board of Directors on March 14, 2022.

3. Targets of self-evaluation questionnaire

(1) Performance evaluation of the overall Board of Directors: The self-evaluation questionnaire should be filled out by the nine current directors who were in office as of December 31, 2021.

(2) Board member self-evaluation: The self-evaluation questionnaire should be filled out by the 9 current directors who were in office as of December 31, 2021.

(3) Functional committee performance evaluations: The self-evaluation questionnaire should be filled out by the 9 current directors who were in office as a member of December 31, 2021.

4. Evaluation items

(1) Performance evaluation measurement items of this Board of Directors include five aspects: degree of participation in the Company's operations, the improvement of the decision-making quality of the Board of Directors, the composition and structure of the Board of Directors, the selection and continuous education of directors, and internal control.

According to the results of the aforementioned five major self-evaluation parameters, the overall performance review scored 96.9%, indicating that the operations as a whole are fairly complete.

(2) Self-evaluation items for this board member evaluation include six parameters: mastery of the Company's goals and tasks, the directors' awareness of responsibilities, the degree of participation in the Company's operations, management and communication of internal relations, directors' professional and

continuous education, and internal control.

According to the results of the aforementioned six major self-evaluation parameters, all members of the Board of Directors are able to abide by each item of laws and regulations and fulfill their duties as directors, and the overall rating was 96.7%.

(3) Measurement items of the functional committee performance evaluation includes five parameters: Participation in the Company's operations, awareness of functional committee responsibilities, improvement of functional committee decision-making quality, functional committee composition and member selection, and internal control.

According to the results of the aforementioned five major self-evaluation parameters, the functional committees can effectively carry out their roles, and the overall rating was 96.4%.

5. Evaluation results

A total of six meetings of the Company's Board of Directors meetings were held in 2021 with a good director attendance rate of 96%. Each director contributed full expression and suggestions regarding each of the Company's proposals and lent the utmost support.

(II) Information on the operation of the Audit Committee:

2 meetings have been held by the Audit Committee in the most recent year. The records of attendance by independent directors are shown as follows:

Job Title	Name	Actual number of attendances	Frequency of attendance	Actual attendance rate	Remarks
Independent Director	Chen Po-Hsun	3	0	100%	
Independent Director	Fang Wei-Lien	3	0	100%	
Independent Director	Cheng Wan-Chen	3	0	100%	
Other matters to be recorded:					

I. If any of the following circumstances arises in the operation of the Audit Committee, the meeting date, period, motion content, and any objections of independent directors should be stated, as well as contents of reserved opinions or major recommendations, the results of the audit committee's resolutions, and the Company's handling of the Audit Committee's opinions.
   (I) Matters listed in Article 14-5 of the Securities and Exchange Act. No such situation.
   (II) Further to the aforementioned matters, motions rejected by the Auditing Committee but passed by the Board at the consent of more than 2/3 of the Directors: No such situation.

II. Implementation status of independent directors' recusals due to conflicts of interest, including the name of the independent director, the content of the proposal, the reasons for recusal and voting status.

III. Communication between independent directors and internal audit supervisors and accountants: In 2021, the Company's finances and business experienced no major events. If there is a need to communicate matters, independent directors shall use the Company's mailbox and telephone for communication.

(III)Difference between corporate governance operations and the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies, and reasons

Evaluation Criteria	Operational status (Note 1)			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
I. Has the Company prepared and disclosed the Corporate Governance Best-Practice Principles in accordance with the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies?	✓			
II. The equity structure and shareholders' equity of the Company				
(I) Does the Company have internal operating procedures in place to deal with shareholder recommendations, doubts, disputes and litigation matters according to the procedures?		✓	The Company has a spokesperson system, and the spokesperson handles shareholder-related matters. In case of disputes and lawsuits, they shall be handled by legal counsel.	None
(II) Does the Company have a list of the major shareholders who actually control the Company, and the ultimate controllers of the major shareholders?	✓		Major shareholders of the Company include Xinxiang Investment Co., Ltd. and the Veterans Affairs Council. Ultimate control of Xinxiang Co. lies with that company's chairman, and ultimate control of the Veterans Affairs Council lies with its chairman.	None
(III) Has the Company established and implemented the risk management, control and prevention mechanisms for affiliated companies?	✓		The Company and its subsidiary Hexin International Co., Ltd. operate independently in terms of finance and business; it also has subsidiary supervision methods and internal control operations.	None
(IV) Has the Company established internal regulations that prohibit insiders from using unpublished information in the market to buy and sell securities?	✓		The Company's insiders buy and sell Company stock in accordance with the relevant laws and regulations of competent authorities such as the Securities and Exchange Act and Measures for Insider Equity Transfers, and adhere to the Procedures for Handling Material Inside Information.	None
III. Composition and Duties of the Board of Directors				
(I) Has the Board developed its policies in diversity relevant to the composition of the members and has it properly pursued these policies?		✓		Set up according to business needs
(II) Has the Company voluntarily set up other functional committees other than the Remuneration Committee and the Audit Committee according to law?		✓		Set up according to business needs
(III) Has the Company formulated the board's performance assessment and evaluation	✓		The Company and its CPAs are independent non-related parties.	The 2022 Board of Directors Performance

Evaluation Criteria	Operational status (Note 1)			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
method, conduct performance evaluation annually and regularly, and report the results of the performance evaluation to the Board of Directors, and apply it to individual directors' remuneration and nomination renewal? (IV) Has the Company assessed the independence status of the CPAs at regular intervals?	✓			Evaluation was submitted to the Board of Directors on March 13, 2023. None
IV. Is the TWSE/TPEX listed company equipped with qualified and appropriate number of corporate governance personnel, and appoint a corporate governance director responsible for corporate governance related matters (including but not limited to providing information needed by directors and supervisors to carry out business, assisting directors and supervisors to comply with laws and regulations, handling matters related to meetings of the Board of Directors and shareholders' meeting in accordance with the law, and producing minutes of board meetings and shareholders' meetings)?	✓		The Company approved the setup of Corporate Governance Officer on May 29, 2023.	None
V. Has the Company established channels for the communications with the stakeholders (including but not limited to the shareholders, employees, customers, and suppliers), and the section for the shareholders on the official website of the Company to respond to all concerns of the stakeholders on corporate social responsibility?	✓		Setup of an exclusive section for stakeholders on the Company's website. http：//www.hkgas.com.tw	None
VI. Has the Company appointed a professional share registration and investors service agent for handling matters pertaining to the Shareholders' Meeting?	✓		The Company's stock agent: Capital Securities Corporation	None
VII. Disclosure of Information (I) Has the Company installed a	✓		The Company's website:	None

Evaluation Criteria	Operational status (Note 1)			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
website for the disclosure of information on financial position and operation, as well as corporate governance?			http://www.hkgas.com.tw	
(II) Has the Company adopted other means for disclosure (such as the installation of a website in the English language, appointment of designated persons for the collection and disclosure of information on the Company, the implementation of spokesman system, and videotaping institutional investor conferences)?	✓		In accordance with the regulations of Securities and Futures Bureau and the securities exchange, we regularly or intermittently disclose the Company's material information and financial statements to the Market Observation Post System; furthermore, the Board of Directors Secretary's Office is designated as responsible for the collection and disclosure of information.	None
(III) Does the Company announce and declare its annual financial report within two months after the end of the fiscal year, and announce and declare the first, second, and third quarter financial reports and the monthly operating situation as early as possible within the prescribed time limit?		✓	None	The financial reports are in compliance with current legislation
VIII. Is there any other material information that would facilitate an understanding the pursuit of corporate governance (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholder rights, the continuing education of directors and supervisors, the pursuit of a risk management policy and standard of risk assessment, the pursuit of a customer policy, and professional liability insurance coverage for the directors and supervisors)?	✓		Employee rights 1. Employee health insurance, labor insurance, and accident insurance are handled. 2. Free health checks are provided. 3. An Employee Welfare Committee is established to handle cultural, recreational and emergency assistance services. 4. Pensions are provided in accordance with the law. 5. On-the-job training is provided for employees. 6. Established in an industrial sector, the trade union organization is operated independently by employees and employees can express their opinions to the Company through the trade union. This facilitates the Company's understanding of employees' needs. **Employer care:** An Employee Welfare Committee is established to handle cultural, recreational and emergency assistance services. Investor relations: The Company makes announcements on the designated websites of the Securities and Futures Bureau and the securities exchange as scheduled, making the Company's finances and business more transparent. **Supplier relations:** Contracts are signed to guarantee reasonable profits. **Community involvement:** 1. Regularly participate in fire drills and assist in disaster relief. 2. Low-income households are exempted from annual basic fees. Stakeholder rights: The Company has set up a website to provide each item of information. **Purchasing of insurance for directors and supervisors:**	None

Evaluation Criteria	Operational status (Note 1)			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
			Insurance with Chung Kuo Insurance Co., Ltd.: Each incident is covered for NTD96 million, with the insurance premium of NTD260 thousand, covering: important duties of directors and supervisors, liability of the Company for damages, coverage for the Company's securities, entity coverage for employment practices liability at a rate of 0.27%. **Training of directors (including independent directors):** In 2021, 90% of all directors and supervisors completed their training hours. **Risk management policy and risk measurement standards:** The Company has established a "System of Separation of Powers and Responsibilities". The investment and business directions are under the responsibility of the decision-making authority and submitted to the Board of Directors for supervision. The Company allocates "Gas Pipeline Replacement Reserves" every year in accordance with the regulations of the Bureau of Energy. **Customer policy implementation:** Dedicated personnel are established to handle customer complaints.	
IX. Corrective action taken in response to the result of the Corporate Governance Evaluation conducted by the Corporate Governance Center of Taiwan Stock Exchange Corporation, and the priority of action on issues pending for corrective action in the most recent year.	✓		1. Whether the Company uploads the English version of the annual report seven days before the General Meeting of Shareholders. 2. Whether the Company simultaneously uploads the English version of the Meeting Notice 30 days before the General Meeting of Shareholders. 3. Whether the Company uploads the English version of the Meeting Agenda Handbook and supplemental meeting materials 21 days before the General Meeting of Shareholders. 4. Whether the Company voluntarily establishes more independent director seats than required by law. 5. Has the Company set up non-statutory functional committees with a minimum of three members and where more than half of the members are independent directors, and whose composition, responsibilities, and operations have been disclosed?	The English Annual Report, Meeting Notice and Meeting Handbook, among other materials, will be uploaded as required for 2023. None None

Note 1: Regardless of whether "Yes" or "No" is checked, the operation status should be described in the summary description field.

Note 2: The term "corporate governance self-evaluation report" refers to a report based on the corporate governance self-evaluation project that is self-assessed and explained by the Company to report on the Company's current operations and implementation of each self-evaluation project.

(IV) Remuneration Committee composition, responsibilities, and operations:

Composition: The Company established the Remuneration Committee in December 2011. The organization charter was formulated at the same time and approved by the 3rd meeting of the 10th Board of Directors.

Responsibilities: Establish remuneration for directors, supervisors, and managers (including the President, vice presidents, associate managers, financial supervisor, chief accountant, other persons who have the right to sign for the Company's management affairs, and supervisors of each department and branch), severance (retirement) pay, distribution of earnings, business execution expenses, and compensation from concurrently serving as an employee; and regularly evaluate the policies, systems, standards, and structures of business performance and salary compensation.

Operations: A total of two meetings were held in 2021. Proposals for discussion included: 2020 distribution of earnings, director and supervisor compensation and manager bonus distributions, and 2020 manager year-end bonus and performance appraisal bonus amounts.

Information of Remuneration Committee Members

ID Classification	Condition / Name	Has at least five years of relevant working experience and the following professional qualifications			Degree of independence										Number of other public companies where he/she serves as a member of the Remuneration Committee	Note
		Lecturer or above in a department related to business, legal affairs, finance, accounting or area related to the Company's business at a public or private college or university	Judges, prosecutors, lawyers, accountants or other certified professional and technical personnel who have passed national examinations required for corporate business	Have work experience required for business, legal affairs, finance, accounting, or Company business	1	2	3	4	5	6	7	8	9	10		
Convener	Chen Po-Hsun			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	N
Member	Fang Wei-Lien	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	N
Member	Cheng Wan-Chen		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	N

Wu Li-Ping and Chen Lung-Hsing were released from duty on July 6, 2020, and their places taken up by Fang Wei-Lien and Cheng Wan-Chen.

1. Not an employee of the Company or its affiliates.
2. Not a director or supervisor of the Company or its affiliates. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of outstanding shares of the Company or ranking in the top ten in holdings.
4. Not management of those listed in (1), or someone having a relationship with those listed in (2) or (3) including a spousal relationship, a second-degree kinship or closer, or an immediate blood relative within three degrees of kinship.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings, or is designated as a representative in accordance with Article 27, Paragraph 1 or 2 of the Company Act. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)
6. Not a director, supervisor, or employee of another company controlled by the same person with more than half of the shares with voting rights on the Company's Board of Directors. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)
7. Not a director, supervisor, or employee of another company or institution whose chairman, general manager, or equivalent position is the same person as that of the Company, or the spouse thereof. (However, in the case of independent directors established and concurrently serving in the company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)
8. Not a director, supervisor, or manager of a specific company or institution having financial or business dealings with the Company, or a shareholder holding 5% or more of shares. (However, if a specific company or institution holds more than

20% of the total issued shares of the Company but not more than 50%, and the established independent director concurrently serves in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this Act or local laws, this limitation shall not apply.)

9. Not a partner, director, supervisor, manager, or spouse thereof of a company or institution that provides commercial, legal, financial, financial, accounting services or consultation to the company or any affiliate of the Company for amounts exceeding NT$500,000 in the past two years. (However, for members of the Remuneration Committee, Public Acquisitions Review Committee, or M&A Special Committee who perform their functions and powers in accordance with the relevant laws and regulations of the Securities and Exchange Act or the Corporate Mergers & Acquisitions Act, this limitation shall not apply.)
10. Not exhibiting any of the circumstances specified under Article 30 of the Company Act.

Information on the operation of the Remuneration Committee

1. There are 3 members of the Remuneration Committee of the Company.
2. Current term committee members: From June 8, 2020 to June 7, 2023, the most recent year Remuneration Committee met three times (A). The qualifications and attendance of the members are as follows:

Job Title	Name	Actual number of attendances (B)	Frequency of attendance	Actual attendance rate (%) (B/A) (Note)	Note
Convener	Chen Po-Hsun	2	0	100%	
Member	Wu Li-Ping/ Cheng Wan-Chen	2	0	100%	
Member	Chen Lung-Hsing/ Fang Wei-Lien	2	0	100%	
Other matters to be recorded: I. If the Board of Directors does not adopt or amend the recommendations of the Remuneration Committee, the date and period of the Board of Directors, the content of the proposal, the resolution of the Board of Directors, and the Company's handling of the opinions of the Remuneration Committee should be stated. (If the remuneration approved by the Board of Directors exceeds the recommendation of the Remuneration Committee, the differences and reasons should be stated): No such situation. II. Should any committee member object or express qualified opinions to the resolution made by the Remuneration Committee, whether on-record or in writing, please describe the date and session of the meeting, details of the motion, the entire members' opinions, and how their opinions were addressed: No such situation.					

For Information of Remuneration Committee Members, please refer to page 11.

The Company has not established a Nominating Committee

(V) Implementation of sustainable development promotions and the deviation from Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof

Promotion Item	Implementation (Note 1)			Deviation from Sustainable Development Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
I. Does the Company establish a governance structure to promote sustainable development, and set up a designated full-time (or part-time) unit to promote Sustainable Development, and the Board of Directors authorizes senior management to handle this and the Board of Directors supervises the situation?		✓	1. Describe the Company’s promotion of a governance structure for sustainable development. 2. Describe the implementation of each organization of the Company, including but not limited to: (1) The name of the full-time (part-time) unit to promote sustainable development, the time of establishment, and the authorization of the Board of Directors. (2) Promotion of the composition, operation and implementation of the unit members (such as work planning and management). (3) The frequency of reporting to the Board of Directors (at least once a year) or the date of reporting to the Board of Directors in the current year. 3. Describe the supervision of the Board of Directors concerning sustainable development, including but not limited to: management policy, strategy	Established in accordance with business needs

Promotion Item	Implementation (Note 1)			Deviation from Sustainable Development Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
			and target formulation, review measures, and so on.	
II. Does the Company follow the principle of materiality, conduct risk assessments on environmental, social and corporate governance issues related to company operations, and formulate relevant risk management policies or strategies? (Note 2)		✓	1. State the boundaries of risk assessment (scope of subsidiaries covered). In addition, the risk assessment boundaries of this item shall be the same as the boundary of the subsequent environmental and social issues in this schedule. If there is a difference, boundaries should be stated for each item. 2. Describe risk assessment standards, processes, results and risk management policies or strategies for identifying material issues related to environmental, social, and corporate governance.	To be determined in accordance with business needs
III. Environmental Issues (I) Has the Company established an appropriate environmental management system based on its industry characteristics?		✓	1. Describe how an effective environmental management system is implemented and the regulations on which it is based. 2. Describe the relevant international verification standards passed by the Company (they should be still valid as of the printing date of the annual report) as well as their coverage.	Not yet formulated
(II) Has the Company committed itself to improving energy		✓	Describe the Company's policy on improving energy efficiency and	Not applicable

Promotion Item	Implementation (Note 1)			Deviation from Sustainable Development Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
efficiency and to using recycled materials with low impact on the environment?			using recycled materials, including but not limited to: base year data, promotion measures, targets and achievement status.	
(III)Does the Company assess the potential risks and opportunities of climate change for the Company now and in the future, and has it taken relevant countermeasures?		✓	State how the Company evaluates current and future potential risks and opportunities from climate change for the Company, its evaluation results, and related countermeasures.	The Company buys and sells natural gas and has no material connection with climate change.
(IV)Does the Company count greenhouse gas emissions, water consumption and the volume of total waste in the past two years, and formulate policies for greenhouse gas reduction, water reduction, or other waste management		✓	1. Describe the statistical data and intensity of the following items in the last two years (e.g. calculated on a per unit basis of product, service or turnover) and data coverage (e.g. all factories and subsidiaries): (1) Greenhouse gases: including carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, nitrogen trifluoride, and others announced by the central competent authorities. Distinguish direct emissions (Scope 1, i.e. directly from emissions sources owned or controlled by the Company), indirect emissions from energy	Not applicable

Promotion Item	Implementation (Note 1)			Deviation from Sustainable Development Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
			(Scope 2, i.e. indirect greenhouse gas emissions from imported electricity, heat or steam) and other indirect emissions (Scope 3, i.e. emissions from corporate activities and non-energy indirect emissions from sources owned or controlled by other companies); (2) Water consumption; (3) Waste: distinguish the total weight of hazardous waste and non-hazardous waste. In the case of a non-manufacturer, there is no need to distinguish and only the total weight of the waste is to be disclosed, and explain the statistical methods in accordance with the characteristics of the industry. 2. Describe policies for GHG reduction, water reduction or other waste management, including but not limited to: base year data, reduction targets, promotion measures and achievement status, etc. 3. Describe the verification status of each piece of information (they should be still valid as of the printing date of the annual report) as well as their coverage.	
IV. Social Issues		✓	Describe policies and specific management plans to protect	To be determined

Promotion Item	Implementation (Note 1)			Deviation from Sustainable Development Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
(I) Has the Company established related policies and procedures in accordance with applicable legal rules and the International Convention on Human Rights?			human rights (e.g. human rights assessment, human rights risk mitigation measures, and relevant education and training) and the relevant laws and international human rights conventions on which they are based.	in accordance with business needs
(II) Has the Company formulated and implemented reasonable employee welfare measures (including salary, vacation and other benefits), and appropriately reflected business performance or results in employee compensation?	✓		Labor union agreements have been drawn up and an industrial union established to enforce the rights and interests of employees.	None
(III) Has the Company provided a safe and healthy work environment for the employees, and related education on occupational safety and health for the employees at regular intervals?	✓		There are annual labor health checks, and Kaohsiung Medical University nursing staff are hired to be stationed in the plant every week to care for employee health and education.	None
(IV) Has the Company provided effective training in career planning for employees?	✓		We handle professional and technical training and provide fees for professional certificates every year.	None
(V) Regarding issues such as customer health and safety, customer privacy, and marketing and labeling of products and services, does the Company comply with relevant regulations and international	✓		We have formulated personal data protection regulations.	None

Promotion Item	Implementation (Note 1)			Deviation from Sustainable Development Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
standards, and formulate relevant consumer and customer protection policies and complaint procedures?				
(VI) Has the Company formulated supplier management policies, where suppliers are required to follow relevant regulations on issues such as environmental protection, occupational safety and health or labor and their implementation?		✓	1. Describe supplier management policies and related compliance specifications; moreover, their content should have positive and specific requirements for suppliers in environmental protection, occupational safety and health or labor rights (e.g. they must pass the relevant verifications). 2. Describe the implementation of supplier management policies and related compliance specifications (e.g. supplier conduct self-assessments, coaching or education, performance evaluation).	To be established in accordance with business needs
V. Does the Company refer to the internationally prepared reporting standards or guidelines, preparation of sustainability reports and other reports that disclose the Company's non-financial information? Did the preliminary report obtain the confidence or assurance opinion of the third-party verification unit?		✓	1. Describe the referenced international compilation standards or guidelines as well as prepared reports disclosing non-financial information. 2. In obtaining assurance or verification, the name of the verification unit, the verification items or scope, and the standards they follow should be clearly stated or guaranteed.	To be formulated in accordance with business needs

Promotion Item	Implementation (Note 1)			Deviation from Sustainable Development Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
VI. If the Company has its own sustainable development code in accordance with the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe the differences between its operation and the Principles: None.				
VII. Other important information helpful to understand the implementation of the promotion of sustainable development: None.				

(VI) Ethical business performance conditions, as well as differences and reasons for differences with Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies

Evaluation Criteria	Status			Deviation from Corporate Governance Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
I. Formulation of ethical management policy and plans				None
(I) Has the Company formulated the ethical management policy approved by the board of directors, and in the regulations and external documents expressed the policies and practices of operating in good faith, and the commitment of the board of directors and senior management to actively implement business policies?	✓		In 2015, the "Ethical Corporate Management Best-Practice Principles" were formulated and approved by the 6th meeting of the 11th Board of Directors on August 10, 2015.	
(II) Has the Company established an assessment mechanism for the risk of dishonesty, regularly analyzing and evaluating business activities with a high risk of dishonesty in the business scope, and formulated a plan to prevent dishonesty, and cover at a minimum the preventive measures for various acts under Paragraph 2, Article 7 of "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies?"		✓		Under discussion
	✓		The Company has formulated	

Evaluation Criteria	Status			Deviation from Corporate Governance Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
(III) Has the Company defined and enforced operating procedures, behavioral guidelines, penalties and grievance systems as part of its preventive measures against dishonest conduct, and are the above measures reviewed and revised on a regular basis?			"Employee Work Rules" stipulating that employees shall not accept improper benefits from stakeholders such as business-related persons, suppliers, and contractors, and penalty clauses are clearly stipulated as well. Timely inspection and legal dissemination by the Audit Office.	
II. Implementation of Ethical Corporate Management (I) Does the Company assess a trading counterpart's ethical management record and expressly state the ethical management clause in the contract to be signed with the trading counterpart? (II) Has the Company set up a dedicated (or part-time) position under the Board of Directors that promotes ethical corporate management, and reports to the Board of Directors on a regular basis? (III) Has the Company developed a policy to prevent conflicts of interest, provided a proper presentation channel, and put such policy in place? (IV) Has the Company established	 ✓ ✓ ✓ ✓		 The company hires long-term lawyers and consultants and concludes important contracts that are subject to review and advice by attorneys. Concurrently Board of Directors Secretary. The Company signs sales contracts with important suppliers or important customers. The terms of the contract are provided to the other party for review, and are only signed and sealed when there is no	 None

Evaluation Criteria	Status			Deviation from Corporate Governance Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
an effective accounting system for the implementation of ethical management, internal control system, and the evaluation result of the risk of dishonesty by the internal audit unit, to formulate relevant audit plans, and check the compliance with the plan to prevent dishonesty, or entrusted an accountant to perform the for auditing? (V) Does the Company hold education training in ethical corporate management inside and outside the Company on a regular basis?		 ✓	differing opinion. Audit Office conducts annual reviews of the financial statement preparation process, accounting data storage operations, prevention of insider trading, related party transactions and legal compliance projects. Education and training are not yet scheduled	 Under discussion
III. Operation of the Company's reporting system (I) Has the Company put in place the specific whistleblowing and reward system, established a convenient reporting channel, and assigned appropriate personnel to deal with whistleblowing? (II) Has the Company established standard operating procedures for accepting complaints, follow-up measures to be taken after the investigation is		 ✓ ✓	 Not yet determined Not yet determined	 To be determined in accordance with business needs

Evaluation Criteria	Status			Deviation from Corporate Governance Best-Practice Principles for TWSE/ TPEX Listed Companies and causes thereof
	Yes	No	Summary Explanation	
completed, and relevant confidentiality mechanisms? (III) Has the Company taken measures to protect whistleblowers from retaliation due to reporting?		✓	Not yet determined	
IV. Strengthening information disclosure Has the Company disclosed the contents and implementation effectiveness of the Ethical Corporate Management Best-Practice Principles on its website and the Market Observation Post System?	✓		http://www.hkgas.com.tw	
V. If the Company has enacted the Ethical Corporate Management Best-Practice Principles in accordance with the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies", please describe the difference between its operation and the Principles: None				
VI. Other information that enables a better understanding of the Company's ethical corporate management (for example, the Company's review and revision the Ethical Corporate Management Best-Practice Principles): None				

(VII) If the Company has established the Corporate Governance Best-Practice Principles and the related regulations, it should disclose how to inquire about such principles:

http://www.hkgas.com.tw

(VIII) Other important information that is sufficient to enhance the understanding of corporate governance and operational conditions must

be disclosed together: None

(IX) Statement of Internal Control System of Hsin-Kao Gas Co., Ltd.

Indicates that both design and execution are effective

(This statement is applicable when all rules and bylaws are declared in compliance with the laws and regulations)

Internal Control System Statement

Date: March 13, 2023

For the Company's Internal Control System of 2021, based on the results of self-assessment, the following is hereby declared:

I. The Company acknowledges and understands that the establishment, implementation and maintenance of the internal control system are the responsibility of the Board and managerial officers of the Company, and that such a system has been implemented within the Company. The purpose of the system is to reasonably ensure that the effectiveness and efficiency of operations (including profits, performance, and protecting the security of assets), reliability, timeliness, transparency, and regulatory compliance of reporting, as well as the compliance with applicable laws, regulations, and bylaws are achieved.

II. The internal control system is designed with inherent limitations. No matter how perfect the internal control system is, it can only provide a reasonable assurance to the fulfillment of the three objectives referred to above. Moreover, the effectiveness of the internal control system could be affected by the changes of environment and circumstances. However, the company's internal control system has a self-supervision mechanism. Once the missing element is recognized, the company takes corrective action.

III. The Company evaluates the design and execution of its internal control system based on the criteria specified in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations") to determine whether the existing system continues to be effective. The criteria defined in "the Regulations" include five elements depending on the management control process: 1. environment control, 2. risk assessment, 3. control process, 4. information and communication, and 5. supervision. Each element further encompasses several sub-elements. Please refer to the "The Governing Principles" for more details.

IV. The Company has adopted the said criteria to validate the effectiveness of its internal control system design and execution.

V. Based on the assessments described above, the Company considers the design and execution of its internal control system to be effective as at December 31, 2022. This system (including supervision and management of subsidiaries) has provided assurance with regards to the Company's business results, target accomplishments, reliability, Immediate and transparency of reported financial information, and its compliance with relevant laws.

VI. The Statement of Declaration will be the major contents of the annual report and prospectus of the Company and to be publicly disclosed. The Company shall be held liable for misrepresentation or nondisclosure in the above content, according to Articles 20, 32,171, and 174 of the Securities and Exchange Act.

VII. This Statement has been approved by the Company's Board of Directors at the meeting held on March 13, 2023, at which this Statement was unanimously endorsed by all nine attending directors without any opposing opinions.

Hsin-Kao Gas Co., Ltd.

Chairman: Chen Chien-Tung 陳建東

President: Chen Jung-Hsin 陳蘭馨

The special internal control audit report issued by the CPA, if any: None

(X) In most recent year and as of the date of publication of the annual report, whether the company and its internal personnel have been disciplined according to law, or whether the company has disciplined its internal personnel for violating the provisions of the Internal Control System. The content of the disciplinary measures should be listed, as well as the main deficiencies and improvements: No such situation.

(XI) In the most recent year and as of the printing date of the annual report, important resolutions of the shareholders' meeting and Board of Directors:

(I) 2022 Board of Directors:

(1) Discussed distribution of 2022 earnings in cash at NTD1.40 per share;

(2) Amendments to the Articles of Incorporation.

(II) 2022 General Meeting of Shareholders:

(1) Approved 2021 business report and financial statements.

(2) Approved distribution of 2022 earnings in cash at NTD1.40 per share; Implementation:

1. For cash dividends, July 10, 2022 was set to be the record date and distribution occurred on August 4, 2022.

(III) 2022 Board of Directors:

Discussed distribution of 2022 earnings in cash at NTD0.30 per share and in stock at NTD0.90 per share.

(XII) Directors (including independent directors) holding adverse opinions on the resolutions of the Board in the most recent year to the day this report was printed on Record or in written declaration, and the summary of the content: None

(XIII) Summary of resignation or relief from office of the Chairman, President, Chief Accountant, Chief Financial Officer, Chief Internal Auditor, Chief of Corporate Governance, and Chief R&D Officer of the Company in the most recent year to the day this report was printed: None

V. Information about CPA Professional Fees:

(XIII) Resignations and dismissals of the Company's Chairman, President, head of accounting (finance), head of internal audit and head of corporate governance: none

Information about CPA professional fees: Monetary unit: NT$ thousand

Accounting firm name	Accountant name	Accountant Audit period	Audit remuneration	Non-Audit Fees	Total	Note
Baker Tilley Clock & Co.	Chou Yin-Lai	2022.01.01 – 2022.12.31	1,780,000	0	1,780,000	None
	Cheng Hsien-Hsiu	2022.01.01 – 2022.12.31				

If the Company has replaced CPAs or the accounting firm in the current year, please list the respective audit periods and explain the reasons for replacement in the remarks column.

	Range of amount \ Item of fees	Audit remuneration	Non-Audit Fees	Total
1	Less than NTD 2,000 thousand	1,780,000	0	1,780,000
2	NTD 2,000 thousand (inclusive) – NTD 4,000 thousand			
3	NTD 4,000 thousand (inclusive) – NTD 6,000 thousand			
4	NTD 6,000 thousand (inclusive) – NTD 8,000 thousand			
5	NTD 8,000 thousand (inclusive) – NTD 10,000 thousand			
6	NTD 10,000 thousand (inclusive) and above			

(I) If the audit fees and non-audit fees paid to the CPAs and their affiliated firms and affiliated enterprises are over one-fourth of the audit fees, the content of non-audit services and amount of non-audit fees should be disclosed: No such situation

(II) If the accounting fees paid during the year when the accounting firm is replaced are less than the previous year, the amount of the audit fees before and after the replacement and the reasons for reduction shall be disclosed: No such situation

(III) If the audit fees are reduced by more than 10% compared with the previous year, the amount, proportion, and reasons for the reduction in the audit fees shall be disclosed: No such situation

(Audit fees referred to in the preceding paragraph refer to public fees paid by the

Company to CPAs for financial statement audit, review, re-examination, financial forecast review, and tax certification.)

VI. Changes in Accountant Information:

If the Company has replaced CPAs within the last two years and subsequent periods, the following should be disclosed:
No such situation

(I) About previous CPA:

1. The date and reason for replacing the CPA and an explanation of whether it constitutes the CPA's voluntary termination of appointment or no longer accepting appointment, or an issuer's voluntary termination of appointment or no longer continuing to appoint: Not applicable
2. If the former CPA has issued an audit report with other than an unqualified opinion in the last two years, the opinion and reasons shall be stated: Not applicable
3. State whether there is any disagreement between the Company and the former CPA on the disclosure of accounting principles or practices, financial statements, and audit scope or steps. In case of disagreement, the nature of each dissenting opinion shall be specified in detail and the Company's processing method (including whether to authorize the former accountant to fully answer the successor accountant's related inquiries about the above-mentioned different opinions) and the final processing result should be given: Not applicable
4. State whether the previous CPA has notified the Company of the lack of a sound Internal Control System causing its financial statements to be unreliable: Not applicable
5. State whether the previous CPA had notified the Company of an inability to rely on the Company's statements or an unwillingness to have any association with the Company's financial statements: Not applicable

6. State whether the previous CPA had notified the Company that the audit scope must be enlarged, or that information shows that expansion of audit scope may damage the credibility of previously issued or upcoming issuances of financial statements, but the former CPA did not expand the audit scope due to the replacement of CPAs or other reasons: Not applicable
7. State whether the previous CPA had notified the Company that previously issued or upcoming issuances of financial statements may be impaired based on the collected information, but the former CPA did not expand the audit scope due to the replacement of CPAs or other reasons: Not applicable

(II) About CPA in succession:

1. Name of successor accounting firm, name of CPA, and date of appointment: Not applicable
2. Before the Company formally appoints a CPA in succession, if there are opinions on accounting treatment methods or applicable accounting principles for specific transactions and the possible issuance of its financial statements when consulting with the CPA, the consultation matters and results should be disclosed: Not applicable
3. The Company should consult and obtain the written opinions of the CPA in succession on matters where it disagrees with the previous CPA for disclosure: Not applicable

(III) The Company shall send a letter to the former CPA with the matters specified in item 1 and item 3 of this subparagraph, and notify the former CPA if there is any disagreement; the letter should be replied to within ten days. The Company should disclose the reply letter from the former CPA: Not applicable

VII. Position held by the Company's Chairman, President, head of accounting (finance), head of internal audit, and head of corporate governance over the last year at the firm the CPAs belong or its affiliates: No such situation

VIII. Changes to the shares held by directors, supervisors, managers, and shareholders holding more than 10% of the shares in the most recent year and through the printing date of the annual report. If the counterparty of the equity transfer or equity pledge is a related party, the name of the counterparty, relationship with the Company, directors, shareholders of supervisor, managers, and shareholding ratio exceeding 10%, and the number of shares acquired or pledged shall be disclosed.

(I) Changes to the shares held by directors, supervisors, managers and majority shareholders:

Unit: Shares

Job Title	Name	2021		From the current year up to April 15	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of pledged shares	Increase (decrease) in the number of shares held	Increase (decrease) in the number of pledged shares
Major shareholder	Xinxiang Investment Co., Ltd.	0	2,500,000	0	0

(II) Share transfer information: In 2021 and through April 15, 2022, the Company's directors, supervisors, and major shareholders holding 10% of shares are not related parties to share transfers or equity pledges.

(III) Equity pledge information:

Name	Reasons for pledge changes	Change Date	Trade counterparty	The relationship between the counterparty of the transaction and the Company, its directors, supervisors, managers, and shareholders who hold more than 10% of shares	Number of shares	% of shareholding	Pledge ratio	Pledge (redemption) amount
Xinxiang Investment Co., Ltd.	Pledge	2022.12	Shanghai Commercial and Savings Bank	None	2,500,000	22.47%	%	0

IX. Information about the relationships among top ten shareholders, such as related parties, spouses or relatives within the second degree of kinship Unit: Thousand shares

Name	Number of shares personally held		Shares held by spouse and minor children		Total number of shares held in the name of others		Where top ten shareholders have a relationship with each other or a relative relationship within the scope of their spouse or relative within the second degree of kinship, the name or designation and the relationship.		Note
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Name (or designation)	Relationship	
Xinxiang Investment Co., Ltd. Chen Chien-Tung	24,811 1	22.47 0.00	0 65	0 0.06	0 0	0 0	Tongde Investment Co., Ltd. Chuang Wen-Yuan Qing Yuan Investment Co., Ltd. Chuang Wen-Yuan Hexin Construction Co., Ltd. Chen Chien-Ping	Spouse Spouse Brothers	
Veterans Affairs Council Huang Kun-Tsung Chen Jung-Hsin	23,482 0 0	21.26 0 0	0 0 0	0 0 0	0 0 0	0 0 0	None None None	None None None	
Qing Yuan Investment Co., Ltd. Chuang Wen-Yuan	4,477 65	4.05 0.06	0 1	0 0	0 0	0 0	Xinxiang Investment Co., Ltd. Chen Chien-Tung	Spouse	
Tongde Investment Co., Ltd. Chuang Wen-Yuan	3,940 65	3.57 0.06	0 1	0 0	0 0	0 0	Xinxiang Investment Co., Ltd. Chen Chien-Tung	Spouse	
Shinhsiung Natural Gas Inc. Chu Wen-Huang	3,824 70	3.46 0.06	0 405	0 0.37	0 0	0 0	None None	None None	
Hexin Construction Co., Ltd. Chen Chien-Ping	3,122 0	2.83 0	0 0	0 0	0 0	0 0	Xinxiang Investment Co., Ltd. Chen Chien-Tung	Brothers	
Chen An-Pang	2,577	2.33	0	0	0	0	Chen Chih-Hui	Father and son	
Hsin-Kao Gas Co., Ltd. Industry Union Labor Welfare Fund Tsai Tsai-Pu	2,535 0	2.30 0	0 0	0 0	0 0	0 0	None None	None None	
Chen Chih-Hui	2,406	2.18	0	0	0	0	Chen An-Pang	Father and son	
Shengmei Investment Co., Ltd. Luo Li-Chen	2,260 70	2.05 0.06	0 399	0 0.36	0 0	0 0	None	None	

X. The total number of shares and total equity stake held in any single enterprise by the company, its directors and supervisors, managerial officers, and any companies controlled either directly or indirectly by the Company:

Comprehensive Shareholding Ratios

Units: Shares; %

Reinvestment business (Note)	The Company's investment		Directors, supervisors, managers and direct or indirect control of investment in the business		Comprehensive investment	
	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding
Hexin International Co., Ltd.	12,000,000	92%	0	0	12,000,000	92.00%
Jieyang Construction Co., Ltd.	1,600,000	16.67%	1,600,000	16.67%	3,200,000	33.34%
Shengxinyuan Construction Co., Ltd.	2,000,000	8.00%	6,650,000	26.60%	8,650,000	34.60%

Note: Constitute invested affiliates listed by the Company using the equity method.

Four. Recorded Matters for Capital and Shares

I. Sources of equity

Unit: Thousand shares

Year month	Issuing price	Approved share capital		Paid-in capital		Note		
		Number of shares	Amount	Number of shares	Amount	Capital stock Source	Property other than cash contributed as equity capital	Others
2021 2022.3	10 10	110,431 110,431	1,104,306 1,104,306	110,431 110,431	1,104,306 1,104,306	-	-	-

Unit: Thousand shares

Shares Type	Approved share capital			Note
	Outstanding shares	Unissued shares	Total	
Common shares	110,431	0	(Listed) 110,431	

If approval is given to raise and issue securities under the collective reporting system, disclosure shall also be made of relevant information about the approved amount, scheduled issuance, and issued securities: No such situation

II. Shareholder structure (Unit: Thousand shares) April 15, 2022

Shareholder structure / Quantity	Government agency	Financial institution	Other legal persons	Individuals	Foreign institutions and foreign individuals	Total
Number of individuals	1	1	38	7,376	24	7,438
Number of shares held	23,482	2,099	50,097	34,232	520	110,430
Percentage of shareholding	21.26%	1.90%	45.37%	0.47%	31.00%	100%
Shareholdings of mainland area individuals, juristic persons, organizations, and other organizations or companies investing in third areas as stipulated in Article 3 of the Measures Governing Investment Permits to the People of the Mainland Area: None						

III. Distribution of equity (common shares) April 15, 2022

Shareholding class	Number of shareholders	Number of shares held (shares)	Ratio of shareholding (%)
1 to 999	6,206	96,568	0.09%
1,000 to 5,000	727	1,337,967	1.21%
5,001 to 10,000	120	838,331	0.76%
10,001 to 15,000	67	832,789	0.75%
15,001 to 20,000	40	699,964	0.63%
20,001 to 30,000	48	1,192,055	1.08%
30,001 to 40,000	27	941,152	0.85%
40,001 to 50,000	36	1,592,826	1.44%
50,001 to 100,000	83	5,938,766	5.38%
100,001 to 200,000	40	5,396,219	4.89%
200,001 to 400,000	20	5,780,771	5.24%
400,001 to 600,000	5	2,164,007	1.96%
600,001 to 800,000	2	1,277,291	1.16%
800,001 to 1,000,000	3	2,683,950	2.43%
1,000,001 to 10,000,000	12	31,364,538	28.40%
10,000,001 to 30,000,000	2	48,293,339	43.73%
Total	7,438	110,430,553	100.00%

Preferred shares: The Company has not issued preferred shares in the most recent year and through the publication date of the annual report.

IV. List of major shareholders (Shareholders holding 5% or more of shares) Unit: Shares

Shares / Name of major shareholders	Number of shares held	Ratio of shareholding (%)
Xinxiang Investment Co., Ltd.	24,810,977	22.47
Veterans Affairs Council	23,482,382	21.26
Qing Yuan Investment Co., Ltd.	4,476,713	4.05
Tongde Investment Co., Ltd.	3,939,983	3.57
Shinhsiung Natural Gas Inc.	3,824,430	3.46
Hexin Construction Co., Ltd.	3,122,039	2.83
Chen An-Pang	2,576,512	2.33
Hsin-Kao Gas Co., Ltd. Industry Union Labor Welfare Fund	2,535,031	2.30

Chen Chih-Hui	2,405,846	2.18
Shengmei Investment Co., Ltd.	2,260,125	2.05

V. Information about market price, net value, earnings, and dividends per share in the most recent 2 years

Unit: NT$. Thousand shares

Item \ Year			2021	2022	From the current year through March 31, 2022
Market value per share	Maximum		44.95	43.85	40.05
	Low		36.95	37.95	38.85
	Average		40.38	39.70	39.55
Net value per share	Before distribution		22.26	21.72	22.22
	After distribution		20.86	Not yet distributed	Not yet distributed
Earnings per share	Weighted average number of shares		110,431	110,431	110,431
	Earnings per share		2.15	1.57	0.44
Dividend per share	Cash dividend		1.40	0.30 (Pending a resolution)	—
	Stock dividends	Stock dividends from capitalization of retained earnings	0	0.90 (Pending a resolution)	—
		Stock dividends from capital reserve	0	0	—
	Accumulated unpaid dividends		0	0	—
Return on investment analysis	P/E ratio		18.78	25.29	—
	Price to dividend ratio		28.84	33.08	—
	Cash dividend yield		3.47	0.76	—

For the distribution of 2022 earnings, the Board of Directors discussed on March 13, 2023 the distribution in cash at NTD0.30 per share and that in stock at NTD0.90 per share.

For stock grants as part of the distribution of 2022 earnings, 90 shares per 1,000 shares and 9,938,750 shares in total were distributed. The total number of shares issued after capital increase is 120,369,303 shares.

VI. Remuneration of employees, directors, and supervisors:

1. Dividend policy and implementation status:

If the Company's year-end final accounts reflect a current net profit, any losses should be made up for and then other items added beyond current after-tax net profit to be included in the current year's undistributed surplus earnings. Afterward, 10% of the balance shall be allocated to legal reserve, and the amount of the shareholder's equity deduction that occurred in the current year will be set aside as special reserve. The rest shall be combined with the accumulated undistributed surplus earnings at the beginning of the period and the adjusted amount of undistributed surplus earnings in the current year, in addition to paying dividends and setting aside replacement reserves, whose amounts are to be authorized by the Board of Directors.

The dividends referred to in the preceding paragraph may be retained in whole or some as undistributed surplus earnings by resolution of the shareholders' meeting. Funding needs with future capital budget planning shall be measured according to the overall environment and industry growth characteristics of the Company and in line with the Company's long-term financial planning. After first using retained earnings to finance fund requirements, cash dividends shall primarily be distributed if there is no major capital expenditure for the remaining surplus. Partial stock dividends shall be distributed in the case of major capital expenditures. The stock dividend distribution ratio will be between 20% and 100%, and the cash dividend will be between 80% and 0%.

VII. The influence of stock dividends planned to the paid in the Shareholders' Meeting of this year on the operations performance and earnings per share of the Company: No such situation.

<table>
<tr><th colspan="2">Year
Item</th><th>2022 projection</th></tr>
<tr><td colspan="2">Cash dividend</td><td>NT$0.30</td></tr>
<tr><td rowspan="2">Stock dividends</td><td>Stock dividends from capitalization of retained earnings</td><td>NT$0.90</td></tr>
<tr><td>Stock dividends from capital reserve</td><td>0</td></tr>
<tr><td colspan="2">Accumulated unpaid dividends</td><td>None</td></tr>
</table>

(I) Expected material changes to dividend policy: None

(II) The influence of stock dividends proposed at the Shareholders' Meeting of this year on the operations performance and earnings per share of the Company: None.

VIII. Remuneration of employees, directors, and supervisors:

(I) The percentage or scope of employee compensation and director and supervisor compensation as set out in the Company's Articles of Incorporation:

If the company makes a profit in the year, 1.5% to 2.5% should be allocated as employee remuneration, and no more than 0.5% should be allocated as director and supervisor remuneration. However, the amount to compensate for the accumulated losses of the Company should be allocated first.

(II) The amount of remuneration for employees, directors and supervisors estimated and presented in the current period shall be calculated based on the number of shares distributed to employees as remuneration, or actual amount paid to employees if different from the estimated amount:

Estimates of employee compensation and director and supervisor compensation: These are based on the current pre-tax profit before deducting employee and director compensation, and is estimated on the basis of the percentage set out in the amended Articles of Incorporation.

For allocated employee compensation, director and supervisor compensation, and the number of shares of employee compensation distributed by stock, when there is a discrepancy between the actual amount and the estimated amount, then this is treated as a profit or loss of the following year listed under change of accounting estimates.

(III) Remuneration distribution approved by the Board of Directors:

1. Allocation of employee compensation in cash or stock, and director and supervisor compensation amounts:

Unit: NT$

Item	Amount
Employee compensation in cash	3,263,466

Employee compensation in stock	0
Director and supervisor compensation	1,087,821

1. Differences between the amount of employee compensation distributed in cash or stock and director and supervisor compensation versus estimated amounts in the year when the expense is recognized: None
2. The amount of employee bonuses distributed in stock and its proportion to the total after-tax net profit and total employee bonuses in the parent company only or individual financial statements for the current period: No allocation of employee compensation in stock.

(IV) The actual allocation of remuneration to the employees, directors, and supervisors in the previous year (including the number of distributed shares, amounts, and stock price). If there is a difference with the recognized amount of remuneration for employees, directors, and supervisors, the number of differences, the reasons and the handling circumstances should be stated

1. Actual allocation of director and supervisor compensation in the prior year:

Unit: NT$

Item	Prior year actual allocation	Original Board proposed allocation
Employee bonuses in cash	4,240,565	4,240,565
Employee cash dividends	0	0
Director and supervisor compensation	1,413,521	1,431,521

2. No employee stock dividends were paid in the prior year
3. Differences from the current year's recognized figures: None

IX. Repurchases of shares by the Company: None

(I) Repurchases already completed:

The Company has not bought back its shares in the most recent year and up to the publication date of the annual report.

(II) Still undergoing implementation:

The type, quantity, amount, and ratio of repurchases vs. scheduled repurchases of repurchased shares as of the publication date of the annual report: None

The ratio of shares cumulatively held to total shares authorized to issue: None

X. Handling of corporate bonds: No such situation

XI. Handling of preferred shares: No such situation

XII. Handling of overseas depositary receipts: No such situation

XIII. Handling of employee stock options: No such situation

XIV. Handling of restricted employee shares: No such situation

XV. Completed handling of M&A or transfer of shares of other companies to issue new shares in the most recent year and as of the publication date of the annual report: No such situation

XVI. Approved resolutions of the Board of Directors for M&A or transfer of shares of other companies to issue new shares in the most recent year and as of the publication date of the annual report: No such situation

M&A or transfer of shares of other companies to issue new shares already in process and their impact on shareholders' rights and interests: No such situation

XVII. Implementation of fund utilization plan:

(I) Plan content:

Details of the securities issued by the Company are as follows:

Year month	Per share Face value	Approved share capital		Paid-in capital		Note		
		Number of shares	Amount	Number of shares	Amount	Source of share capital (NT$)	Plan content:	Other
1994.10	10	60,000,000	600,000,000	60,000,000	600,000,000	(Capital increased by cash) 100,000,000	Replenish working capital	—
1995.09	10	70,000,000	700,000,000	70,000,000	700,000,000	(Capital increased by cash) 100,000,000	Replenish working capital	—
1997.09	10	85,000,000	850,000,000	85,000,000	850,000,000	(Capital increased by cash) 150,000,000	Replenish working capital and expand equipment	—
1998.08	10	89,250,000	892,500,000	89,250,000	892,500,000	(Capitalization of retained earnings) 42,500,000	Expand equipment	—
2000.	10	92,820,000	928,200,000	92,820,000	928,200,000	(Capitalization of retained earnings) 35,700,000	Expand equipment	—
2001.	10	94,676,400	946,764,000	94,676,400	946,764,000	(Capitalization of retained earnings) 18,564,000	Expand equipment	—
2014.	10	102,250,512	1,022,505,120	102,250,512	1,022,505,120	(Capitalization of retained earnings)	Expand equipment	-

						75,741,120		
2020.	10	110,430,553	1,104,305,530	110,430,553	1,104,305,530	(Capitalization of retained earnings) 81,800,410	Expand equipment	-

Notes: I. The above-mentioned offerings of securities were all completed within the planned time limits and there were no changes to their plan content.

II. The Company has not privately placed securities from 2020 to the publication date of the annual report (3 years).

(II) Implementation status:

Year	Original plan	Implementation	Compared with original benefit
1994	Repay debt, NT$100 million	Completed 1994 Q4	Conformed with plan
1995	Repay debt, NT$100 million	Completed 1995 Q4	Conformed with plan
1997	Repay debt of NT$30 million; refurbish equipment, NT$120 million	Repay debt of NT$30 million in October 1997; completed equipment expansion program in the fourth quarter of 1998	Conformed with plan
1998	Expand gas transmission equipment	Completed 1999 Q2	Conformed with plan
1990	Expand gas transmission equipment	Completed February 2001	Conformed with plan
2001	Expand gas transmission equipment	Completed February 2002	Conformed with plan
2014	Expand gas transmission equipment	Completed December 2014	Conformed with plan
2020	Expand gas transmission equipment	Completed December 2020	Conformed with plan

Note: The Company has not privately placed or issued securities from 2020 to 2021 and as of the publication date of the annual report.

1. If the funds are used to merge, acquire, or purchase another company through share acquisition, to expand fixed assets, or to acquire new property, plant and equipment, the annual report shall compare and explain property, plant and equipment, operating revenues, operating costs, and operating income: Not applicable.
2. If the funds are invested in another company, the annual report shall describe the condition of the invested company and explain the effect of the investment upon gain or loss from investments: Not applicable.
3. If the funds are used to strengthen the company’s working capital or pay off debts, the annual report shall: (1) note any increase or decrease in the company’s current assets, current liabilities, and total liabilities; (2) compare and explain the company’s interest expenses, operating revenues, and earnings per share; and (3) analyze the company’s

financial structure: Not applicable.

Five. Overview of Operations

I. Business content

(I) 1. Business Scope:

(1) Gas Utility Enterprise.

(2) Apparatus and Parts Manufacturing.

(3) Fuel Catheter Installation Engineering.

(4) Wholesale of Petroleum Products.

(5) All business items that are not prohibited or restricted by law, except those that are subject to special approval.

2. Current business items and contributions:

Product items	Contribution
Natural gas	79%
Catheter devices	21%

3. New products planned for development: None

(II) Industry Overview:

According to US statistics, global natural gas reserves total about 5,500 trillion cubic feet. The top 3 countries with the most abundant reserves are the Soviet Union (accounting for 31% of global reserves), Iran (accounting for 15% of global reserves), and Qatar (accounting for 10% of global reserves). It is estimated that the global natural gas demand will grow by about 1.5% to 2% per year between 1999 and 2023. Although global natural gas consumption is increasing, there are still newly discovered natural gas reserves in the world every year, so the current natural gas production is enough to supply the world for about 60 years.

The sale of natural gas constitutes the main business activity of the Company, and the upstream manufacturer is CPC Corporation, Taiwan. Due to the small amounts of self-produced natural gas in Taiwan, a reliance on imports is necessary. CPC Corporation mainly imports from countries such as Indonesia, Malaysia, Qatar, and Papua New Guinea, and the government leads in the signing of long-term gas supply contracts of 20 to 25 years. CPC Corporation has imported about 10 million metric tons per year since 2009, and it is expected that the annual import volume will increase by about 18 million metric tons after 2020. 80% of the natural gas sold by CPC goes to Taipower's power generation, while 14% goes to industry use and 6% to natural gas companies across Taiwan. CPC Corporation imports natural gas from the four countries and its components include methane, ethane, and propane. After being liquefied at extremely low temperatures, it is transported by LNG ship to CPC's Yongan receiving terminal. After gasification, it is transported by pipeline and then conveyed to the user end through the company's metering stations and gas pipelines; such users include households, businesses, and industrial users.

CPC Corporation planned to increase its production capacity by about 18 million tons in 2020 and build 3 more natural gas receiving stations. Increasing to 5 from the current 2 stations, it would provide power generation and improve air pollution.

Natural gas is recognized as providing the cleanest energy in the world. The Company purchases methane natural gas from CPC Corporation with an annual purchase volume of about 62 million kWh, which is transported to the user end by the Company's metering stations through the gas pipelines for household, commercial, and industrial use. There were 216,530 gas users by March 2022, an increase of 2.56% from the 211,125 households seen in the same period last year. The population of Kaohsiung City has shrunk in the past 10 years and commercial activities have decreased significantly, resulting in slow growth in gas consumption from the Company. The Company's business area encompasses Kaohsiung's 9 administrative districts. The climate in the southern part of Taiwan is often warmer than that in the northern part of Taiwan. The summer is long and there is nearly no winter. As a result, gas consumption is less than that in the north. Meanwhile, it is required by law that natural gas is disallowed in small suites. This is why regional gas consumptions in metropolitan areas show minimum growths compared to the those of the counterpart, SHINHSIUNG NATURAL GAS INC., which targets primarily industrial users.

Natural gas is a daily necessity and its price is of great importance to domestic economic development. Therefore, its pricing is subject to policy controls and cannot be liberalized. In March 1998, the Bureau of Energy of the Executive Yuan approved the "Oil (Gas) Separate Pricing System." Officially applied in 2005, this enabled the industry to have an independent pricing formula. The Bureau of Energy of the Executive Yuan began formulating the "Natural Gas Enterprise Act" starting from 1999. Among its initiatives, the "Pricing System for Pipeline Installations" was launched in 2012. On May 31, 2017, the Bureau of Energy officially launched the "Calculation Criteria for Public Utility Natural Gas Prices and Basic Charges" to review the unit prices of gas charges. This in turn would affect the growth of the Company's revenues and gross profits.

Demand for natural gas grows about 2%–4% every year in Taiwan. Recently, national economic development has been primarily focused on sightseeing and Taiwan residents have also paid more attention to leisure in their lives. Over the past nearly two years, the COVID-19 pandemic led to the shutdown of borders, which impacted the headcount of visitors to Taiwan. In 2023, the pandemic eased, borders were reopened, and people can go abroad for sightseeing again, which will help drive up the demand for natural gas. It is expected that the headcount in the dining sector and tourism throughout Taiwan will continue to climb in 2023. The Company expects gas sales to rise by around 2%.

In the 10 years following 2012, annual domestic demand will average about 18 million metric tons. Out of this, residential and commercial demand will be about 3.5 million tons with an annual growth rate of about 2%–3%. Natural gas constitutes a clean energy, and it is the main energy source promoted by the energy policies of a range of national governments. The development and production capacity of shale gas in the United States has gradually shrunk. However, many domestic companies have shown signs of expanding their production capacities in promoting solar energy in recent years. This can especially be seen in the Pingtung area, where the deployment area has also grown compared to previous years. Still, its penetration rate will not be able to replace natural gas within the coming 10 years. Russia launched a war with Ukraine this year, and natural gas has become a focus of sanctions among Western countries as they have sought to punish the Russian economy. Russia accounts for only 10% of Taiwan's natural gas imports and associated contracts were to end in March 2022 without renewal; this would have no impact on the Company's natural gas demand.

(III) Technology and R&D overview:

1. Research expenses Unit: NT$

Year	Research expenses
2021	7,500,000
As of March 31, 2021	1,800,000

Future research costs came to about NT$7.5 million

2. 2021 Principal R&D results

No.	Item	Effectiveness
1	Regulator stations are equipped with disaster prevention equipment.	Enhancing gas supply security
2	Planning and laying of medium-pressure steel pipes.	Enhancing gas supply security

3. 2022 Research and Development Plan:

No.	Item	Effectiveness
1	Research and development of large-scale business user gas meters to automatically report usage.	Enhancing metering functions
2	Intensive potential testing of high-to-medium-pressure pipes and improved cathodic protection against corrosion.	Enhancing gas supply security

(IV) Long-term and short-term business development plans:

1. Short-term plan:
   (1) Completed the 2022 Operational Plan, with the number of users increasing by 5,900 households.
   (2) Reinforced promotion among users with existing pipelines to keep a growth of 3% a year in gas users.
2. Long-term plan:
   (1) Devote to the development of reinvestment businesses to increase the operating income through diversified operations.
   (2) Add communication equipment to regulating and metering stations in order to boost the gas supply safety factor.

II. Market and production/sales overview

(I) Market analysis

The Company's business scope mainly targets industrial, commercial, and general household users in the nine administrative districts of Kaohsiung City (Sanmin, Qianjin, Xinxing, Lingya, Qianzhen, Gushan, Zuoying, Nanzi, and Yancheng). As of December 2021, the cumulative number of gas users was 215,138 with a penetration rate of about 38%. In 2022, it was estimated that there would be 5,500 additional registered households for an increase of about 3%. Taiwan residents are becoming more engaged in holidaymaking and eating out and the population is increasing. Due to the impact of COVID-19, however, the number of shuttered restaurants in the catering industry has increased by about 20% in the past two years compared with before 2020. Nonetheless, the number of household users has increased in line with the immigrant population. The Company's gas supply system is divided into high, medium, and low pressure main pipes and branch pipes with a total length of about 600 kilometers. Distributed on the main roads of Kaohsiung City, it is the safest, most economical and continuous gas supply system for Kaohsiung citizens.

1. Market supply and demand in the future:
   A. Natural gas supply side:

Although Taiwan has self-produced natural gas, the reserves are very small and can only supply the Taoyuan, Hsinchu, and Miaoli regions. The gas supplied across Taiwan as a whole is still mainly imported. CPC Corporation has built a dedicated port for natural gas at Yongan Port in Kaohsiung, where it receives imports from Indonesia and other countries under long-term contracts of 20 to 30 years.

B. Natural gas demand side:

Taiwan is densely populated and commercially developed, and the national annual demand for natural gas is growing by about 3%.

2. Projected sales volume:

Year / Product type	2021	2022	2023 estimate
Gas sales revenue	(thousand units) 62,325	(thousand units) 63,959	(thousand units) 6,324
Catheter devices	(households) 5,286	(households) 4,595	(households) 5,868

3. Advantages and disadvantages of development prospects:

(1) Favorable market factors:

A. Gas is a necessity for people's livelihoods and gas consumption can grow by 2.5% per year

B. Sources of gas are stable.

C. Liberalization of economic policies will help local development and increase the sales of natural gas.

(2) Unfavorable market factors:

A. Investment in natural gas supply and transmission equipment for the gas industry requires a huge amount of capital and the capital payback period is long.

B. Gas prices require approval by the competent authority and cannot immediately reflect costs.

C. It is regulated by public utility laws and regulations, resulting in challenges in business promotions and a decrease in operating margins.

(3) Countermeasures:

A. We are committed to user promotions on existing pipelines to increase asset utilization.

B. The Company's pricing can be liberalized after the government opens up the import of natural gas in the future.

C. It is hoped that the government's laws and regulations should adopt a more open policy for gas companies in order to safeguard shareholders' rights and interests.

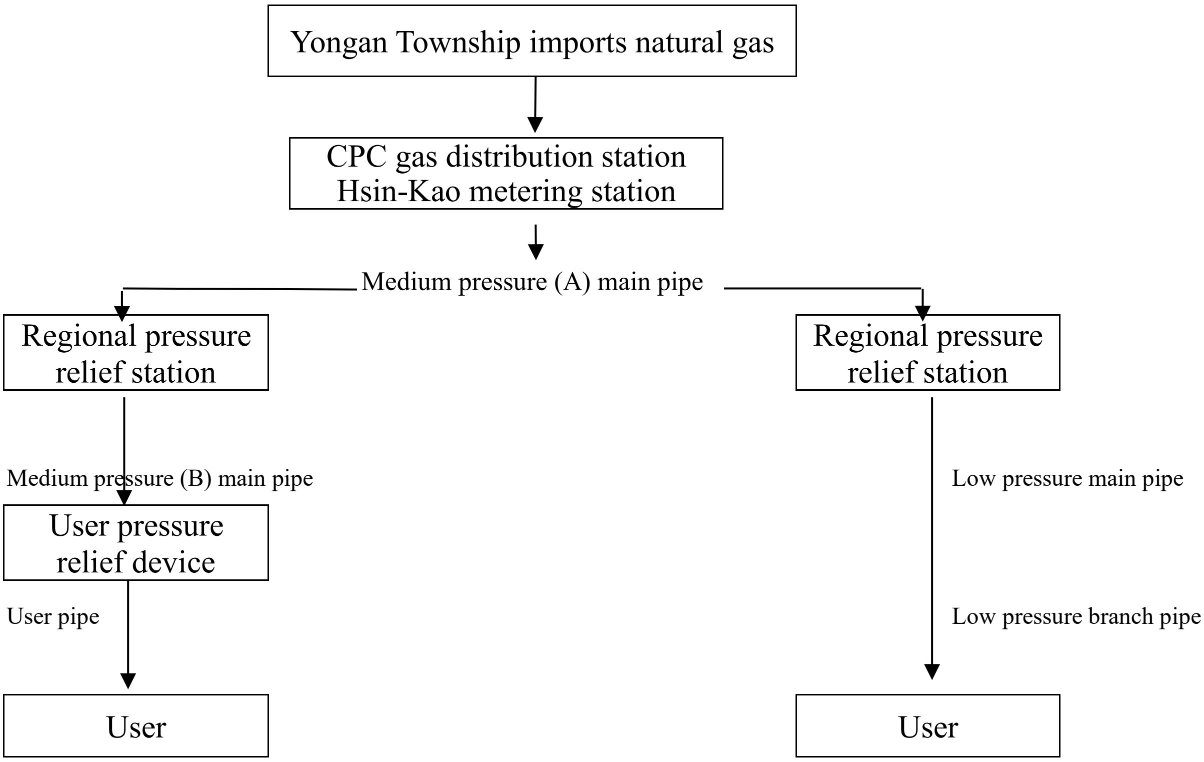
(II) Important applications and production processes of major products:

1. Important applications of major products

The Company is engaged in the operation of supply and marketing of natural gas. The natural gas imported by CPC Corporation, Taiwan is transported to residential and commercial users in the Company's operating area through gas pipelines for use as fuel.

2. Production processes

Flowchart of natural gas supply imports



(III) Supply status of main raw materials

1. Gas sales

The government signs for Taiwan's natural gas sources with Indonesia, Malaysia, Qatar, and Papua New Guinea, and they are then imported by CPC Corporation and supplied to downstream natural gas business units. Therefore, the gas sold by the Company is supplied by CPC Corporation. The main supply conditions of the most recent year are as follows:

Information on major suppliers of gas sales in the last two years (more than 10% of net purchases): Unit: NT$ thousand

	2021				2022				Through 2023 prior quarter			
Item	Name	Amount	Percentage of total annual net purchases (%)	Relationship with issuer	Name	Amount	Percentage of total annual net purchases (%)	Relationship with issuer	Name	Amount	Percentage of total annual net purchases (%)	Relationship with issuer
1	CPC	498,268	99.95	None	CPC	522,286	99.95	None	CPC	153,843	99.95	None
2	Others	270	0.05	None	Others	261	0.05	None	Others	77	0.05	None
	Purchased goods Net amount	498,538	100		Purchased goods Net amount	522,547	100		Purchased goods Net amount	153,920	100	

The above financial information constitutes the 2021 CPA review report.

2. Pipeline installation:

In order to integrate the material procurement system and quality management, pipeline installation materials are all purchased by the Company and contractors then pick up the materials for construction. Ninety percent of material supply is produced domestically while another 10% is purchased from abroad, and the Company enters into annual contracts with key suppliers.

Information on major suppliers of pipeline installations in the last two years (more than 10% of net purchases): Unit: NT$ thousand

	2021				2022				Through 2023 prior quarter			
Item	Name	Amount	Percentage of total annual net purchases (%)	Relationship with issuer	Name	Amount	Percentage of total annual net purchases (%)	Relationship with issuer	Name	Amount	Percentage of total annual net purchases (%)	Relationship with issuer
1	Yung Loong	58,211	32.65	None	Yung Loong	69,856	36.33	None	Yung Loong	19,499	37.39	None
2	Main Station Enterprise Co., Ltd.	24,996	14.02	None	Main Station Enterprise Co., Ltd.	36,414	18.94	None	Main Station Enterprise Co., Ltd.	6,243	11.97	None
3	Others	95,080	53.33	None	Others	86,019	44.73	None	Others	26,408	50.64	
	Purchased goods Net amount	178,287	100.00		Purchased goods Net amount	192,289	100.00		Purchased goods Net amount	52,150	100.00	

The above financial information constitutes the 2022 CPA review report.

(IV) Customers accounting for more than 10% of total sales

(1) Customers whose gas sales accounted for more than 10% of total sales in 2021, 2022, and 2023 Q1: None

(2) Customers whose pipeline installations accounted for more than 10% of total sales in 2021, 2022, 2023 Q1: None

(V) Production value in the last two years

Units: NT$ thousand; thousand units; households

Year / Production volume and Value / Major product (or department)	2021			2022		
	Capacity	Production volume	Production value	Capacity	Production volume	Production value
Business Department (thousand units)	—	60,582	756,662	—	63,959	792,109
Engineering & Material Department (households)	—	5,286	189,072	—	4,595	216,698
Engineering & Material Department	-	-	15,098	-	-	12,335
Total			960,832			1,021,142

(VI) Sales value in the last two years

Units: NT$ thousand; thousand units; households

Year / Sales Volume and Value / Major product (or department)	2021				2022			
	Domestic sales		Exports		Domestic sales		Exports	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Business Department (thousand units)	60,582	914,226	—	—	63,959	957,835	—	—
Engineering & Material Department (households)	5,286	249,385	—	—	4,595	266,161	—	—
Engineering & Material Department		29,561				23,484		
Total		1,193,172	—	—		1,247,480	—	—

III. The number of employees employed in the past two years and as of the date of publication of the annual report, the average years of service, the average age, and education distribution ratio:

March 31, 2022

Year		2021	2022	From the current year through March 31, 2023
Number of employees	Staff	96	96	94
	Labor	15	17	17
	Total	111	113	111
Average age		43.76	44.71	44.71
Average years of service		14.97	15.05	15.05
Education distribution ratio	Ph.D.	0	0	0
	Master's degree	6	6	6
	Bachelor	76	77	76
	High school	27	28	27
	Below high school	2	2	2

IV. Environmental protection expenditures

(I) The business operated by the Company does not involve environmental pollution, and there is no need to apply for a pollution facility permit or a pollution discharge permit according to law.

(II) The total amount of damages and penalties due to environmental pollution in the most recent year and as of the publication date of the annual report: No such situation.

(III) Current and future estimated amounts and possible response measures: The business operated by the Company does not involve environmental pollution.

(IV) Response measures for EU Restriction of Hazardous Substances (ROHS): The Company's products are sold 100% domestically and ROHS does not affect the Company's finances and business.

V. Labor Relations:

(I) Various employee welfare measures, advanced education, training, retirement systems and their implementation status, as well as the agreements between labor and management and various employee rights protection measures:

1. Employee benefits measures:

(1) Every month, 0.15% of operating revenue is allocated to the Employee Welfare Committee to handle domestic and foreign travel and life emergency assistance for employees.
(2) Employee training and family member scholarships are provided.
(3) Funds are allocated every year to help employees purchase medical insurance and accident insurance.
(4) The employee retirement system is handled in accordance with the Labor Standards Act.
(5) The Employee Work Rules are stipulated to protect the rights and interests of employees at work.
(6) Free lunches are provided.

2. Further education and training in 2023:

Date	Course Title	Hours	Date	Course Title	Hours
01.26	Confined space operating procedures and SCBA breathing safety equipment operations	2	06.29	Safety and health education and training	2
02.23	Functional operation of AutoCAD graphics system	2	0727	Daken airtight method of operation	4
03.30	Field introduction to Nanzi regulator station equipment	4	08.26	Operating procedures for each type of computerized connected meter	2
04.27	Education and training for connected meter security check operations	2	09.17	Gas stoppage drill for gas supply block 1–2	8
05.25	Operating instructions for remote laser gas detector	2	10.26	Operation instructions for mixed use shopping mall monitoring systems	2
First half year	New technology and case studies	6	11.25	Operational instructions for regional pressure regulator stations	2
Second half year	New technology and case studies	6	Undecided	Continuous air drilling operations (in cooperation with on-site field work)	4

3. Retirement system: Retirement of the Company's employees is handled in accordance with the Labor Standards Act, and a Pension Supervision Committee has been set up to withdraw pensions every month in accordance with the regulations.

Formulation of resignation and retirement methods: Employees of the company who have worked for more than 10 years can follow the resignation method and apply for severance pay in the same manner as retirement (adopting the old system of labor insurance).

4. Labor–management agreement and protection measures for the rights and interests of each employee: The Company has signed a labor–management agreement. If workers have differences of opinion with the Company, this will be coordinated by the industry union.

(II) Losses due to labor disputes for the most recent year and up to the date of publication of the annual report: None

(III) Estimated amounts from labor disputes that may occur at present and in the future, and countermeasures: None

VI. Information security management:

(I) State the information security risk management framework, the information security policy, the specific management plan, resources invested in the security management of information, etc.:

1. INFORMATION SECURITY MANAGEMENT STRUCTURE:
   The Information Technology Department is responsible for and implements information security policies. It promotes information security information, enhances employees' information security awareness, collects and improves the effectiveness of the organization's Information Security Management System and associated technologies, products, or procedures, and so on. The President serves as the current head of information security, and the head of the Information Technology Office is an information security officer.
2. INFORMATION SECURITY POLICIES:
   In order to implement information security management, the Company has established our Internal Control System: Information Security Management Measures. Through the joint efforts of all colleagues, we expect to achieve the following policy objectives.
   Ensure the confidentiality and data integrity of information assets.
   Ensure that data access is regulated in accordance with division functional authority.

Ensure the continuous, stable, and normal operation of IT systems and gas supply equipment.

Prevent unauthorized modification or use of materials and systems.

Regularly perform IT system data recovery and system recovery drills to ensure uninterrupted information services.

3. SPECIFIC MANAGEMENT PLAN:

   IT systems program inventory.

   Set up firewall and set up storage device for firewall LOG record file.

   Install anti-virus software to scan for viruses regularly.

   Set IT systems to automatically ask users to change their passwords every six months.

   Have all employees sign a confidentiality agreement. Third parties must sign the manufacturer's confidentiality agreement

   Establish IT system data backup mechanisms and off-site storage.

   Set up uninterruptible power system and generators to ensure uninterrupted operation and service of IT systems so that data damage can be avoided.

4. INVESTMENT IN INFORMATION SECURITY MANAGEMENT:

   (1) Hardware equipment: About NT$700,000 in outdated hardware equipment and peripheral components are updated every year.

   (2) Annual maintenance contracts have been signed for software, anti-virus, and equipment maintenance equivalent to approximately NT$800,000 per year.

(II) Losses suffered due to major information security incidents in the most recent year and as of the publication date of the annual report, possible impact, and response measures. If this cannot be reasonably estimated, the fact that it cannot be reasonably estimated shall be stated: No such situation.

VII. Important contracts

(1) Supply, marketing, and engineering contracts still valid as of the date of publication of the annual report (April 25, 2023):

Nature of contract	Contractual parties	Contract start and end date	Main content	Restrictive clauses
Procurement of natural gas	CPC Corporation, Taiwan	2023.01.31 – 2024.01.31	CPC Corporation agrees to sell natural gas to the Company	None
Gas supply support contract	ShinHsiung Natural Gas Inc.	Perpetual contract	Fengshan Ziyou Road pressure regulator station is set up to connect pipeline and meters to mutually support gas sourcing	None
Engineering contract	Tairui, Sanming, Huicheng, Kuyu	2022.01.01 – 2024.01.31	Gas fuel catheter engineering installations, road repairs	None

(2) Main contracts that expired over the past year:

Nature of contract	Contractual parties	Contract start and end date	Main content	Restrictive clauses
Procurement of natural gas	CPC Corporation, Taiwan	2021.01.31 – 2022.01.31	CPC Corporation agrees to sell natural gas to the Company	None

(3) Technical cooperation contracts: None

(4) Long-term loan contracts: None

(5) Other important contracts potentially impacting shareholders' rights and interests: None

Six. Financial Overview

(1) Condensed balance sheets for the most recent five years – Prepared under International Accounting Standards (Consolidated) Unit: NT$ thousand

Item \ Year		Financial data for the most recent five years (Note 1)					Current year through March 31, 2023 financial data
		2018	2019	2020	2021	2022	
Current assets		1,260,509	1,257,435	1,415,534	1,528,568	1,565,334	1,764,841
Property, plant and equipment (Note 2)		2,353,275	2,501,177	2,575,491	2,640,062	2,619,293	2,616,465
Intangible assets		1,517	2,553	3,952	2,133	463	356
Other assets (Note 2)		500,342	684,504	795,766	1,039,974	1,311,821	1,336,172
Total assets		4,115,643	4,445,669	4,790,743	5,210,737	5,496,911	5,717,834
Current liabilities	Before distribution	1,418,928	1,470,868	1,597,401	1,679,986	1,942,095	2,071,712
	After distribution	1,551,853	1,521,993	1,740,961	1,834,589	Not yet distributed	Not yet distributed
Non-current liabilities		775,548	906,193	967,219	1,072,032	1,156,148	1,192,402
Total liabilities	Before distribution	2,194,476	2,377,061	2,564,620	2,752,018	3,098,243	3,264,114
	After distribution	2,327,401	2,428,186	2,708,180	2,906,621	Not yet distributed	Not yet distributed
Equity attributable to owners of parent		1,889,264	2,034,351	2,189,523	2,413,151	2,355,287	2,410,281
Capital stock		1,022,505	1,022,505	1,104,306	1,104,306	1,104,306	1,104,306
Capital reserve		30,113	30,113	30,113	30,113	30,113	30,113
Retained Earnings	Before distribution	775,665	838,441	898,902	999,591	1,028,271	1,066,764
	After distribution	642,740	705,515	755,342	844,988	Not yet distributed	Not yet distributed
Other equity		60,981	143,292	156,202	279,141	192,597	209,098
Treasury shares		—	—	—	—	-	-
Non-controlling interest		31,903	34,257	36,600	45,568	43,381	43,439
Equity Total amount	Before distribution	1,921,167	2,068,608	2,226,123	2,458,719	2,398,668	2,453,720
	After distribution	1,788,242	2,017,483	2,082,563	2,304,116	Not yet distributed	Not yet distributed

1. Audited by accountants 2017-2021.
2. Accountant review completed through 2022 Q1.
3. For those who have undergone asset revaluation in the current year, the date of revaluation and the value-added

amount of revaluation should be listed: No such situation.

4. As of the date of publication of the annual report, for a company that is listed or whose shares have been traded at the business office of a securities firm, disclosure should be made if it has the latest financial information that has been audited, certified or reviewed by an accountant.
5. The above-mentioned post-distribution figures are filled in according to the resolution of the shareholders' meeting of the following year.
6. If the financial information is notified by the competent authority to be corrected or restated, this shall be listed with the corrected or restated figures, and the circumstances and reasons shall be indicated: No such situation.

Condensed statements of comprehensive income for the most recent five years – Prepared under International Accounting Standards (Consolidated)

Unit: NT$ thousand

Item \ Year	Financial data for the most recent five years (Note 1)					From the current year through March 31, 2023 financial data
	2018	2019	2020	2021	2022	
Operating revenue	1,485,240	1,455,556	1,232,504	1,193,172	1,247,480	347,796
Operating margin	272,709	256,987	221,309	232,340	226,338	72,180
Operating profit and loss	205,668	189,044	159,430	165,961	158,093	55,760
Non-operating income and expenses	53,448	57,486	80,950	124,833	61,742	(4,008)
Net profit before tax	259,116	246,530	240,380	290,794	219,835	51,752
Continuing operations Profit after tax for the current period	215,252	193,655	193,302	242,638	174,357	38,017
Profit or loss from discontinued operations	—	—	—	—	-	-
Profit (loss) for the period	215,252	193,655	193,302	242,638	174,357	38,017
Other comprehensive income, net of tax, for the period (Net of tax)	28,359	86,711	15,338	133,518	(79,805)	17,035
Total comprehensive income for the period	243,611	280,366	208,640	376,156	94,552	55,052
Net profit attributable to owners of the parent	211,706	192,952	190,786	237,364	173,284	38,493
Net profit attributable to non-controlling interest	3,546	703	2,516	5,274	1,073	(476)
Total comprehensive income attributable to owners of the parent company	240,129	278,012	206,297	367,188	96,739	54,994
Total comprehensive profit and loss attributable to non-controlling interests	3,482	2,354	2,343	8,968	(2,187)	58
Earnings per share	1.92	1.75	1.73	2.15	1.57	0.35

1. The Company has prepared parent company only financial statements, and has also compiled parent company only condensed balance sheets and statements of comprehensive income for the most recent five years.
2. Audited by accountants 2017-2021.
3. Accountant review completed through 2022 1Q.
4. Profit or loss from discontinued operations presented as a net amount after deducting income tax: None

5. If the financial information is notified by the competent authority to be corrected or restated, this shall be listed with the corrected or restated figures, and the circumstances and reasons shall be indicated: No such situation.

(2) Condensed balance sheets – Prepared under International Accounting Standards (Parent company only) Unit: NT$ thousand

Item \ Year		Financial data for the most recent five years (Note 1)				
		2018	2019	2020	2021	2022
Current assets		965,337	918,044	1,011,127	994,435	986,298
Property, plant and equipment		2,353,275	2,501,177	2,575,491	2,640,062	2,619,293
Intangible assets		1,517	2,553	3,952	2,133	463
Other assets		758,420	952,429	1,083,628	1,357,486	1,579,219
Total assets		4,078,549	4,374,203	4,674,198	4,994,116	5,185,273
Current liabilities	Before distribution	1,414,877	1,465,989	1,592,208	1,644,933	1,883,658
	After distribution	1,547,802	1,517,114	1,735,768	1,799,536	Not yet distributed
Non-current liabilities		774,408	873,863	892,467	936,032	946,328
Total liabilities	Before distribution	2,189,285	2,339,852	2,484,675	2,580,965	2,829,986
	After distribution	2,322,210	2,390,977	2,628,235	2,735,568	Not yet distributed
Equity attributable to owners of parent		1,889,264	2,034,351	2,189,523	2,413,151	2,355,287
Share capital		1,022,505	1,022,505	1,104,306	1,104,306	1,104,306
Capital reserve		30,113	30,113	30,113	30,113	30,113
Retained earnings	Before distribution	775,665	838,441	898,902	999,591	1,028,271
	After distribution	642,740	705,515	755,342	844,988	Not yet distributed
Other equity		60,981	143,292	156,202	279,141	192,597
Treasury shares		—	—	—	—	—
Non-controlling interest		—	—	—	—	—
Total equity	Before distribution	1,889,264	2,034,351	2,189,523	2,413,151	2,355,287
	After distribution	1,756,339	1,983,226	2,045,963	2,258,548	Not yet distributed

1. If the Company has prepared parent company only financial statements, it shall also prepare parent company only condensed balance sheets and statements of comprehensive income for the most recent five years.
2. Audited by accountants 2017-2021.
3. For those who have undergone asset revaluation in the current year, the date of revaluation and the value-added amount of revaluation should be listed: No such situation.
4. For the above-mentioned post-distribution figures, please fill in according to the resolution of the shareholders' meeting of the following year.
5. If the financial information is notified by the competent authority to be corrected or restated, this shall be listed with the corrected or restated figures, and the circumstances and reasons shall be indicated: No such situation.

Condensed statements of comprehensive income – Prepared under International Accounting Standards (Parent company only) Unit: NT$ thousand

Item \ Year	Financial data for the most recent five years (Note 1)				
	2018	2019	2020	2021	2022
Operating revenue	1,344,796	1,446,952	1,232,504	1,193,172	1,247,480
Operating margin	233,184	254,021	221,309	232,340	226,338
Operating profit and loss	173,729	194,663	160,786	167,753	160,059
Non-operating income and expenses	70,222	45,205	69,608	109,297	53,154
Net profit before tax	243,951	239,868	230,394	277,050	213,213
Continuing operations Profit after tax for the current period	211,706	192,952	190,786	237,364	173,284
Profit or loss from discontinued operations	—	—	—	—	-
Profit (loss) for the period	211,706	192,952	190,786	237,364	173,284
Other comprehensive income for the period (net after tax)	28,423	85,060	15,511	129,824	(76,545)
Total comprehensive income for the period	240,129	278,012	206,297	367,188	96,739
Net profit attributable to owners of the parent	-	—	—	-	-
Net profit attributable to Non-controlling interest	-	—	—	-	—
Total comprehensive income amount attributable to owners of parent	-	—	—	-	—
Total comprehensive income amount attributable to non-controlling interest	-	—	—	-	—
Earnings per share	1.92	1.75	1.73	2.15	1.57

1. The Company has prepared parent company only financial statements, and should also compile parent company only condensed balance sheets and statements of comprehensive income for the most recent five years.
2. Audited by accountants 2017–2021.
3. Profit or loss from discontinued operations presented as a net amount after deducting income tax: None.
4. If the financial information is notified by the competent authority to be corrected or restated, this shall be listed with the corrected or restated figures, and the circumstances and reasons shall be indicated: No such situation.

CPA name and audit opinion for the most recent five years

Year	CPA name	Audit Opinion
2017	Lai Yung-Chi, Chou Yin-Lai	Unqualified opinion plus paragraph on other matters
2018	Lai Yung-Chi, Chou Yin-Lai	Unqualified opinion plus paragraph on other matters
2019	Lai Yung-Chi, Chou Yin-Lai	Unqualified opinion plus paragraph on other matters
2020	Lai Yung-Chi, Chou Yin-Lai	Unqualified opinion plus paragraph on other matters
2021	Cheng Hsien-Hsiu, Chou Yin-Lai	Unqualified opinion plus paragraph on other matters

Financial analysis:

(1) Financial analysis: Prepared under International Accounting Standards (consolidated)

Analysis item (Note 3) \ Year (Note 1)		Five-Year Financial Analyses					From the current year through March 31, 2023
		2018	2019	2020	2021	2022	
Financial structure (%)	Debt to asset ratio	53.32	53.47	53.53	52.81	56.36	57.09
	Ratio of long-term funds to property, plant, and equipment	114.59	118.94	123.99	133.74	135.72	139.35
Solvency %	Current ratio	88.84	85.49	88.61	90.99	80.60	85.19
	Quick ratio	73.63	64.33	63.47	60.89	48.31	51.89
	Interest coverage ratio	609.71	469.65	186.96	107.36	32.98	18.04
Operating ability	Receivable turnover (times)	7.91	8.17	7.29	8.28	8.46	1.86
	Average cash collection days	46.14	44.67	50.06	44.08	43.14	196.23
	Inventory turnover (times)	5.08	4.97	3.05	2.26	1.91	0.44
	Payables turnover (times)	9.12	9.04	8.13	9.25	10.52	3.22
	Average sales days	71.85	73.44	119.67	161.50	191.09	829.54
	Turnover of property, plant and equipment (times)	0.64	0.60	0.49	0.46	0.47	0.13
	Total assets turnover (times)	0.37	0.34	0.27	0.24	0.23	0.06
Profitability	Return on assets (%)	5.38	4.52	4.19	4.86	3.27	0.68
	Return on equity (%)	11.57	9.71	9.00	10.36	7.18	1.57
	Net profit before tax contribution to paid-in capital ratio (%)	25.34	24.11	21.77	26.33	19.91	4.69
	Net profit margin (%)	14.49	13.30	15.68	20.34	13.98	10.93
	Earnings per share (NT$)	1.92	1.75	1.73	2.15	1.57	0.35
Cash flows	Cash flow ratio (%)	46.24	30.68	29.01	21.53	17.46	3.39
	Cash flow adequacy ratio (%)	128.24	114.87	112.90	108.36	101.13	82.92
	Cash reinvestment ratio (%)	11.36	6.22	7.63	3.81	3.05	1.16
Leverage	Operational leverage	1.79	1.98	2.28	2.30	2.41	2.01
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.01

Please explain the reasons for the changes in financial ratios in the last two years. (If the increase or decrease does not reach 20%, the analysis can be omitted):
Quick ratio: the inventory climbed by 25% from the preceding term.
Debt service coverage ratio: Interest expense increased by 147% compared with the previous period.
Return on assets, return on equity, net profit ratio, earnings per share: the net profit dropped by 28% for the current term versus the preceding term.
Ratio of net profit before tax to paid-in capital size: The net profit before tax dropped 24% versus the preceding term.
Cash reinvestment ratio (%): Other non-current assets have climbed 40% versus the preceding term.

※ If the Company has prepared parent company only financial statements, the parent company only financial ratio analysis of the Company should be prepared separately.
Exempted from preparing 2022 Q1 parent company only financial statements.

(2) Financial analysis – Prepared under International Accounting Standards (Parent

company only)

Analysis item (Note 3) \ Year (Note 1)		Five-Year Financial Analyses				
		2018	2019	2020	2021	2022
Financial structure (%)	Debt to asset ratio	53.68	53.49	53.16	51.68	54.58
	Ratio of long-term funds to property, plant, and equipment	113.19	116.27	119.67	126.86	126.05
Solvency %	Current ratio	68.23	62.62	63.50	60.45	52.36
	Quick ratio	54.89	47.73	49.87	45.35	38.16
	Interest coverage ratio	1,012.29	1,236.62	859.85	933.76	120.84
Operating ability	Receivable turnover (times)	8.58	8.35	7.40	8.28	8.46
	Average cash collection days	42.54	43.71	49.32	44.08	43.14
	Inventory turnover (times)	6.31	6.03	4.75	4.21	4.03
	Payables turnover (times)	9.74	9.00	8.13	9.25	10.52
	Average sales days	57.84	60.53	76.84	86.69	90.57
	Turnover of property, plant and equipment (times)	0.58	0.60	0.49	0.46	0.47
	Total assets turnover (times)	0.34	0.34	0.27	0.25	0.25
Profitability	Return on assets (%)	5.41	4.57	4.22	4.91	3.41
	Return on equity (%)	11.57	9.84	9.03	10.31	7.27
	Net profit before tax to paid-in capital ratio (%) (Note 7)	23.86	23.46	20.86	25.09	19.31
	Net profit margin (%)	15.74	13.34	15.48	19.89	13.89
	Earnings per share (NT$)	1.92	1.75	1.73	2.15	1.57
Cash flows	Cash flow ratio (%)	34.25	34.04	32.47	23.82	22.42
	Cash flow adequacy ratio (%)	128.70	122.61	127.47	122.64	119.10
	Cash reinvestment ratio (%)	7.28	6.75	8.11	4.05	4.17
Leverage	Operational leverage	1.93	1.95	2.27	2.29	2.39
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Please explain the reasons for the changes in financial ratios in the last two years. (If the increase or decrease does not reach 20%, the analysis can be omitted):
Interest Protection Multiples: Interest expenses climbed 495% versus the preceding term.
Return on assets, return on equity, net profit ratio, earnings per share: The net profit dropped by 27% for the current term versus the preceding term.
Cash flow adequacy ratio: net cash inflow from operating activities decreased by 23% from the previous period.

* Exempted from preparing 2022 Q1 parent company only financial statements.

* The above data has been audited by accountants.

* Calculation Formulas:

1. Financial structure
   (1) Liabilities to assets ratio = total liabilities / total assets.
   (2) The ratio of long-term funds to property, plant, and equipment = (total equity + non-current liabilities) / net property, plant, and equipment.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
   (3) Interest coverage ratio = net profit before income tax and interest expense / interest expense in the current period.
3. Operating ability
   (1) Accounts receivable (including accounts receivable and notes receivable due to business) turnover rate = net sales / average receivables in each period (including accounts receivable and notes receivable due to business) balance.
   (2) Average cash collection days = 365 / receivable turnover rate.
   (3) Inventory turnover rate = cost of goods sold / average inventory value.
   (4) Payables (including accounts payable and bills payable due to business) turnover rate = cost of goods sold / average payables in each period (including accounts payable and bills payable due to business) balance.
   (5) Average sales days = 365 / inventory turnover rate.
   (6) Turnover rate of property, plant, and equipment = net sales/average net property, plant, and equipment.
   (7) Total asset turnover ratio = net sales / average total assets.
4. Profitability
   (1) Return on assets = [(after-tax profit and loss + interest expense × (1 - tax rate)] / average total assets.
   (2) Return on equity = profit and loss after tax / average total equity.
   (3) Net profit rate = after-tax profit and loss / net sales.
   (4) Earnings per share = (profit and loss attributable to owners of the parent company - preferred share dividends) / weighted average number of issued shares. (Note 4)
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
   (2) Net cash flow ratio = net cash flow from operating activities in the last five years / the last five years (capital expenditure + inventory increase + cash dividend)
   (3) Cash reinvestment ratio = (net cash flow from operating activities-cash dividends) / (gross property, plant, and equipment + long-term investment + other non-current assets + working capital). (Note 5)
6. Leverage:

(1) Operating leverage = (net operating income - variable operating costs and expenses) / business interests (Note 6).

(2) Financial leverage = operating profit / (business profit - interest expense)

Note 4: In the aforementioned calculation formulas for earnings per share, particular attention should be paid to the following items when measuring:

1. Based on weighted average number of common shares; not based on the number of shares outstanding at the end of the year.
2. Instances of cash capital increase or treasury stock transactions should consider their circulation period and calculate the weighted average number of shares.
3. In instances of capitalization of retained earnings or capitalization of capital reserves, earnings per share for previous years and half-years should be retroactively adjusted in accordance with the capital increase ratio; the issue period of the capital increase need not be taken into account.
4. If preferred shares constitute non-convertible cumulative preferred shares, their dividends for the current year (whether paid or not) should be deducted from the net profit after tax, or operating income net of tax should be added. Where preferred shares are non-cumulative in nature, then in the case of net profit after tax, preferred share dividends shall be deducted from net profit after tax; in the case of a loss, no adjustment is necessary.

Note 5: In cash flow analysis, particular attention should be paid to the following items when measuring:

1. Net cash flows from operating activities refers to net cash inflows from operating activities in the statement of cash flows.
2. Capital expenditure refers to the annual cash outflow of capital investments.
3. The increase in inventory will only be included when ending balance is greater than opening balance; if inventory decreases at the end of the year, it is calculated as zero.
4. Cash dividends include cash dividends of common shares and preferred shares.
5. Property, plant and equipment refers to the total amount of property, plant and equipment before deducting accumulated depreciation.

Note 6: The issuer should distinguish each operating costs and operating expenses into fixed and variable in accordance with their nature. If estimates or subjective judgments are involved, attention should be paid to its rationality and its consistency maintained.

Note 7: If the Company’s stock has no par value or the par value of each share is not NT$10, the above-mentioned calculation of the ratio to the paid-in capital shall be done based on the ratio of equity attributable to owners of the parent company on the balance sheet.

Audit Committee's Review Report

The Board of Directors formulated motions for the Company's 2022 Business Report, financial statements, and distribution of earnings. Among them, the financial statements have been audited and completed by Baker Tilley Clock & Co., and an audit report has been issued. The above-mentioned business report, financial statements, and profit distribution proposal have been reviewed by the Audit Committee and found to have no inconsistencies. This report is issued in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act; please review.

Hsin-Kao Gas Co., Ltd.

Convener of Audit Committee: Chen Po-Hsun

March 13, 2023

(English Translation of Consolidated Financial Statements
and Report Originally Issued in Chinese)

Hsin Kao Gas Co., Ltd. and subsidiaries

Consolidated Financial Statements and

Independent Auditors' Report

For the Years Ended December 31, 2022 and 2021

Address：No. 56, Dayi St., Yancheng Dist., Kaohsiung City 803003 , Taiwan (R.O.C.)

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DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the combined financial statements of Hsin Kao Gas Co., Ltd. As of and for the year ended December 31, 2022, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements," In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Hsin Kao Gas Co., Ltd. and subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Hsin Kao Gas Co., Ltd.

By

Chen, Chien-Tong

Chairman

March13, 2023

INDEPENDENT AUDITORS' REPORT

NO.00421100ECA

The Board of Directors of Hsin Kao Gas Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Hsin Kao Gas Co., Ltd. and subsidiaries (the “Group”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion based on our audits and the reports of other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards (IFRS), International Accounting Standard (IAS), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China and the Accounting Standards for Public Natural Gas Utilities.

Basis for Opinion

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

Key Audit Matters

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

Key audit matters for the Group’s consolidated financial statements for the year ended December 31, 2022 is stated as follows:

<u>Measurement of Accounting Estimates of Gas Charges Receivable at the End of Period</u>

The Group's net gas sales revenue in 2022 will account for about 77% of its operating income. For relevant information, please refer to Notes 4, 5 and 24 of the individual financial report. The accounting estimate of the Group's gas fee receivable at the end of the period is based on the accrual basis of user usage from the previous meter reading date to the balance sheet date. This estimate involves major assumptions and subjective judgments adopted by the management. Therefore, the accountant for this part the measurement of accounting estimates is listed as one of the most important matters in this year's audit.

<u>Review response measures and procedures</u>

In addition to industrial and commercial users, the Group's natural gas sales are concentrated on a large number of household users. Based on historical experience, this accountant understands that this part has seasonal characteristics. The corresponding check procedures are as follows:

1. Assess whether there is any deviation in the formation of assumptions adopted by the management.
2. Check whether the estimation process of the management and the relevant documents used are appropriate.
3. Analyze and compare with the historical information of the past year to evaluate whether the estimation results adopted by the management are the best estimates and whether the measurement of accounting estimates is reasonable.

Other matters

We did not audit the financial statements of certain consolidated subsidiaries of the Group. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements relative to these consolidated subsidiaries was based on the reports of other auditors. Investments accounted for using equity method of the subsidiaries amounted to NT$152,243 thousand and NT$120,323 thousand, were representing 3% and 2% of total consolidated assets as of December 31, 2022 and 2021. And the Share of profit (loss) of associates and joint ventures accounted for using equity method of the subsidiaries amounted to NT$(2,680) thousand and NT$37,336 thousand, representing (3)% and 10% of total comprehensive income for the years ended December 31, 2022 and 2021, respectively.

We have also audited the parent company only financial statements of Hsin Kao Gas Co., Ltd. as of and for the years ended December 31, 2022 and 2021 on which we have issued an unmodified opinion with other matter paragraph.

Responsibilities of management and directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuer, and the International Financial Reporting Standards, International Accounting Standard, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China and the Accounting Standards for Public Natural Gas Utilities,, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group‘s internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s 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. Evaluated 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. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company 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 communicated 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 identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicated 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 determined those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditor’s report unless laws or regulations preclude 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.

Baker Tilly Clock & Co

Ying-Lai Chou, CPA

Hsien-Hsiu Cheng, CPA

March 13, 2023

Notes to Readers

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

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

Hsin Kao Gas Co., Ltd. and subsidiaries

Consolidated Balance Sheets

December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	6	$ 173,093	3	$ 188,488	4
Financial assets at fair value through profit or loss-current	7	15,720	—	28,560	—
Financial assets at fair value through other comprehensive income-current	8	586,571	11	673,649	13
Notes receivable, net	9	20,418	—	11,683	—
Accounts receivable, net	9	142,436	3	120,510	2
Other receivables		55	—	—	—
Inventories	10	590,906	11	474,444	9
Prepayments	11	36,135	—	31,234	1
Total current assets		1,565,334	28	1,528,568	29
Non-current assets					
Financial assets at fair value through other comprehensive income-non-current	8	93,132	2	93,863	2
Investments accounted for using equity method	12	152,243	3	120,323	2
Property, plant, and equipment	13	2,619,293	48	2,640,062	51
Right-of-use assets	14	55,338	1	53,643	1
Intangible assets		463	—	2,133	—
Deferred tax assets	30	47,656	1	46,760	1
Funds	15	244,156	4	205,324	4
Net defined benefit assets, non-current	21	71,612	1	58,727	1
Other non-current assets, others	16	647,684	12	461,334	9
Total non-current assets		3,931,577	72	3,682,169	71
Total assets		$ 5,496,911	100	$ 5,210,737	100

(Please refer to the Notes to Consolidated Financial Statements)

Hsin Kao Gas Co., Ltd. and subsidiaries

Consolidated Balance Sheets (continued)

December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
Current liabilities					
Short-term notes and bills payable	17	$ 286,040	5	$ 99,896	2
Contract liability – current	24	1,378,138	25	1,285,984	25
Accounts payable		90,171	2	103,958	2
Other payables	18	151,772	3	152,888	3
Current tax liabilities	30	23,384	—	27,812	—
Lease liabilities – current	14	6,551	—	4,638	—
Other current liabilities, others		6,039	—	4,810	—
Total current liabilities		1,942,095	35	1,679,986	32
Non-current liabilities					
Long-term borrowings	19	209,820	4	136,000	3
Deferred tax liabilities	30	8,820	—	6,356	—
Lease liabilities - non-current	14	41,013	1	40,742	1
Long-term deferred revenue	20	735,041	13	730,929	14
Guarantee deposits received		161,454	3	158,005	3
Total non-current liabilities		1,156,148	21	1,072,032	21
Total liabilities		3,098,243	56	2,752,018	53
Equity attributable to owners of parent					
Ordinary share		1,104,306	20	1,104,306	21
Capital surplus		30,113	1	30,113	1
Retained earnings		1,028,271	19	999,591	19
Legal reserve		350,966	6	326,541	6
Special reserve		269,876	5	232,140	4
Unappropriated retained earnings		407,429	8	440,910	9
Other equity interest		192,597	3	279,141	5
Total equity attributable to owners of parent		2,355,287	43	2,413,151	46
Non-controlling interests		43,381	1	45,568	1
Total equity	22	2,398,668	44	2,458,719	47
Total liabilities and equity		$ 5,496,911	100	$ 5,210,737	100

(Please refer to the Notes to Consolidated Financial Statements)

Hsin Kao Gas Co., Ltd. and subsidiaries

Consolidated Statement of Comprehensive Income

January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	Notes	2022		2021	
		Amount	%	Amount	%
Operating revenue	24	$ 1,247,480	100	$ 1,193,172	100
Operating costs	10,25	(1,021,142)	(82)	(960,832)	(81)
Gross profit from operations		226,338	18	232,340	19
Operating expenses					
Selling expenses		(26,061)	(2)	(27,337)	(2)
Administrative expenses		(42,184)	(3)	(39,042)	(3)
Total operating expenses		(68,245)	(5)	(66,379)	(5)
Net other income		158,093	13	165,961	14
Non-operating income and expenses					
Interest income	26	1,348	—	737	—
Other income	27	76,703	6	83,827	7
Other gains and losses	28	(12,875)	(1)	3,294	—
Finance costs	29	(754)	—	(361)	—
Share of profit (loss) of associates and joint ventures accounted for using equity method	12	(2,680)	—	37,336	3
Total non-operating income and expenses		61,742	5	124,833	10
Profit before tax		219,835	18	290,794	24
Tax expenses	30	(45,478)	(4)	(48,156)	(4)
Profit		174,357	14	242,638	20
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit plans		12,499	1	8,606	1
Unrealized profit or loss from investments in equity instruments measured at fair value through other comprehensive income		(89,804)	(7)	126,633	11
Income tax expenses related to items that will not be reclassified subsequently to profit and loss	30	(2,500)	—	(1,721)	—
Other comprehensive income, net		(79,805)	(6)	133,518	12
Comprehensive income		94,552	8	376,156	32
Profit, attributable to					
owners of parent		173,284	14	237,364	20
non-controlling interests		1,073	—	5,274	—
		174,357	14	242,638	20
Comprehensive income attributable to					
owners of parent		96,739	8	367,188	31
non-controlling interests		(2,187)	—	8,968	1
		$ 94,552	8	$ 376,156	32
Earnings per share (NTD)	23				
Basic earnings per share		$ 1.57		$ 2.15	
Diluted earnings per share		$ 1.57		$ 2.15	

(Please refer to the Notes to Consolidated Financial Statements)

Hsin Kao Gas Co., Ltd. and subsidiaries

Consolidated Statement of Changes in Equity

January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	Equity attributable to owners of parent company							Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained Earnings			Other equity interest	Total		
			Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized gains or losses on financial assets at fair value through other comprehensive income			
Balance on January 1, 2021	$ 1,104,306	$ 30,113	$ 307,203	$ 199,061	$ 392,638	$ 156,202	$ 2,189,523	$ 36,600	$ 2,226,123
Legal reserve appropriated	–	–	19,338	–	(19,338)	–	–	–	–
Special reserve appropriated	–	–	–	33,079	(33,079)	–	–	–	–
Cash dividends of ordinary share	–	–	–	–	(143,560)	–	(143,560)	–	(143,560)
Profit in 2021	–	–	–	–	237,364	–	237,364	5,274	242,638
Other comprehensive income in 2021	–	–	–	–	6,885	122,939	129,824	3,694	133,518
Total comprehensive income in 2020	–	–	–	–	244,249	122,939	367,188	8,968	376,156
Balance on December 31, 2021	$ 1,104,306	$ 30,113	$ 326,541	$ 232,140	$ 440,910	$ 279,141	$ 2,413,151	$ 45,568	$ 2,458,719
Legal reserve appropriated	–	–	24,425	–	(24,425)	–	–	–	–
Special reserve appropriated	–	–	–	37,736	(37,736)	–	–	–	–
Cash dividends of ordinary share	–	–	–	–	(154,603)	–	(154,603)	–	(154,603)
Profit in 2022	–	–	–	–	173,284	–	173,284	1,073	174,357
Other comprehensive income in 2022	–	–	–	–	9,999	(86,544)	(76,545)	(3,260)	(79,805)
Total comprehensive income in 2022	–	–	–	–	183,283	(86,544)	96,739	(2,187)	94,552
Balance on December 31, 2022	$ 1,104,306	$ 30,113	$ 350,966	$ 269,876	$ 407,429	$ 192,597	$ 2,355,287	$ 43,381	$ 2,398,668

(Please refer to the Notes to Consolidated Financial Statements)

Hsin Kao Gas Co., Ltd. and subsidiaries

Consolidated Statement of Cash Flows

January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	2022 Amount	2021 Amount
Cash flows from operating activities:		
Profit before tax	$ 219,835	$ 290,794
Adjustments		
Income and expenses		
Depreciation expenses	223,179	215,735
Amortization expenses	1,670	1,819
Expected credit loss (gain on reversal)	(165)	—
Gains (losses) on financial assets at fair value through profit or loss	12,840	(3,580)
Interest expense	754	361
Interest income	(1,348)	(737)
Dividend income	(41,858)	(31,978)
Share of profit or loss of associates and joint ventures accounted for using the equity method	2,680	(37,336)
Loss on disposal of property, plant and equipment	15	41
Amortization of long-term deferred revenue	(104,135)	(96,464)
Other income	(654)	(681)
Total income and expenses	92,978	47,180
Changes in operating assets and liabilities		
Decrease (increase) in notes receivable	(8,735)	8,054
Decrease (increase) in accounts receivable	(21,761)	15,755
Decrease (increase) in other receivables	(55)	4,725
(Increase) in inventories	(116,462)	(100,163)
(Increase) in prepayments	(4,901)	(3,855)
Decrease in other current assets	—	11
Increase in net defined benefit assets	(387)	(3,768)
Increase in contract liabilities	199,450	111,650
Increase (decrease) in accounts payable	(13,787)	221
Increase (decrease) in other payables	(1,116)	2,664
Increase (decrease) in other current liabilities	1,229	(758)
Increase in long-term deferred revenue	951	—
Cash from operating activities	$ 347,239	$ 372,510

Hsin Kao Gas Co., Ltd. and subsidiaries

Consolidated Statement of Cash Flows (continued)

January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	2022 Amount	2021 Amount
Interest received	1,348	737
Dividends received	41,858	31,978
Interest paid	(457)	(96)
Income tax paid	(50,837)	(43,345)
Net cash inflow from operating activities	339,151	361,784
Cash flow from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(1,995)	(65,456)
Acquisition of investments accounted for under the equity method	(34,600)	(12,000)
Acquisition of property, plant, and equipment	(195,414)	(249,513)
Disposal of property, plant, and equipment	19	15
Increase (decrease) in refundable deposits	218	(826)
Acquisition of right-of-use assets	—	(8,384)
Increase in prepayments for equipment	(9,010)	(4,520)
(Increase) in prepayment for real estate	(177,558)	(76,106)
(Increase) in provision for gas transportation pipeline replacement	(38,832)	(33,776)
Net cash flows from (used in) investing activities	(457,172)	(450,566)
Cash flows from financing activities:		
Increase in short-term notes and bills payable	186,144	59,925
Proceeds from long-term borrowings	73,820	62,180
Increase in guarantee deposits received	3,449	1,475
Repayment of lease liabilities	(6,184)	(5,098)
Cash dividends paid	(154,603)	(143,560)
Net cash flows from (used in) financing activities	102,626	(25,078)
Net (decrease) in cash and cash equivalents	(15,395)	(113,860)
Cash and cash equivalents at beginning of period	188,488	302,348
Cash and cash equivalents at end of period	$ 173,093	$ 188,488

(Please refer to the Notes to Consolidated Financial Statements)

Hsin Kao Gas Co., Ltd. and subsidiaries

Accompanying Notes to the Consolidated Financial Statement

For The Years Ended December 31, 2022 and 2021

(Amounts in thousands of New Taiwan dollars, unless otherwise stated)

1. Company history

Hsin Kao Gas Co., Ltd. (Collectively as “the Company”) was established in January 1983 in accordance with the Company Act and other relevant laws and regulations. And is mainly engaged in the installation of natural gas for supplying domestic and commercial fuels and related pipelines. The Company stock has been listed and traded on the Taiwan Stock Exchange since January 2000.

The consolidated financial statements were included Hsin Kao Gas Co., Ltd. and subsidiaries (collectively as “the Group”). The consolidated financial statements are presented in the Group’s functional currency, the New Taiwan dollars.

2. The date when the financial reports were authorized for issuance and the process involved

These consolidated financial statements were authorized for issuance by the Board of Directors on March 13, 2023.

3. Applicability of new issuing & revised standards and interpretation

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2022 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 3, ‘Reference to the conceptual framework’	January 1, 2022
Amendments to IAS 16, ‘Property, plant and equipment: proceeds before intended use’	January 1, 2022
Amendments to IAS 37, ‘Onerous contracts - cost of fulfilling a contract’	January 1, 2022
Annual improvements to IFRS Standards 2018 - 2020	January 1, 2022

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by FSC effective from 2023 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1, 'Disclosure of accounting policies'	January 1, 2023
Amendments to IAS 8, 'Definition of accounting estimates'	January 1, 2023
Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction'	January 1, 2023

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(3) Effect of IFRSs issued by IASB but not yet endorsed by FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 International Accounting Standards Board
Amendments to IFRS 16, 'Lease liability in a sale and leaseback'	January 1, 2024
IFRS 17 "Insurance contracts"	January 1, 2023
Amendments to IFRS 17, 'Insurance contracts'	January 1, 2023
Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9 – comparative information'	January 1, 2023
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2024
Amendments to IAS 1, 'Non-current liabilities with covenants'	January 1, 2024

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. Summary and explanation of significant accounting policies

(1)Compliance statement

The Consolidated Financial Statements have been prepared following the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the Accounting Standards for Public Natural Gas Utilities and is compiled by the International Accounting Standards, and International Financial Reporting Interpretations and approved by the Financial Supervisory Commission.

(2) Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis, except for financial instruments carried at fair value and net defined benefit assets (liabilities) recognized at the present value of the defined benefit obligation less the fair value of plan assets.

(3)Basis of consolidation

A. Preparation principle of consolidated financial statement

The consolidated financial reports include the financial reports of the Company's and the individual entities (subsidiary companies) that are controlled by the Company.

Subsidiary companies' financial reports have been adjusted to be in consistency with accounting policies of the Consolidated Company.

When preparing the consolidated financial reports, transactions, account balance, income and expense among each individual have been eliminated.

B. Allocation of total comprehensive profit or loss to non-controlling interests

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

C. Changes in ownership interests in subsidiaries

In case of any change in the ownership' equity of subsidies without causing the Company to use the control over the subsidies, such changes are treated as equity transactions. In order to reflect the corresponding change to the Company's shareholders' equity and non-controlling interests, the book values shall be adjusted. The delta between the adjustment in non-controlling interests and the fair value paid or received shall be recognized as part of the Company's owners' equity.

D. The detailed information of subsidiaries included in the consolidated financial statements, as follows:

Investor	Subsidiary	Main businesses	Establishment and Operating Location
Hsin Kao Gas Co., Ltd.	Hexin International Co., Ltd.	Residential and building development leasing and sales, international trade	Kaohsiung City

	Percentage of shares held by this Company	
Subsidiary	Dec. 31, 2022	Dec. 31, 2021
Hexin International Co., Ltd.	92.31%	92.31%

E. Subsidiaries not included in the consolidated financial statements: none

F. Subsidiaries that have non-controlling interests that are material to the Company: none

G. The financial statements of the consolidated subsidiaries are based on their audited financial statements during the same period.

(4) Classification of Current and Non-current Assets and Liabilities

Current assets include:

A. assets held mainly for transaction purposes;

B. assets to be realized within 12 months of the asset balance sheet; and

C. cash and cash equivalents (but not including cash used to exchange or clear liability within 12 months of the asset balance sheet).

Current liabilities include:

A. liabilities held mainly for transaction purposes;

B. liabilities due for payment within 12 months after the balance sheet date (a liability with long-term refinancing done or payment agreement rearranged also belongs to the current liabilities); and

C. the business entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. However, where the terms of the liabilities may, at the option of the counterparty, lead to the settlement by issuing an instrument of equity, the classification will not be affected.

Assets or liabilities not classified within the above definitions will be classified as non-current assets and liabilities.

(5) Cash equivalents

Cash equivalents can be converted into a fixed amount of cash at any time. They are short-term, highly liquid investments with minimum changes in value.

(6) Inventories

Inventory includes various pipe fittings and materials, etc., and adopts the perpetual inventory system, and is priced according to the first-in, first-out method, and is recorded on the basis of acquisition cost. Inventories are measured at the lower of cost or net realizable value and comparisons between cost and net realizable value are made on an item-by-item basis, except for inventories of the same type. Net realizable value is the estimated selling price in normal circumstances less the estimated costs still to be invested until completion and the estimated costs required to complete the sale.

Houses for sale and houses under construction in inventory are recorded on the basis of construction costs. Interest expenses that must be borne until the completion of the project are capitalized as part of its construction cost.

(7) Investments in associates

Investments in associates are reported according to the equity method.

Associates are the companies over which the group has significant influence. Associates are not entitles of subsidiaries.

The investment in associates shall be recognized as costs under the equity method. After the asset acquisition, the book value shall change in line with the Company's share of profits and losses, other comprehensive income and profit distributions. Meanwhile, the recognized equity value of the associates also changes in line with any increase or decrease in the Company's shares.

If the Company does not subscribe to the new shares of associates on a pro-rata basis according to existing holdings, and any increase or decrease is incurred to the percentage of the Company's holdings and hence net equity value of the investment, the adjustment shall be reflected with the change in capital surplus and according to the equity method. If the Company has not subscribed or acquired to new shares on a pro-rata basis and seen a reduction in its stake in the associates, the amounts recognized in other comprehensive income and the reclassification as a result of the values for the associates concerned should have the same basis for accounting treatment as if the assets or the liabilities of the associates were directly disposed. Any debit should be made from the capital surplus. However, if the capital surplus is insufficient for debits incurred by investments under the equity method, the debit may be drawn from retained earnings.

The residual investment of the previous associates should be measured with the fair value on the date of loss of significant influence. The delta between the sum of the fair value of the residual investment and the disposal amounts and the book value of the investment on the date of loss of significant control shall be recognized in the income statement during the period. Meanwhile, the values recognized in relation to the associates concerned in other comprehensive income shall have the same accounting basis as if the assets or the liabilities of the associates were directly disposed.

Only the profits and losses resultant from upstream, downstream and lateral transactions with associates not relevant to the Company's stake in the associates can be recognized in the consolidated financial statements.

(8) Fund

In accordance with the regulations of the Ministry of Economic Affairs Jingnengzi No. 10004604740, the company has calculated the reserves for the replacement of gas pipelines since 2012, and allocated the reserves for the replacement of gas pipelines in accordance with the provisions of Article 54 of the Natural Gas Business Law. In exchange for reserve funds, the allocation of the reserve funds shall be calculated based on the net profit after tax, and shall be allocated to a special account for safekeeping, so as to be used for the replacement of gas pipelines. The appropriation method is calculated based on the net profit after tax of the previous year, and is calculated accumulatively according to the appropriation level and ratio in Item 2, Article 3 of the appropriation method.

A. The portion below NT$5 million does not need to be withdrawn.

B. For the portion exceeding NT$5 million to NT$10 million, 20% will be appropriated.

C. Fifteen percent of the portion exceeding NT$10 million to NT$50 million shall be appropriated.

D. For the portion exceeding NT$50 million to NT$100 million, 10% will be appropriated.

E. For the portion exceeding NT$100 million, 5% shall be appropriated.

Pursuant to Article 3 of the Regulations on Allocation of Reserve Funds for Gas Transmission Pipeline Replacement of Public Natural Gas Enterprises, the reserve fund for gas pipeline replacement is the balance allocated after deducting the actual payment from the reserve amount for gas pipeline replacement.

(9) Property, plant and equipment

Property, plant, and equipment are recognized by cost, and then measured by cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment under construction are recognized at cost less accumulated impairment losses. Cost includes fees for professional services and borrowing costs eligible for capitalization. These assets are classified into the appropriate categories of property, plant and equipment and depreciation commences when they are completed and in their intended state of use.

The property, plant, and equipment are depreciated separately for each major part by the straight-line basis method over the life of service. Depreciation is accrued in accordance with the following durable service years:

Gas transportation equipment	12~40 years
Gas selling equipment	8 years
Machinery and equipment	5 years
Transportation equipment	3~5 years
Other equipment	5~10 years

The Consolidated Company reviews the estimated useful lives, residual values and depreciation methods at least at each year-end and defers the effect of changes in applicable accounting estimates.

Assets held under financial lease are depreciated within the useful years in the same manner as their own assets. Those with shorter lease terms are depreciated within the lease term.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit and loss when property, plant, and equipment are derecognized.

(10) Leases

A. Lease assets are recognized as right-of-use assets and lease liabilities on the date they become available to the combined company. When the lease contract is a short-term lease or a lease of a low-value underlying asset, the lease payment is recognized as an expense during the lease period using the straight-line method.

B. Lease liabilities are recognized at the present value of unpaid lease payments discounted at the increased borrowing rate of the consolidated company on the lease commencement date. Lease payments include fixed payments, deducting any lease incentives that can be received, and subsequently amortized using the interest method Measured by the post-cost method, the interest expense is provided during the lease period. When the lease term or lease payment changes due to non-contract modification, the lease liability will be reassessed, and the remeasurement amount will be adjusted to the right-of-use asset. The repayment of the principal amount of the lease liability and the payment of interest are expressed as financing activities and operating activities, respectively.

C. At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

a. the amount of the initial measurement of the lease liability;

b. any lease payments made at or before the commencement date;

c. any initial direct costs incurred by the lessee;

Subsequent measurement using the cost model, when the useful life of the right-of-use asset expires or the lease period expires, whichever is earlier, depreciation expenses are provided on a straight-line basis. When the lease liability is reassessed, the right-of-use asset will adjust any remeasurement of the lease liability.

D. The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by December 31, 2022 that results in the revised consideration for the lease there is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to all of these rent concessions and, therefore, does not assess whether the rent concessions are lease modifications. Instead, recognizes the reduction in lease payment in profit or loss as, and makes a corresponding adjustment to the lease liability

(11) Intangible assets

A. Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

B. Derecognition

Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(12) Impairment of tangible and intangible assets

At each balance sheet date, the Group review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and 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.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(13) Employee benefits

A. Short-term employee benefits

Short-term employee benefit-related liabilities are measured at the non-discounted amount expected to be paid in exchange for employee services.

B. Post-employment benefits

The defined contribution pension plan is an expense that recognizes the amount of pension benefits to be contributed during the employees' service period.

The defined benefit cost (including service cost, net interest and remeasurement) of the defined benefit pension plan is actuarially determined using the projected unit credit method. Service cost (including current service cost and net interest on the net defined benefit liability (asset)) is recognized as employee benefit expense as incurred. Remeasurements (including actuarial gains and losses, changes in asset ceiling effect and compensation on plan assets net of interest) are recognized in other comprehensive income and included in retained earnings as incurred and are not reclassified to profit and loss in subsequent periods.

The net defined benefit liability (asset) represents the shortfall (surplus) in contributions to a defined benefit retirement plan. The net defined benefit asset may not exceed the present value of contributions refunded from the plan or the present value of future contributions that could be reduced.

(14) Financial Instrument

Financial assets and financial liabilities shall be recognized when the Company becomes a party of the said financial instrument clause.

Upon the original recognition of financial assets and financial liabilities, they shall be measured according to fair values. Upon the original recognition, concerning the acquired or distributed transaction cost directly attributable to financial assets and financial liabilities (except for the financial assets and financial liabilities classified as measurement according to fair value of profit and loss), it shall be increased or decreased from the fair values of the said financial assets or financial liabilities. The transaction costs of financial assets and financial liabilities directly attributable to the ones measured according to fair values through profit and loss shall be immediately recognized as profit and loss.

A. Financial assets

The convention trading of financial assets is recognized and removed by trading day accounting.

a. Type of measurement

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, financial assets at amortized cost, investment in debt instruments measured at fair value through other comprehensive income, and investments in equity instruments at fair value through other comprehensive income.

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

Financial assets measured at fair value through profit or loss are financial assets mandatorily measured at fair value through profit or loss and financial assets at fair value through profit or loss, designated as upon initial recognition. Financial assets mandatorily measured at fair value through profit or loss include investments in equity instruments that are not designated by the Company to be measured at fair value through other comprehensive income and investments in debt instruments that fail to meet the criteria as to be measured at amortized cost or at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss are measured at fair value. The dividends and interests generated are recognized in other income and interest income, respectively, and any gain or loss arising from remeasurement is recognized in other gains and losses

(B) Measured at amortized cost

When a company after merger simultaneously meets the following two conditions in its investment in financial assets, the financial assets are classified as the ones carried at cost after amortization:

(a) The financial assets are held under a specific operation mode, in which the purpose of the mode is to hold the financial assets in order to collect contract cash flows.

(b) The cash flow generated on a specific date due to contract clauses is completely for the payment of the principal and the interest accrued from the outstanding principal amount.

Subsequent to initial recognition, financial assets measured at amortized cost are measured at amortized cost, which equals to carrying amount determined by the effective interest method less any impairment loss. Foreign exchange gains and losses are recognized in profit or loss.

Except for the two conditions below, the interest income is calculated by multiplying the effective interest rate by the total book value of the financial assets:

(a) The interest income of the purchased or originated credit-impaired financial assets is calculated by multiplying the credit-adjusted effective interest rate by the cost of amortized financial assets.

(b) The interest income of the financial assets which are not purchased or originated credit-impairment but subsequently become credit-impaired financial assets is calculated by multiplying the effective interest rate by the cost of amortized financial assets.

(C) Investments in equity instruments at fair value through other comprehensive income

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading or if it is contingent consideration on recognized by an acquirer in a business combination.

Investments in equity instruments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments at fair value through other comprehensive income are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

B. Impairment of financial assets

At the end of each reporting period, a loss allowance for expected credit loss is recognized for financial assets at amortized cost, including accounts receivable.

The loss allowance for accounts receivable due is measured at an amount equal to lifetime expected credit losses. For financial assets at amortized cost, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from possible default events of a financial instrument within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The expected credit loss is calculated according to the average weighted credit loss in which the risk rated ratio of default occurrence is used in calculation. The 12-month expected credit loss represents the credit loss expected to occur to the financial instruments within 12 months after their reporting day due to possible default. The expected credit loss in the duration period refers to the credit loss expected to occur to the financial instruments in the expected duration period due to possible default.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial assets.

C. Derecognition of financial assets

The Group derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

(15) Income recognition

Revenue is measured by the consideration to which goods are transferred and to which they are expected to be entitled. The consolidated company's recognition of various revenues is as follows:

A. Sales of natural gas

The company recognizes the revenue according to the usage rate shown on the meter when the natural gas is exported, and has the right to unconditionally receive the consideration at this point in time.

B. Device revenue

The company's major judgment on the recognition of installation revenue is based on the time point of the company's settlement and acceptance, which is also the time point when the customer's performance obligations are met, because the transfer of the current rights and entity holdings of the pipeline for the installation of natural gas depends on the achievement of After the company completes the inspection and acceptance of the installation pipeline through the public safety inspection, it will be the asset status accepted by the customer.

Devices that are on-balance sheet shall be recognized at one time after settlement and acceptance, and those that are off-balance sheet shall be in accordance with the Ministry of Economic Affairs 2013

Article 26-1 was added to the Accounting Treatment Standards for Public Natural Gas Enterprises issued on February 27, 2019, as revised and issued by Neng Zi No. After deducting the book value of the resulting damaged or scrapped operating assets, the amount should be apportioned to each business and recognized as long-term deferred income, and in subsequent years, it will be amortized year by year in conjunction with the depreciation of related assets and transferred to equipment income.

C. House sales income

The subsidiary recognizes the income from house sales at the time when the house ownership is transferred.

D. Dividend income and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment is established, provided that it is probable that the economic benefits associated with the transaction will flow to the combined company and the amount of income can be reliably measured.

Interest income from financial assets is recognized when the economic benefits are likely to flow to the consolidated company and the amount of income can be measured reliably. Interest income is recognized on an accrual basis based on the principal outstanding and the applicable effective interest rate over time.

E. Financial composition

The transaction price of the consolidated company's revenue from contracts with customers does not have a time value of money.

(16) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of these assets, until the assets are substantially ready for their intended use or sale.

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

(17) Government grants

Government grants can only be recognized when it is reasonably certain that the company will comply with the conditions attached to the government grant and will receive the grant. Government grants are recognized in profit or loss on a systematic basis over the period in which the Company recognizes as an expense the associated costs that the government intends to compensate. When a government subsidy becomes receivable, if it is used as compensation for incurred expenses or losses, it will be recognized as an expense during the period in which it is receivable.

(18) Income tax

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

A. Current income tax

The additional income tax on the undistributed surplus calculated in accordance with the Income Tax Act shall be included in the income tax expense for the year of resolution of the shareholders’ meeting.

The adjustment of income tax payable for previous years shall be included in the current income tax.

B. Deferred income tax

Deferred income tax is calculated based on the temporary differences between the carrying amount of assets and liabilities on the books and the basis for the calculation of taxable income.

Deferred tax liabilities are generally recognized for all temporary differences in taxable income, while deferred tax assets are recognized when there is a high likelihood that the taxable income will be used as a tax deduction for deductible temporary differences.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Consolidated Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences associated with such investments only to the extent that it is probable that sufficient taxable income will be available to allow the temporary differences to be realized and to the extent that reversal is expected in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced for those where it is no longer probable that there will be sufficient taxable income to allow all or part of the assets to be recovered. Deferred tax assets not previously recognized as such are also reviewed at each balance sheet date and the carrying amount is increased for those where it is probable that taxable income will be available to recover all or part of the assets.

Deferred tax assets and liabilities are measured by the tax rate of the expected liabilities settlement or assets realization in the current period, according to the tax rate and the tax law which have been legalized or substantively legalized on the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences of the way in which the Consolidated Company is expected to recover or pay off the carrying amount of its assets and liabilities on the balance sheet date.

C. Current and deferred tax

The current and deferred tax are recognized in profit and loss, provided that current and deferred tax in relation to the items recognized in other comprehensive income or directly included in equity are recognized in other comprehensive income or directly included in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. Primary sources of uncertainty in major accounting judgments, estimates, and assumptions

In the application of the Group’s accounting policies, management is required to make judgments, estimations, and assumptions on the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgments, apart from those involving estimations, that the Company has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements

(1) Estimation of gas fee income receivable at the end of the period

The recognition of the company's gas fee income depends on the use of gas sales equipment. Accounts receivable and revenue should be estimated on the basis of rights and liabilities at the end of the financial report period. Due to the large number of users, the estimation method adopted by the company's management the historical experience of previous years is used as a reference to evaluate the accounts receivable at the end of the period, and changes in the number of users and seasonal changes may affect the results of management estimates.

(2) Estimated impairment of financial assets

When there is objective evidence of impairment loss, the Company take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(3) Recognition and measurement of defined benefit plans

The net defined benefit liabilities (assets) and the resulting defined benefit costs under the defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rates, rates of employee turnover, expected rates of salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of related expenses and assets.

6. Cash and cash equivalents

	Dec. 31, 2022	Dec. 31, 2021
Cash on hand & petty cash	$ 291	$ 293
Cash in banks	172,802	188,195
Total	$ 173,093	$ 188,488

7. Financial assets at fair value through profit or loss – current

	Dec. 31, 2022	Dec. 31, 2021
Financial assets at fair value through profit or loss, mandatorily measured at fair value		
Mutual funds	$ 15,720	$ 28,560

8. Financial assets at fair value through other comprehensive income

	Dec. 31, 2022	Dec. 31, 2021
Current		
Exchange-listed (OTC-listed) stocks	$ 586,571	$ 673,649
Non-current		
Non-exchange-listed (non- OTC-listed) stock	$ 93,132	$ 93,863

9.Notes receivable and accounts receivable

	Dec. 31, 2022	Dec. 31, 2021
Notes receivable	$ 20,418	$ 11,683
Less: Loss allowance	—	—
Net amount	$ 20,418	$ 11,683

	Dec. 31, 2022	Dec. 31, 2021
Accounts receivable	$ 142,697	$ 120,936
Less: Loss allowance	(261)	(426)
Net amount	$ 142,436	$ 120,510

In principle, the company's credit period for customers is one month after the payment deadline for business accounts, and six months for general users.

In principle, the consolidated company adopts the simplified method of IFRS9 to measure the amount of expected credit losses of accounts receivable and bills, which is to recognize the allowance loss of accounts receivable and bills according to the expected credit losses during the duration. The amount of expected credit loss during the duration of accounts receivable and bills is mainly measured based on the customer’s past historical records and current financial situation, and considering factors such as the objective evidence of actual receivables. The merged company has no significant difference in the past customer loss patterns, so the measurement When reducing losses, no group is distinguished, and the expected loss rate is determined only by the number of days overdue. The analysis is as follows:

	Dec. 31, 2022			
	Non past due	Past due 180-365 days	More than 365 days past due	Total
Expected credit loss ratio	0%～0.06%	15%	25%～100%	
Total carrying amount	$ 162,436	$ 431	$ 248	$ 163,115
Loss allowance	(6)	(65)	(190)	(261)
Amortized cost	$ 162,430	$ 366	$ 58	$ 162,854

Dec. 31, 2021	Non past due		Past due 180-365 days		More than 365 days past due		Total	
Expected credit loss ratio		0%～0.12%		15%		25%～100%		
Total carrying amount	$	131,809	$	430	$	380	$	132,619
Loss allowance		(15)		(64)		(347)		(426)
Amortized cost	$	131,794	$	366	$	33	$	132,193

Information on the changes in loss allowance is as follows:

	2022		2021	
Opening balance	$	426	$	426
Net remeasurement of loss allowance		(165)		—
Ending balance	$	261	$	426

The expected credit Impairment loss (impairment gain and reversal of impairment loss) from January 1 to December 31, 2022 are listed as operating costs $(165) thousand.

10. Inventories

	Dec. 31, 2022		Dec. 31, 2021	
Stock material	$	11,797	$	13,614
Contractor material		145,922		128,085
Gas		128		133
Installation in progress		104,468		101,654
Building under construction		328,591		230,958
Total	$	590,906	$	474,444

(1) Materials and construction costs for the Internal Piping device of the device under construction.

(2) The building under construction is the construction cost invested by the subsidiary and other companies to jointly fund the construction of the building.

(3) Please see note 29 for the status of interest capitalization.

(4) Please see note 36 for the status of mortgage assets.

(5) Inventory cost recognized as expense and loss in the current period：

	2022	2021
The cost of goods sold	$ 1,021,209	$ 960,907
Gain on physical inventory	(67)	(75)
Operating costs	$ 1,021,142	$ 960,832

11. Prepayments

	Dec. 31, 2022	Dec. 31, 2021
Engineering working capital	$ 15,000	$ 15,000
Input tax	2,715	2,610
Residual tax credit	15,829	11,171
Others	2,591	2,453
Total	$ 36,135	$ 31,234

12. Investment accounted for using equity method

	Book value		Proportion of voting rights held		Percentage of Ownership Interest Held	
Name of investee company	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Shengxinyuan Construction Co., Ltd.	$ 142,153	$ 109,983	34.60	34.60	32.55	32.55
Jieyang Construction Co., Ltd.	10,090	10,340	33.33	33.33	32.06	32.06
Total	$ 152,243	$ 120,323				

Information about associates that are not individually material was as follows

	2022	2021
The Group's share of:		
Net profit (loss) from continuing operations for the year	$ (2,680)	$ 37,336
Other comprehensive income	—	—
Total comprehensive profit (loss)	$ (2,680)	$ 37,336

The shares of earnings and other comprehensive income are recognized based on the audited financial statements of the associates for the same periods.

Please see note 35 for the status of transactions with related parties.

13. Property, plant and equipment

Item	January 1 to December 31, 2022 Opening balance	Additions	Disposals	Reclassification	Ending balance
Cost					
Building	$ 27,243	$ —	$ —	$	$ 27,243
Gas transportation equipment	4,369,911	127,297	(70,229)	—	4,426,979
Gas selling equipment	443,713	56,973	(8,121)	—	492,565
Machinery and equipment	9,038	—	(1,106)	—	7,932
Transportation equipment	3,085	276	(650)	—	2,711
Other equipment	42,490	1,289	(7,083)	—	36,696
Construction in progress	245,848	9,579	—	—	255,427
Total	5,141,328	195,414	(87,189)	—	5,249,553
Accumulated depreciation					
Building	1,668	683	—	—	2,351
Gas transportation equipment	2,320,997	155,381	(70,229)	—	2,406,149
Gas selling equipment	149,390	50,826	(8,087)	—	192,129
Machinery and equipment	5,424	1,155	(1,106)	—	5,473
Transportation equipment	1,996	357	(650)	—	1,703
Other equipment	21,791	7,747	(7,083)	—	22,455
Total	2,501,266	216,149	(87,155)	—	2,630,260
Net	$ 2,640,062				$ 2,619,293

Item	January 1 to December 31, 2021 Opening balance	Additions	Disposals	Reclassification	Ending balance
Cost					
Building	$ 1,410	$ 953	$ —	$ 24,880	$ 27,243
Gas transportation equipment	4,266,645	149,290	(46,024)	—	4,369,911
Gas selling equipment	401,281	52,541	(10,109)	—	443,713
Machinery and equipment	7,661	1,377	—	—	9,038
Transportation equipment	3,466	210	(591)	—	3,085
Other equipment	45,294	843	(3,647)	—	42,490
Construction in progress	201,549	44,299	—	—	245,848
Total	4,927,306	249,513	(60,371)	24,880	5,141,328
Accumulated depreciation					
Building	1,028	640	—	—	1,668
Gas transportation equipment	2,213,168	153,853	(46,024)	—	2,320,997
Gas selling equipment	113,393	46,049	(10,052)	—	149,390
Machinery and equipment	4,396	1,028	—	—	5,424
Transportation equipment	2,110	478	(592)	—	1,996
Other equipment	17,720	7,718	(3,647)	—	21,791
Total	2,351,815	209,766	(60,315)	—	2,501,266
Net	$ 2,575,491				$ 2,640,062

Please see note 29 for the status of interest capitalization.

14. Lease

(1)Right-of-use assets

Item	January 1 to December 31, 2022 Opening balance	Additions	Disposals	Ending balance
Cost				
Land	$ 53,709	$ —	$ —	$ 53,709
Building	8,934	5,206	(8,934)	5,206
Transportation equipment	—	3,520	—	3,520
Total	62,643	8,726	(8,934)	62,435
Accumulated depreciation and impairment				
Land	2,300	2,880	—	5,180
Building	6,700	2,978	(8,934)	744
Transportation equipment	—	1,173	—	1,173
Total	9,000	$ 7,031	$ (8,934)	7,097
Net	$ 53,643			$ 55,338

Item	January 1 to December 31, 2021 Opening balance	Additions	Disposals	Ending balance
Cost				
Land	$ 1,421	$ 53,709	$ (1,421)	$ 53,709
Building	8,934	—	—	8,934
Transportation equipment	1,957	—	(1,957)	—
Other equipment	260	—	(260)	—
Total	12,572	53,709	(3,638)	62,643
Accumulated depreciation and impairment				
Land	1,070	2,651	(1,421)	2,300
Building	3,723	2,977	—	6,700
Transportation equipment	1,656	301	(1,957)	—
Other equipment	220	40	(260)	—
Total	6,669	$ 5,969	$ (3,638)	9,000
Net	$ 5,903			$ 53,643

(2) Lease liabilities

	December 31, 2022		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less 1 year	$ 6,837	$ 286	$ 6,551
Over 1 year	43,144	2,131	41,013
Total	$ 49,981	$ 2,417	$ 47,564

The discount rate for lease liabilities range from 0.53% to 1.02%.

	December 31, 2021		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less 1 year	$ 4,903	$ 265	$ 4,638
Over 1 year	43,111	2,369	40,742
Total	$ 48,014	$ 2,634	$ 45,380

The discount rate for lease liabilities range from 0.53% to 0.69%.

(3) Other information on the lease

Because of the market conditions severely affected by COVID-19 in 2022 and 2021, the Group negotiated with the lessor for rent concessions for land lease. The lessor agreed to provide unconditional 20% rent reduction for the years ended December 31, 2022 and 2021, respectively. The Group recognized in profit or loss the impact of rent concessions of $654 thousand and $681 thousand (presented in other income) for the years ended December 31, 2022 and 2021, respectively.

	2022	2021
Short-term lease expenses	$ —	$ 155
Lease expenses of low-value assets	$ 411	$ 266

	2022	2021
Total amount of cash (outflow) from lease	$ (6,595)	$ (5,519)

15.Fund

	Dec. 31, 2022	Dec. 31, 2021
Provision for gas transportation pipeline replacement	$ 244,156	$ 205,324

In accordance with the newly amended Natural Gas Business Law and the Regulations Governing the Provision of Gas Pipeline Line Replacement Reserves by Public Gas Utilities starting in fiscal 2012, Hsin Kao Gas Co., Ltd. should make annual contributions to the gas pipeline replacement reserve based on the previous year's net income and set aside a special account for safekeeping.

16.Other non-current assets - other

	Dec. 31, 2022	Dec. 31, 2021
Prepayments for equipment	$ 116,154	$ 107,144
Prepayment for real estate	484,285	306,727
Refundable deposits	47,245	47,463
Total	$ 647,684	$ 461,334

The prepayment for real estate is mainly the prepayment for the company's purchase of a building jointly constructed by a subsidiary and another company at a price of NT$507,371 thousand (before tax) approved by the board of directors in August 2016. As of Dec. 31, 2022 and 2021, NT$456,634 thousand (before tax) and NT$304,423 thousand (before tax) have been paid in advance for this house and land respectively.

Since the subsidiary company contributed 50% of the construction funds for this building, the company has set aside a special surplus reserve in 2016 according to regulations.

17. Short-term notes and bills payable

	Dec. 31, 2022	Dec. 31, 2021
Commercial paper payable	$ 286,600	$ 100,000
Less: Unamortized discount	(560)	(104)
Net	$ 286,040	$ 99,896
Interest rate range %	1.390～1.927	0.450～0.792

18.Other payables

	Dec. 31, 2022	Dec. 31, 2021
Payable salary and bonus	$ 9,697	$ 10,762
Refundable customer security deposit	132,606	132,887
Others	9,469	9,239
Total	$ 151,772	$ 152,888

Refundable customer security deposit refers to the refund of user gas meter security deposit in accordance with the Ministry of Economic Affairs' letter Jing-Shou-Neng-Zi No. 09420084070 dated November 25, 2005, the customer has not yet applied for a refund.

19.Long-term debts

	Dec. 31, 2022	Dec. 31, 2021
Bank loan	$ 209,820	$ 136,000
Less: Current portion	—	—
Net	$ 209,820	$ 136,000
Interest rate range %	2.885%	2.55%

- (1) It is a project loan for a house under construction. The loan period is until October 30, 2024. The repayment method is to calculate the repayment of the loan according to the agreed ratio of the sale proceeds when the house is sold.
- (2) Please see note 36 for the status of mortgage assets.

20.Long-term deferred income

	Dec. 31, 2022	Dec. 31, 2021
Benefits of External Pipelines	$ 696,736	$ 691,700
Government donation income	38,305	39,229
Total	$ 735,041	$ 730,929

21. Retirement benefit plans

(1) Defined contribution plans

The employee retirement plan established by the Company in accordance with “Labor Pension Act” belongs to a defined contribution plans. Concerning the above, the Company would contribute 6% of the monthly salaries of employees to the exclusive individual accounts of Labor Insurance Bureau. In accordance with the above related regulations, the pension costs recognized as expenses in the consolidated comprehensive income statement in 2022 and 2021 January 1 to December 31, respectively $2,492 thousand and $2,367 thousand.

(2) Defined benefit plans

The Company’s pension plan under the Labor Standards Act is a defined benefit pension plan. Employees’ pension payments are calculated based on the service years and average salary for the six months prior to the approved retirement date. The company allocates and contributes to the pension fund according to a fixed proportion of the employee's monthly salaries to the pension fund, which is deposited in the name of the Supervisory Committee of Business Entities’ Labor Retirement Reserve and Staff Pension Fund Management Committee in a special account at the Bank of Taiwan and Yuanta Bank.

Before the end of the year, if the balance in the account is not sufficient to pay the employees who are expected to meet the retirement requirements in the following year, the difference will be contributed in one lump sum by the end of March of the following year.

(3) The amount of pension expenses recognized in the consolidated income statement for the defined benefit plans is as follows:

	2022	2021
Service cost	$ 1,527	$ 1,818
Current service cost	1,527	1,818
Net interest on net defined benefit liabilities (assets)	(388)	(142)
Interest cost of defined benefit obligation	744	396
Interest income from plans assets	(1,132)	(538)
Recognized in profit and loss	$ 1,139	$ 1,676
Remeasurements		
Actuarial profit (loss)	(5,579)	(4,422)
Return on plan assets	(6,920)	(4,184)
Recognized in other comprehensive income	$ (12,499)	$ (8,606)

(4) The pension expense series recognized in profit or loss for the above defined benefit plan is included in the following items：

	2022	2021
Operating costs	$ 678	$ 1,030
Administrative expenses	281	349
Selling expenses	180	297
Total	$ 1,139	$ 1,676

(5) The amounts of defined benefit plans listed in the balance sheets are as follows:

	Dec. 31, 2022	Dec. 31, 2021
Current value of defined benefit obligations	$ (114,373)	$ (121,151)
Fair value of plan assets	185,985	179,878
Net defined benefit assets	$ 71,612	$ 58,727

(6) The changed of defined benefit obligation present value is as follows:

	2022	2021
Beginning defined benefit obligation	$ (121,151)	$ (136,047)
Current service cost	(1,527)	(1,818)
Interest cost of defined benefit obligation	(744)	(396)
Actuarial profit (loss)	5,579	4,422
Changes in financial assumptions	4,429	3,233
Changes in demographic assumptions	—	(176)
Experience adjustments	1,150	1,365
Benefits paid from plan assets	3,470	12,688
Ending defined benefit obligation	$ (114,373)	$ (121,151)

(7) The changed of plan asset fair value of this Company is as follows:

	2022	2021
Beginning plan asset fair value	$ 179,878	$ 182,400
Interest income from plans assets	1,132	538
Return on plan assets	6,920	4,184
Contribution by employer	1,525	5,444
Benefits paid from plan assets	(3,470)	(12,688)
Ending plan asset fair value	$ 185,985	$ 179,878

A. The fair value and asset allocation of the main categories of project assets at the end of the reporting period are listed below：

	Fair value of plan assets	
	Dec. 31, 2022	Dec. 31, 2021
Cash	$ 152,782	$ 146,096
Equity instruments	31,278	30,285
Investment funds	1,925	3,497
Total	$ 185,985	$ 179,878

B. Among the project assets, the fair value of the transferable financial instruments of the enterprise itself will be 33,203 thousand and 33,782 thousand on December 31, 2022 and 2021, respectively.

C. The Company is exposed to the following risks as a result of the Labor Standards Act pension scheme:

a. Investment risk: According to the relevant provisions of the Labor Standards Law, the labor retirement reserve allocated by the employer on a monthly basis is stored in a designated financial institution and is centrally managed by the Labor Fund Utilization Bureau of the Ministry of Labor established by the central competent authority. The fund can only be used to support the old system of labor retirement. For the payment of funds, the maximum amount of movable expenditure according to law is the balance after adding the accumulative appropriation amount plus the accumulative surplus distribution of the part appropriation and deducting the amount of payment. According to the relevant provisions of the Labor Pension Fund's income and expenditure storage and use method, the surplus distribution of the fund depends on its annual operation performance, but it should not be lower than the income of the local bank's two-year time deposit interest rate. If there is a loss or insufficient part, the treasury makes up for it.

b. Salary risk: The present value of the defined benefit obligation is calculated by referring to the prospective salary of the plan member. Therefore, increases in plan members' salaries will contribute to an increase in the present value of the defined benefit obligation.

c. The present value of the defined benefit obligation of the Company was actuarially determined by a qualified actuary, with the following significant assumptions at the measurement date:

	Dec. 31, 2022	Dec. 31, 2021
Discount rate	1.20%	0.65%
Expected growth rate of salary	2.00%	2.00%

The analysis of the present value of the defined benefit obligations affected by changes in the main actuarial assumptions adopted is as follows:

	Discount rate		Expected growth rate of salary	
	Increase by 0.25%	Decrease by 0.25%	Increase by 0.25%	Decrease by 0.25%
December 31, 2022 impact on present value of defined benefit obligations	$ (1,922)	$ 1,978	$ 1,958	$ (1,912)
December 31, 2021 impact on present value of defined benefit obligations	$ (2,256)	$ 2,327	$ 2,290	$ (2,232)

The sensitivity analysis above may not reflect actual changes in the present value of the defined benefit obligation because the actuarial assumptions may be correlated and changes in only one assumption are unlikely.

(8) The upper limit of net defined benefit assets on December 31, 2022 and 2021 is 71,612 thousand and 58,727 thousand. Respectively.

(9) The Company expects to contribute the amount of NT$1,816 thousand to the defined benefit plans within one year after December 31, 2022; the weighted average duration of defined benefits obligations is 6 years.

22.Equity

(1) Share capital for common stock

	Dec. 31, 2022	Dec. 31, 2021
Authorized share capital	$ 1,104,306	$ 1,104,306
Share capital of issued shares	$ 1,104,306	$ 1,104,306

(2) Capital surplus

	Dec. 31, 2022	Dec. 31, 2021
Premium on capital	$ 30,000	$ 30,000
Others	113	113
Total	$ 30,113	$ 30,113

According to the Company Act, the capital reserve shall not be used except for offsetting the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the Company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Legal reserve

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

(4) Special reserve

	Dec. 31, 2022	Dec. 31, 2021
Provision for gas transportation pipeline replacement	$ 249,829	$ 212,093
Transactions with related parties	20,047	20,047
Total	$ 269,876	$ 232,140

Please see note 15 for the provision for gas transportation pipeline replacement. Please see note 16 for the status of transactions with related parties.

(5) Retained earnings and dividend policy

A. The company's articles of association stipulate that if there is profit in the year, 1.5% to 2.5% should be appropriated for employee remuneration and no more than 0.5% for director and supervisor remuneration. However, if the company still has accumulated losses, it shall reserve the compensation amount in advance.

If the company's year-end final accounts have a current net profit, it should first make up for the loss, and then add the items other than the current after-tax net profit included in the undistributed surplus of the current year, and then withdraw 10% of the balance from the statutory reserve, and the current year The amount of deduction of shareholders' equity (such as unrealized evaluation loss of financial assets measured at fair value through other comprehensive profit and loss, etc., except for treasury stocks), is set aside as a special surplus reserve, and the rest, together with the accumulated undistributed surplus at the beginning of the period and the undistributed surplus of the current year In addition to the distribution of dividends, the adjusted amount of distribution surplus shall also be allocated to the Provision for gas transportation pipeline replacement, and the amount shall be determined by the board of directors.

B. According to the overall environment and the characteristics of industrial growth, the company cooperates with the company's long-term financial planning, and uses the future capital budget planning to measure the capital demand. After retaining the surplus to finance the necessary funds, if there is no major capital expenditure, the remaining surplus will be mainly distributed in cash dividends; in case of major capital expenditure, part of the distribution of stock dividends will be distributed. The stock dividends distribution is between 20% and 100%, and cash dividends are between 80% and 0%.

C. The appropriations of 2021 and 2020 earnings had been approved by the shareholders during their meeting on June 13, 2022 and July 12, 2021, respectively. The actual distribution situation is the same as the proposed distribution situation approved by the original board of directors.

Details are summarized below:

	2021	2020
Legal reserve appropriated	$ 24,425	$ 19,338
Special reserve appropriated	37,736	33,079
Cash dividends	154,603 ($1.4 per share)	143,560 ($1.3 per share)
Total	$ 216,764	$ 195,977

D. The Company proposed the following distribution of earnings for fiscal 2022 at the Board of Directors' meeting on March 13, 2023.

	Earnings distribution	Dividend per share (NT$)
Legal reserve appropriated	$ 18,328	
Special reserve appropriated	31,328	
Cash dividends	33,129	$ 0.3
Stock dividends	99,388	$ 0.9
Total	$ 182,173	

(6) Other equity interest items

Unrealized gains or losses on financial assets at fair value through other comprehensive income

	2022	2021
Opening balance	$ 279,141	$ 156,202
Generated in the fiscal year	(86,544)	122,939
Ending balance	$ 192,597	$ 279,141

(7) Non-controlling interests

	2022	2021
Opening balance	$ 45,568	$ 36,600
Shares attributed to non-controlling interests		
Net profit for the period	1,073	5,274
Unrealized gains and losses on financial assets at fair value through other comprehensive income	(3,260)	3,694
Ending balance	$ 43,381	$ 45,568

23. Earnings per share

Basic earnings per share

	2022	2021
Net income attributed to the owners of the parent (in thousands of NTD)	$ 173,284	$ 237,364
Weighted average number of common shares used for the calculation of basic earnings per share (1,000 shares)	110,431	110,431
Basic earnings per share (NT$)	$ 1.57	$ 2.15

Diluted earnings per share

	2022	2021
Net income attributed to the owners of the parent (in thousands of NTD)	$ 173,284	$ 237,364
Weighted average number of common shares used for the calculation of basic earnings per share (1,000 shares)	110,431	110,431
Influence of dilutive potential common shares (thousand shares)		
Compensation to employees (1,000 shares)	108	127
Weighted average number of common shares used for the calculation of diluted earnings per share (1,000 shares)	110,539	110,558
Diluted earnings per share (NT$)	$ 1.57	$ 2.15

If the Company has the option of paying employees in stock or cash, it is assumed that employee compensation will be paid in stock and is included in the weighted-average number of shares outstanding for the purpose of calculating diluted earnings per share when the potential ordinary share has a dilutive effect. The dilutive effect of these potential ordinary shares shall also continue to be considered in the calculation of diluted earnings per share before the following year's resolution on the number of employee compensation shares to be distributed.

24. Operating revenue

	2022	2021
Income from the sales of gas	$ 957,835	$ 914,226
Installation revenue	266,161	249,385
Others	23,484	29,561
Total	$ 1,247,480	$ 1,193,172

Contract liabilities– current

	Dec. 31, 2022	Dec. 31, 2021	January 1, 2021
Payment for equipment collected in advance	$ 1,378,138	$ 1,285,984	$ 1,271,765

The revenue from customer contracts in fiscal 2022 and 2021, including $149,793 thousand and $156,765 thousand from contract liabilities to installation revenue, and $104,135 thousand and $96,464 thousand from long-term deferred revenue to installation revenue.

25. Operating cost

	2022	2021
Cost from the sales of gas	$ 792,109	$ 756,662
Installation cost	216,698	189,072
Others	12,335	15,098
Total	$ 1,021,142	$ 960,832

26. Interest income

	2022	2021
Bank deposit interest	$ 1,332	$ 731
Others	16	6
Total	$ 1,348	$ 737

27. Other income

	2022	2021
Dividend income	$ 41,858	$ 31,978
Others	34,845	51,849
Total	$ 76,703	$ 83,827

28. Other gains and losses

	2022	2021
Gains (losses) on disposal of property, plant, and equipment	$ (15)	$ (41)
Gains (losses) on financial assets at fair value through profit or loss	(12,840)	3,580
Miscellaneous expenses	(20)	(245)
Total	$ (12,875)	$ 3,294

29. Finance costs

	2022	2021
Interest expense	$ 6,689	$ 2,712
Interests from lease liabilities	297	265
Capitalization of interest		
－building under construction	(4,472)	(2,332)
－construction in progress	(1,760)	(284)
Total	$ 754	$ 361
Interest capitalization rate％	0.52％～2.885％	0.33％～2.15％

30.Income taxes

(1) Income tax expenses recognized in profit and losses

The income tax expense listed as profit and loss is composed of as follows:

	2022	2021
Current income tax expense		
Generated in the current year	$ 40,144	$ 45,460
Surtax on undistributed retained earnings	6,266	2,884
	46,410	48,344
Deferred tax expense		
Net change in deferred tax	(932)	(188)
Income tax expenses recognized in profit and losses	$ 45,478	$ 48,156

The adjustments of accounting income and current income tax expenses are as follows:

	2022	2021
Income tax expenses of pre-tax profit calculated with the statutory tax rate	$ 46,544	$ 70,817
Influenced amount of income tax adjustment items:		
The increase (decrease) should be adjusted when determining the taxable income	1,804	(18,943)
Tax-free income	(8,371)	(6,396)
Adjustments of the income tax expenses of the prior year in this year	167	(18)
Current income tax expense (income)	$ 40,144	$ 45,460

(2) Income tax recognized in other comprehensive income

	2022	2021
Remeasurements of defined benefit plans	$ (2,500)	$ (1,721)

(3) Deferred income tax assets and liabilities

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

	2022			
	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Pension	$ (5,272)	$ (77)	$ (2,500)	$ (7,849)
Short-term employee benefits	318	33	—	351
Income tax recognition difference	42,642	839	—	43,481
Others	2,716	137	—	2,853
Total	$ 40,404	$ 932	$ (2,500)	$ 38,836
Deferred income tax assets				$ 47,656
Deferred income tax liabilities				$ (8,820)

	2021			
	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Pension	$ (2,797)	$ (754)	$ (1,721)	$ (5,272)
Short-term employee benefits	326	(8)	—	318
Income tax recognition difference	40,141	2,501	—	42,642
Others	4,267	(1,551)	—	2,716
Total	$ 41,937	$ 188	$ (1,721)	$ 40,404
Deferred income tax assets				$ 46,760
Deferred income tax liabilities				$ (6,356)

(4) Income tax assessment

The income tax returns of Hsin Kao Gas Co., Ltd. and subsidiaries of the Consolidated Company have been assessed and approved by the tax authorities through fiscal 2020.

31. <u>Extra information on the items with the expense characteristics</u>

Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2022 and 2021:

By Function / By Nature	2022			2021		
	Attributed to operating cost	Attributed to operating expenses	Total	Attributed to operating cost	Attributed to operating expenses	Total
Employee benefits expenses	$ 86,647	$ 45,927	$ 132,574	$ 84,011	$ 45,977	$ 129,988
Salaries	74,922	33,271	108,193	72,724	33,165	105,889
Labor and health insurance	5,297	3,515	8,812	4,978	3,521	8,499
Pension	2,251	1,380	3,631	2,440	1,603	4,043
Compensation for directors	—	5,674	5,674	—	5,659	5,659
Other employee benefits expenses	4,177	2,087	6,264	3,869	2,029	5,898
Depreciation expenses	219,359	3,820	223,179	213,069	2,666	215,735
Amortization expenses	1,670	—	1,670	1,819	—	1,819

The compensation to employees and compensation to directors for the years 2022 and 2021 were resolved by the Board of Directors on March 13, 2023 and March 14, 2022, respectively, as follows:

	2022		2021	
	Amount	Estimated listing ratio	Amount	Estimated listing ratio
Compensation to employees	$ 3,263	1.5%	$ 4,241	1.5%
Compensation to directors	1,088	0.5%	1,414	0.5%

The company's articles of association stipulate that if there is profit in the year, 1.5% to 2.5% should be appropriated for employee remuneration and no more than 0.5% for director and supervisor remuneration. However, if the company still has accumulated losses, it shall reserve the compensation amount in advance.

Shall there be any change to the annual consolidated financial report after the reporting date, the accounting treatment shall be applied, and the adjustment is accounted for in the next year. There was no difference between the actual amount of compensation to employees and compensation to directors and supervisors for fiscal 2021 and the amount recognized in the 2021 Consolidated Financial Statements.

The company held a general meeting of shareholders on July 12, 2021, and it was resolved to pass the 2020 annual employee remuneration of $3,526 thousand and directors and supervisors' remuneration of $1,175 thousand. There is no difference between the aforementioned resolution allotment amount and the amount recognized in the 2020 individual financial report.

The information about the appropriations of the Company’s profit sharing bonus to employees and compensation to directors is available at the Market Observation Post System website.

32. Interpretation of seasonality or cyclicality of operations

The natural gas industry has seasonal characteristics. According to historical experience, the company's business peak period for people's livelihood is during the winter period of each year. If there is no major change in natural gas prices, the gas sales revenue and the amount of gas sales receivables during this period are higher than those in other seasons. For high.

33. Capital management

Based on the characteristics of the current operating industry and the future development of the company, and considering factors such as changes in the external environment, the merged company plans the working capital needs of the merged company in the future to ensure the sustainable operation of the merged company, and to give back to shareholders while taking into account other interests. Interests of related parties, and maintain an optimal capital structure to enhance shareholder value. Overall, the Merged Company adopts a prudent risk management strategy.

The natural gas business law stipulates that the capital amount shall not be lower than 35% of the original acquisition cost of the existing transmission and storage equipment. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

34. Financial instrument

(1) Types of financial instruments

	Dec. 31, 2022	Dec. 31, 2021
Financial assets		
Measured at amortized cost		
Cash and cash equivalents	$ 173,093	$ 188,488
Receivables	162,909	132,193
Fund	244,156	205,324
Refundable deposits	47,245	47,463
Financial assets at fair value through profit or loss	15,720	28,560
Financial assets at fair value through other comprehensive income - Investments in equity instruments	679,703	767,512
Financial liabilities		
Measured at amortized cost		
Short-term notes and bills payable	286,040	99,896
Payables	241,943	256,846
Long-term debt payable	209,820	136,000
Deposits received	161,454	158,005

(2) Fair Value Information

A. Fair value measurement is divided into Level 1 to Level 3 according to the degree of observability and importance of relevant input values：

a. Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

b. Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

c. Level 3: Unobservable inputs for the asset or liability.

B. Valuation techniques used for financial instruments measured at fair value

a. The fair value of financial assets and financial liabilities with standard terms and conditions and traded in an active market is determined by referring to market quotations, including listed (over-the-counter) and fund beneficiary certificates.

b. Domestic non-listed (over-the-counter) equity investments measured at fair value through other comprehensive gains and losses are all evaluated at Level 3. The evaluation of the fair value by the management of the group adopts the market approach, and its major unobservable input values are mainly the net value of the stock price and the discount for lack of market liquidity, and its changes will affect the fair value of these investments. Due to the small scale of the unlisted (counter) equity instruments and the extremely low market liquidity, the changes in the above-mentioned input values have little impact on the financial report of the consolidated company, so quantitative information is not disclosed.

C. Financial instruments not measured at fair value

The management of the combined company believes that the book value of financial assets and financial liabilities not measured at fair value approximates their fair value.

D. Fair value hierarchy - Fair value of financial instruments measured at fair value on a recurring basis

	Dec. 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Mutual funds	$ 15,720	$ –	$ –	$ 15,720
Financial assets at fair value through other comprehensive income				
Investments in equity instruments				
Domestic exchange-listed (OTC-listed) stock or emerging stock	$ 586,571	$ –	$ –	$ 586,571
Non-exchange-listed (non-OTC-listed) domestic stocks	–	–	93,132	93,132
Total	$ 586,571	$ –	$ 93,132	$ 679,703

	Dec. 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Mutual funds	$ 28,560	$ —	$ —	$ 28,560
Financial assets at fair value through other comprehensive income				
Investments in equity				
Domestic exchange-listed (OTC-listed) stock or emerging stock	$ 673,649	$ —	$ —	$ 673,649
Non-exchange-listed (non-OTC-listed) domestic stocks	—	—	93,863	93,863
Total	$ 673,649	$ —	$ 93,863	$ 767,512

There were no transfers between Level 1 and Level 2 fair value measurements this year.

(3) Purpose of financial risk management

The financial risk management of the Group is to manage interest rate risk, credit risk and liquidity risk related to operation activities. In order to reduce related financial risks, the Group has devoted to identification, evaluation and avoiding uncertainty of market, to reduce any potential unfavorable impact of market changes on the corporate financial performance.

The important financial activities of the Group y are specified by the board and in accordance with related specifications and double checked through an internal control system. During the execution period of financial planning, the Group shall scrupulously observe the related financial operation procedures concerning comprehensive financial risk management and division of authority and responsibility.

(4) Market risk

The Group mainly exposes to such market risks as changes in changes in interest rate.

Interest rate risk refers the risk caused by the change in the fair value of financial instruments as a result of change of the market interest rate. The Group's interest rate risk mainly comes from the floating of the interest rates for the income investments with a fixed or floating interest rate.

Regarding the sensitivity analysis of the interest rate risk, the calculation is made according to the amount of the bank loan and the floating interest rate at the final day of the financial report period, and a quarter's effect is assumed to be held. If the interest rate increased or decreased by 0.1%, the Group's profit or loss as of December 31, 2022 and December 31, 2021 would increase or decrease by $79 thousand and $158 thousand respectively.

(5) Credit risk management

The credit risk management refers to the opposing party of trade violates contract obligations and causes risks of financial loss to the Group. The credit risk of the Group comes mainly from the accounts receivable generated from operation activities,

A. Operation related credit risks

In order to maintain the quality of accounts receivable, the Group already establishes the procedures of operation related credit risks.

The risk evaluation of an individual customer considers such numerous factors with potential impacts on customer payment abilities as the financial status of the said customer, internal credit ratings of the Group, historical trade record and current economic status, etc. The Group will also use certain credit enhancement tools in due course, such as collecting deposits to reduce the credit risk of specific customers.

Up to December 31, 2022 and December 31, 2021, the accounts receivable balances of the top 10 major customers account for the accounts receivable balances of the Group respectively as 17% and 21%; the risk concentration risks of the rest accounts receivable are relatively insignificant risk.

B. Financial credit risk

Credit risk from balances with banks, fixed income securities. The Group transacts which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(6) Liquidity risk management

The object of liquidity risk management of the Group is to maintain cash and equivalent cash required for operation, and sufficient bank financing quota, etc., to ensure the Group to possess sufficient financial flexibility, operation fund sufficient to cope up with the financial liabilities.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principles and interests.

	Dec. 31, 2022			
	Less than 1 year	1-3 years	More than 3 yeas	Total
Non-derivative financial liabilities				
Short-term notes and bills payable	$ 286,040	$ —	$ —	$ 286,040
Accrued payables	241,943	—	—	241,943
Lease liabilities	6,837	7,047	36,097	49,981
Long-term debt payable	—	209,820	—	209,820
Deposits received	156,652	4,802	—	161,454
Total	$ 691,472	$ 221,669	$ 36,097	$ 949,238

	Dec. 31, 2021			
	Less than 1 year	1-3 years	More than 3 yeas	Total
Non-derivative financial liabilities				
Short-term notes and bills payable	$ 99,896	$ —	$ —	$ 99,896
Accrued payables	256,846	—	—	256,846
Lease liabilities	4,903	4,830	38,281	48,014
Long-term debt payable	—	136,000	—	136,000
Deposits received	153,809	4,196	—	158,005
Total	$ 515,454	$ 145,026	$ 38,281	$ 698,761

35. Related party transaction

(1) Names and relationship of related parties

Name of related parties	Relationship with the Group
Shengxinyuan Construction Co., Ltd.	Investment accounted for using equity method
Jieyang Construction Co., Ltd.	Investment accounted for using equity method

(2) Significant transactions with the related parties

New investments using the equity method:

Shengxinyuan Construction Co., Ltd. will handle a cash capital increase in 2022, and the group company will subscribe for $34,600 thousand according to the shareholding ratio.

Jieyang Construction Co., Ltd. will handle a cash capital increase in 2021, and the group company will subscribe for $12,000 thousand according to the shareholding ratio.

(3) Compensation to key management

The compensation to directors and other key management personnel were as follows:

	2022	2021
Short-term employee benefits	$ 14,644	$ 13,827

36. Pledged assets

Items asset name	Purpose	Dec. 31, 2022	Dec. 31, 2021
Financial assets at fair value through other comprehensive income	Loan	$ 117,831	$ —
Building under construction	Loan	328,591	230,958

37. Material contingent liabilities and unrecognized contractual commitments: None.

38. Significant disaster loss: None.

39. Significant events after the balance sheet date: None.

40. Others: None.

41. Supplementary disclosures

When preparing the consolidated financial report, all major transactions and balances between the company and its subsidiaries have been eliminated.

(1) Information on major transactions:

A. Lending to others: None.

B. Endorsement and guarantee for others:

Unit: NT$1,000

Number (Note 1)	Endorser / guarantor	Party being endorsed/guaranteed: Company name	Party being endorsed/guaranteed: Relationship with the endorser / guarantor (Note 2)	Limit on endorsements / guarantees provided for a single party (Note 3)	Maximum outstanding endorsement / guarantee amount as at December 31, 2021	Outstanding endorsement / guarantee amount at December 31, 2021	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement / guarantee amount to net asset value of the endorser / guarantor company	Ceiling on total amount of endorsements / guarantees provided (Note 3)	Provision of endorsements / guarantees by parent company to subsidiary	Provision of endorsements / guarantees by subsidiary to parent company	Provision of endorsements / guarantees to the party in Mainland China	Footnote
0	Hsin Kao Gas Co., Ltd.	Hexin International Co., Ltd.	2	$ 471,057	$ 180,000	$ 180,000	$ 56,600	$ –	7.64%	$ 1,177,644	Y	N	N	

Note 1：The Company and its subsidiaries are coded as follows:
(1) The Company is coded “0”
(2) the subsidiaries are coded consecutively beginning from”1” in the order presented in the table above.

Note 2：According to the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” issued by the R.O.C. Securities and Futures Bureau, receiving parties should be disclosed as one of the following:
(1) A company with which it does business.
(2) A company in which the public company directly and indirectly holds more than 50% of the voting shares.
(3) A company that directly and indirectly holds more than 50 % of the voting shares in the public company.
(4) A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
(5) A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
(6) A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
(7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other

Note 3：The endorsements/guarantees amount of the Company toward a single enterprise is limited to 20% of the Company’ s net value in the most recent financial statement(December 31, 2022); the total amount of endorsement/guarantee made by the Company shall not exceed 50% of the net value in the most recent financial statement.

C. Marketable securities held at the end of the period:

Unit: NT$1,000

Holding company	Type and name of marketable securities	Relationships with issuers of marketable securities	Accounting item	At the end of the period				Remark
				Shares	Carrying amount	Shareholding ratio	Fair value	
Hsin Kao Gas Co., Ltd.	Fund							
	Yuanta Taiwan High-yield Leading Company Fund	None	Financial assets at fair value through profit or loss – current	1,000,000	$ 7,860	—	$ 7,860	
	Stock							
	The Great Taipei Gas Corporation	〃	Financial assets at fair value through other comprehensive income – current	1,888,000	58,811	0.37	58,811	
	Fubon Financial Holding Co., Ltd.	〃	〃	466,060	26,239	—	26,239	
	Fubon Financial Holding Co., Ltd. Class C special stock	〃	〃	9,043	498	—	498	
	Yuanta Financial Holding Co., Ltd.	〃	〃	11,631,080	252,395	0.09	252,395	
	Long Da Construction & Development Corporation	〃	〃	1,111,105	24,889	0.51	24,889	
	CTBC Financial Holding Co., Ltd.	〃	〃	900,000	19,890	—	19,890	
Hexin International Co., Ltd.	Fund							
	Yuanta Taiwan High-yield Leading Company Fund	〃	Financial assets at fair value through profit or loss – current	1,000,000	7,860	—	7,860	
	Stock							
	Fubon Financial Holding Co., Ltd.	〃	Financial assets at fair value through other comprehensive income – current	5,594,490	121,401	0.05	121,401	Note
	Dayi Jinmao Co., Ltd.	〃	〃	396,666	6,565	0.53	6,565	
	Hon Hai Precision Industry Co., Ltd.	〃	〃	71,404	7,133	—	7,133	
	San Far Property Limited	〃	〃	166,409	2,030	0.05	2,030	
	Fubon Financial Holding Co., Ltd.	〃	〃	466,060	26,239	—	26,239	
	Fubon Financial Holding Co., Ltd. Class C special stock	〃	〃	9,043	498	—	498	
	Cathay Financial Holding Co., Ltd.	〃	〃	755,201	30,208	0.01	30,208	
	Energenesis Biomedical Co., Ltd.	〃	〃	230,000	9,775	0.34	9,775	
	Victory Construction Co., Ltd.	〃	Financial assets at fair value through other comprehensive income – non-current	150,000	6,329	15.00	6,329	
	Heyi Construction Co., Ltd.	〃	〃	10,500,000	86,803	10.50	86,803	

Note: Provide 5,430,000 shares as a guarantee for the loan amount.

D. The cumulative amount of securities purchased or sold reaches NT$300 million or 20% of the paid-in capital: None.

E. Acquisition of real estate amounting to at least NT$300 million or 20% of the paid-in capital:

Unit: NT$1,000

Real estate acquired by	Real estate acquired	Date of the event (Note 1)	Transaction amount (untaxed)	Status of payment (untaxed)	Counterparty (Note 2)	Relationship with the counterparty	If the counterparty is a related party, information as to thelast transaction of the real estate is disclosed below:				Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
							Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount			
Hsin Kao Gas Co., Ltd.	Land and housing	2016.8.8	$ 507,371	$ 456,634	Jialiuyuan Construction Co., Ltd.	None	–	–	–	–	Reference Real Estate Valuation Report	as an office	–
					Yang Cing Construction Co., Ltd.	None							
					Hexin International Co., Ltd.	Subsidiary							
					Ding,You-Hong	None							

Note 1：The day when the fact happened and the resolution of the board of directors.

Note 2：The company signed a pre-determined real estate sales contract with Jialiuyuan Construction Co., Ltd. (representing subsidiary and Yang Cing Construction Co., Ltd. at the same time) and the landlord. Jialiuyuan Construction Co., Ltd. is solely responsible for the construction and sales of this case. The relevant instructions are detailed in Note 16.

F. Disposal of real estate amounting to at least NT$300 million or 20% of the paid-in capital: None.

G. The amount of purchase or sale of goods with related parties reaches NT$100 million or 20% of the paid-in capital: None.

H. Related party receivables amounting to at least NT$100 million or 20% of the paid-in capital: None.

I. Engage in derivative transactions: None.

J. Other: business relationship between parent and subsidiary and significant transactions and amounts:

No. (Note 1)	Name of trader	Name of transaction counterparty	Relationship (Note 2)	Circumstance of transaction (Note 3)			
				Accounting item	Amount	Transaction term	Percentage to consolidated total revenue or total assets
0	Hsin Kao Gas Co., Ltd.	Hexin International Co., Ltd.	1	—	—	—	—

Note 1: The business transaction information between the parent company and its subsidiaries shall be stated separately in the "No." field and the number shall be filled in as follows:

1. Fill in 0 as parent company.
2. Subsidiaries are numbered by company type starting with the Arabic numeral 1.

Note 2: There are 3 types of relationship with the counterparty, which can be identified as such:

1. Parent to subsidiary 2. Subsidiary to parent 3. Subsidiary to subsidiary

Note 3: The Company signed a pre-determined real estate sales contract with Jialiuyuan Construction Co., Ltd. (representing subsidiary and Yang Cing Construction Co., Ltd. at the same time) and the landlord. Jialiuyuan Construction Co., Ltd. is solely responsible for the construction and sales of this case. Up to now, the subsidiary has not received any payment, the relevant instructions are detailed in Note 16.

(2) Related information of investees:

Unit: NT$1,000

Name of investing company	Name of investee company	Location	Main business	Original investment amount		Held at the end of the period			Profit or loss of the investee company for the period	Investment profit or loss recognized for the period	Remark
				Balance as at December 31, 2021	Balance as at December 31, 2020	Number of shares	Ownership (%)	Book value			
Hsin Kao Gas Co., Ltd.	Hexin International Co., Ltd.	Taiwan	A. Residential and building development, rental and sales. B. International trade.	$ 120,443	$ 120,443	12,000,000	92.31	$ 520,575	$ 13,959	$ 12,885	Subsidiaries of the Company (Note)
	Shengxinyuan Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	28,000	20,000	2,800,000	8.00	32,868	(7,021)	(562)	Invested companies evaluated by the equity method
	Jieyang Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	16,000	16,000	1,600,000	16.67	5,045	(750)	(125)	Invested companies evaluated by the equity method
Hexin International Co., Ltd.	Shengxinyuan Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	93,100	66,500	9,310,000	26.60	109,285	(7,021)	(1,868)	Invested companies evaluated by the equity method
	Jieyang Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	16,000	16,000	1,600,000	16.67	5,045	(750)	(125)	Invested companies evaluated by the equity method

Note: It has been eliminated when preparing the consolidated report.

(3) Information on investment in China: None.

(4) Information on major shareholders:

Shares / Name of major shareholder	Shares held	Shareholding ratio
Xinxiang Investment Co., Ltd.	24,810,977	22.46%
Veterans Affairs Council, R.O.C.	23,482,362	21.26%

Note: A. The Major Shareholder Information in this table is calculated by the Depository & Clearing Corporation based on the last business day of each quarter and is calculated based on the total number of common and preferred shares of the Company held by shareholders of 5% or more of the Company's total unregistered shares (including treasury shares) issued by non-physical securities delivered through the book-entry system. The number of shares recorded in the Company's financial statements and the actual number of shares delivered without physical registration may differ depending on the foundation of computer algorithms.

B. If the above information belongs to the shareholder who transfers shareholding to the Trust, it is the individual ledger announcement by the consignor who opened the trust account by the consignee. As for shareholders, according to the Securities and Exchange Act, they handle Insiders' equity declarations with shareholding exceeding 10%. Their shareholding includes their own shareholding plus the calculation of their delivery trust and shares under Trust with Discretion Reserved for the trust asset, etc., related to Insiders' equity declarations. For information, please refer to Market Observation Post System.

42. Information on operating departments

(1) General information

The Group’s uses the income from operations as the measurement for segment profit and the basis of performance assessment. In addition, there was no material differences between the accounting policies of the operating segment and the accounting policies described in Note 4.

(2) Departmental revenue and operating results

The Group’s segment revenue and operating results as follows:

	2022					
Item	Gas sales department	Equipment department	Sale house	Other	Adjustment and write-off	Total
Sales revenue from customers other than enterprises	$ 957,835	$ 266,161	$ —	$ 23,484	$ —	$1,247,480
Net revenue from sales among intersegments	—	—	—	—	—	—
Departmental profit and loss	114,836	35,321	(1,966)	9,902	—	158,093
Total non-operating income and expenses						61,742
Profit (loss) from continuing operations before tax						$ 219,835
Income tax expenses						(45,478)
Consolidated total net profit						$ 174,357
Identifiable assets	$3,118,270	$ 336,117	$ 403,831	$ —		$3,858,218
Investment accounted for using equity method						152,243
Ordinary assets						1,486,450
Total assets						$5,496,911

Item	2021					
	Gas sales department	Equipment department	Sale house	Other	Adjustment and write-off	Total
Sales revenue from customers other than enterprises	$ 914,226	$ 249,385	$ —	$ 29,561	$ —	$1,193,172
Net revenue from sales among intersegments	—	—	—	—	—	—
Departmental profit and loss	108,077	46,814	(1,792)	12,862	—	165,961
Total non-operating income and expenses						124,833
Profit (loss) from continuing operations before tax						$ 290,794
Income tax expenses						(48,156)
Consolidated total net profit						$ 242,638
Identifiable assets	$3,093,533	$ 285,790	$ 301,496	$ —		$3,680,819
Investment accounted for using equity method						120,323
Ordinary assets						1,409,595
Total assets						$5,210,737

(3) Region-wise financial information

For the years ended December 31, 2022 and 2021, revenue from external customers and non-current assets were all located in Taiwan.

(4) Products information

By products	2022	2021
Gas sales	$ 957,835	$ 914,226
Equipment	266,161	249,385
Others	23,484	29,561
Total	$ 1,247,480	$ 1,193,172

(5) Important Customer Financial Information

Major customers representing at least 10% of net revenue：None.

(English Translation of parent Company Only Financial Statements and Report Originally Issued in Chinese)

Hsin Kao Gas Co., Ltd.

Parent Company Only Financial Statements and Independent Auditors' Report

For the Years Ended December 31, 2022 and 2021

Address：No. 56, Dayi St., Yancheng Dist., Kaohsiung City 803003 , Taiwan (R.O.C.)

Tel：(07)531－5701

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

INDEPENDENT AUDITORS' REPORT

NO.00421100EA

To the Board of Directors of Hsin Kao Gas Co., Ltd.

Opinion

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

In our opinion based on our audits and the reports of other auditors, the accompanying parent company consolidated only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2022 and 2021, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the Accounting Standards for Public Natural Gas Utilities.

Basis for Opinion

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

Key Audit Matters

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

Key audit matters for the Company’s parent company only financial statements for the year ended December 31, 2022 is stated as follows:

Measurement of Accounting Estimates of Gas Charges Receivable at the End of Period

The company's net gas sales revenue in 2022 will account for about 77% of its operating income. For relevant information, please refer to Notes 4, 5 and 22 of the individual financial report. The accounting estimate of the company's gas fee receivable at the end of the period is based on the accrual basis of user usage from the previous meter reading date to the balance sheet date. This estimate involves major assumptions and subjective judgments adopted by the management. Therefore, the accountant for this part the measurement of accounting estimates is listed as one of the most important matters in this year's audit.

Review response measures and procedures

In addition to industrial and commercial users, the company's natural gas sales are concentrated on a large number of household users. Based on historical experience, this accountant understands that this part has seasonal characteristics. The corresponding check procedures are as follows:

1. Assess whether there is any deviation in the formation of assumptions adopted by the management.
2. Check whether the estimation process of the management and the relevant documents used are appropriate.
3. Analyze and compare with the historical information of the past year to evaluate whether the estimation results adopted by the management are the best estimates and whether the measurement of accounting estimates is reasonable.

Other matters

We did not audit the financial statements of certain consolidated subsidiaries of the Company. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements relative to these consolidated subsidiaries was based on the reports of other auditors. Investments accounted for using equity method of the subsidiaries amounted to NT$152,243 thousand and NT$120,323 thousand, were representing 3% and 2% of total consolidated assets as of December 31, 2022 and 2021. And the Share of profit (loss) of associates and joint ventures accounted for using equity method of the subsidiaries amounted to NT$(2,680) thousand and NT$37,336 thousand, representing (3)% and 10% of total comprehensive income for the years ended December 31, 2022 and 2021, respectively.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standard, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China and the Accounting Standards for Public Natural Gas Utilities, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicated 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 identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicated 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 determined those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditor’s report unless laws or regulations preclude 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.

Baker Tilly Clock & Co
Ying-Lai Chou, CPA
Hsien-Hsiu Cheng, CPA
March 13, 2023

Hsin Kao Gas Co., Ltd.

Parent Company Only Balance Sheet

December 31, 2022 and2021

(In Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	6	$ 165,297	3	$ 169,338	4
Financial assets at fair value through profit or loss-current	7	7,860	—	14,280	—
Financial assets at fair value through other comprehensive income-current	8	382,722	7	430,142	9
Notes receivable, net	9	20,418	1	11,683	—
Accounts receivable, net	9	142,436	3	120,510	2
Other receivables		55	—	—	—
Inventories	10	262,315	5	243,486	5
Prepayments		5,195	—	4,996	—
Total current assets		986,298	19	994,435	20
Non-current assets					
Investments accounted for using equity method	11	558,488	11	577,413	12
Property, plant, and equipment	12	2,619,293	50	2,640,062	53
Right-of-use assets	13	55,338	1	53,643	1
Intangible assets		463	—	2,133	—
Deferred tax assets	28	46,241	1	45,345	1
Funds	14	244,156	5	205,324	4
Net defined benefit assets, non-current	19	71,612	1	58,727	1
Other non-current assets, others	15	603,384	12	417,034	8
Total non-current assets		4,198,975	81	3,999,681	80
Total assets		$ 5,185,273	100	$ 4,994,116	100

(Please refer to the Notes to the Parent Company Only Financial Statements)

Hsin Kao Gas Co., Ltd.

Parent Company Only Balance Sheet (continued)

December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
Current liabilities					
Short-term notes and bills payable	16	$ 229,559	4	$ 69,930	1
Contract liability – current	22	1,378,138	27	1,285,984	26
Accounts payable		90,171	2	103,958	2
Other payables	17	151,772	3	152,888	3
Current tax liabilities	28	21,428	—	22,725	1
Lease liabilities – current	13	6,551	—	4,638	—
Other current liabilities, others		6,039	—	4,810	—
Total current liabilities		1,883,658	36	1,644,933	33
Non-current liabilities					
Deferred tax liabilities	28	8,820	—	6,356	—
Lease liabilities - non-current	13	41,013	1	40,742	1
Long-term deferred revenue	18	735,041	14	730,929	15
Guarantee deposits received		161,454	3	158,005	3
Total non-current liabilities		946,328	18	936,032	19
Total liabilities		2,829,986	54	2,580,965	52
Ordinary share		1,104,306	21	1,104,306	21
Capital surplus		30,113	1	30,113	1
Retained earnings		1,028,271	20	999,591	20
Legal reserve		350,966	7	326,541	6
Special reserve		269,876	5	232,140	5
Unappropriated retained earnings		407,429	8	440,910	9
Other equity interest		192,597	4	279,141	6
Total equity	20	2,355,287	46	2,413,151	48
Total liabilities and equity		$ 5,185,273	100	$ 4,994,116	100

(Please refer to the Notes to the Parent Company Only Financial Statements)

Hsin Kao Gas Co., Ltd.

Parent Company Only Statement of Comprehensive Income

From January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	Notes	2022		2021	
		Amount	%	Amount	%
Operating revenue	22	$ 1,247,480	100	$ 1,193,172	100
Operating costs	10,23	(1,021,142)	(82)	(960,832)	(81)
Gross profit from operations		226,338	18	232,340	19
Operating expenses					
Selling expenses		(26,061)	(2)	(27,337)	(2)
Administrative expenses		(40,218)	(3)	(37,250)	(3)
Total operating expenses		(66,279)	(5)	(64,587)	(5)
Net other income		160,059	13	167,753	14
Non-operating income and expenses					
Interest income	24	1,329	—	732	—
Other income	25	46,386	4	35,363	3
Other gains and losses	26	(6,455)	(1)	1,504	—
Finance costs	27	(304)	—	(278)	—
Share of profit (loss) of associates and joint ventures accounted for using equity method	11	12,198	1	71,976	6
Total non-operating income and expenses		53,154	4	109,297	9
Profit before tax		213,213	17	277,050	23
Tax expenses	28	(39,929)	(3)	(39,686)	(3)
Profit		173,284	14	237,364	20
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit plans		12,499	1	8,606	—
Unrealized profit or loss from investments in equity instruments measured at fair value through other comprehensive income		(47,420)	(4)	78,613	7
Share of other comprehensive gain (loss) of subsidiaries and associates accounted for using equity method		(39,124)	(3)	44,326	4
Income tax expenses related to items that will not be reclassified subsequently to profit and loss	28	(2,500)	—	(1,721)	—
Other comprehensive income, net		(76,545)	(6)	129,824	11
Comprehensive income		$ 96,739	8	$ 367,188	31
Earnings per share (NTD)	21				
Basic earnings per share		$ 1.57		$ 2.15	
Diluted earnings per share		$ 1.57		$ 2.15	

(Please refer to the Notes to the Parent Company Only Financial Statements)

Hsin Kao Gas Co., Ltd.

Parent Company Only Statement of Changes in Equity

From January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	Share capital	Capital surplus	Retained Earnings			Others	Total equity
			Legal capital reserve	Special reserve	Unappropriated retained earnings	Unrealized gains or losses on financial assets at fair value through other comprehensive income	
Balance on January 1, 2021	$ 1,104,306	$ 30,113	$ 307,203	$ 199,061	$ 392,638	$ 156,202	$ 2,189,523
Legal reserve appropriated	—	—	19,338	—	(19,338)	—	—
Special reserve appropriated	—	—	—	33,079	(33,079)	—	—
Cash dividends of ordinary share	—	—	—	—	(143,560)	—	(143,560)
Profit in 2021	—	—	—	—	237,364	—	237,364
Other comprehensive income in 2021	—	—	—	—	6,885	122,939	129,824
Total comprehensive income in 2021	—	—	—	—	244,249	122,939	367,188
Balance on December 31, 2021	$ 1,104,306	$ 30,113	$ 326,541	$ 232,140	$ 440,910	$ 279,141	$ 2,413,151
Legal reserve appropriated	—	—	24,425	—	(24,425)	—	—
Special reserve appropriated	—	—	—	37,736	(37,736)	—	—
Cash dividends of ordinary share	—	—	—	—	(154,603)	—	(154,603)
Profit in 2022	—	—	—	—	173,284	—	173,284
Other comprehensive income in 2022	—	—	—	—	9,999	(86,544)	(76,545)
Total comprehensive income in 2022	—	—	—	—	183,283	(86,544)	96,739
Balance on December 31, 2022	$ 1,104,306	$ 30,113	$ 350,966	$ 269,876	$ 407,429	$ 192,597	$ 2,355,287

(Please refer to the Notes to the Parent Company Only Financial Statements)

Hsin Kao Gas Co., Ltd.

Parent Company Only Statement of Comprehensive Income

From January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	2022 Amount	2021 Amount
Cash flows from operating activities:		
Profit before tax	$ 213,213	$ 277,050
Adjustments		
Income and expenses		
Depreciation expenses	223,179	215,735
Amortization expenses	1,670	1,819
Expected credit loss (gain on reversal)	(165)	—
Gains (losses) on financial assets at fair value through profit or loss	6,420	(1,790)
Interest expense	304	278
Interest income	(1,329)	(732)
Dividend income	(26,543)	(20,963)
Share of the profit or loss of the subsidiaries and associates accounted for using the equity method	(12,198)	(71,976)
Gain on disposal of property, plant and equipment	15	41
Amortization of long-term deferred revenue	(104,135)	(96,464)
Other income	(654)	(681)
Total income and expenses	86,564	25,267
Changes in operating assets and liabilities		
Decrease (increase) in notes receivable	(8,735)	8,054
Decrease (increase) in accounts receivable	(21,761)	15,755
Decrease (increase) in other receivables	(55)	225
(Increase) in inventories	(18,829)	(30,993)
(Increase) in prepayments	(199)	(443)
Decrease in other current assets	—	11
Increase in net defined benefit assets	(387)	(3,768)
Increase in contract liabilities	199,450	111,650
Increase (decrease) in accounts payable	(13,787)	221
Increase (decrease) in other payables	(1,116)	2,664
Decrease in other current liabilities	1,229	(758)
Increase in long-term deferred revenue	951	—
Cash from operating activities	436,538	404,935

Hsin Kao Gas Co., Ltd.

Parent Company Only Statement of Comprehensive Income (continued)

From January 1 to December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

Item	2022	2021
	Amount	Amount
Interest received	1,329	732
Dividends received	26,543	20,963
Interest paid	(7)	(13)
Income tax paid	(42,158)	(34,769)
Net cash inflow from operating activities	422,245	391,848
Cash flow from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	—	(1,418)
Acquisition of investments accounted for under the equity method	(8,000)	(6,000)
Acquisition of property, plant, and equipment	(195,414)	(249,513)
Disposal of property, plant, and equipment	19	15
Increase (decrease) in refundable deposits	218	(826)
Acquisition of right-of-use assets	—	(8,384)
Increase in prepayments for equipment	(9,010)	(4,520)
(Increase) in prepayment for real estate	(177,558)	(76,106)
(Increase) in provision for gas transportation pipeline replacement	(38,832)	(33,776)
Net cash flows (used in) investing activities	(428,577)	(380,528)
Cash flows from financing activities:		
Increase in short-term notes and bills payable	159,629	29,959
Increase in guarantee deposits received	3,449	1,475
Repayment of lease liabilities	(6,184)	(5,098)
Cash dividends paid	(154,603)	(143,560)
Net cash flows from (used in) financing activities	2,291	(117,224)
Net increase (decrease) in cash and cash equivalents	(4,041)	(105,904)
Cash and cash equivalents at beginning of period	169,338	275,242
Cash and cash equivalents at end of period	$ 165,297	$ 169,338

(Please refer to the Notes to the Parent Company Only Financial Statements)

Hsin Kao Gas Co., Ltd.

Accompanying Notes to the Parent Company Only Financial Statements

For The Years Ended December 31, 2022 and 2021

(Amounts in thousands of New Taiwan dollars, unless otherwise stated)

1. Company history

Hsin Kao Gas Co., Ltd. (Collectively as “the Company”) was established in January 1983 in accordance with the Company Act and other relevant laws and regulations. And is mainly engaged in the installation of natural gas for supplying domestic and commercial fuels and related pipelines. The Company stock has been listed and traded on the Taiwan Stock Exchange since January 2000.

The parent company only financial reports were expressed with the functional currency, New Taiwan Dollar, adopted by the Company.

2. The date when the financial reports were authorized for issuance and the process involved

These parent company only financial statements were authorised for issuance by the Board of Directors on March 13, 2023.

3. Applicability of new issuing & revised standards and interpretation

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2022 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 3, ‘Reference to the conceptual framework’	January 1, 2022
Amendments to IAS 16, ‘Property, plant and equipment: proceeds before intended use’	January 1, 2022
Amendments to IAS 37, ‘Onerous contracts - cost of fulfilling a contract’	January 1, 2022
Annual improvements to IFRS Standards 2018 - 202	January 1, 2022

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2023 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1, 'Disclosure of accounting policies'	January 1, 2023
Amendments to IAS 8, 'Definition of accounting estimates'	January 1, 2023
Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction'	January 1, 2023

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

(3) Effect of IFRSs issued by IASB but not yet endorsed by FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 International Accounting Standards Board
Amendments to IFRS 16, 'Lease liability in a sale and leaseback'	January 1, 2024
IFRS 17 ''Insurance contracts''	January 1, 2023
Amendments to IFRS 17, 'Insurance contracts'	January 1, 2023
Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9 – comparative information'	January 1, 2023
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2024
Amendments to IAS 1, 'Non-current liabilities with covenants'	January 1, 2024

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. <u>Summary and explanation of significant accounting policies</u>

(1) Compliance statement

The Parent Company Only Financial Statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the Accounting Regulations for Public Natural Gas Utilities.

(2) Basis of preparation

The Parent Company Only Financial Statements have been prepared on the historical cost basis, except for financial instruments carried at fair value and net defined benefit liabilities recognized at the present value of the defined benefit obligation less the fair value of plan assets.

(3) Standard in determining whether the asset or liability are current or non-current

Current assets include:

A. assets held mainly for transaction purposes;

B. assets to be realized within 12 months of the asset balance sheet; and

C. cash and cash equivalents (but not including cash used to exchange or clear liability within 12 months of the asset balance sheet).

Current liabilities include:

A. liabilities held mainly for transaction purposes;

B. liabilities due for payment within 12 months after the balance sheet date (a liability with long-term refinancing done or payment agreement rearranged also belongs to the current liabilities); and

C. the business entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. However, where the terms of the liabilities may, at the option of the counterparty, lead to the settlement by issuing an instrument of equity, the classification will not be affected.

Assets or liabilities not classified within the above definitions will be classified as non-current assets and liabilities.

(4) Cash equivalents

Cash equivalents can be converted into a fixed amount of cash at any time. They are short-term, highly liquid investments with minimum changes in value.

(5) Inventories

Inventory includes various pipe fittings and materials, etc., and adopts the perpetual inventory system, and is priced according to the first-in, first-out method, and is recorded on the basis of acquisition cost. Inventories are measured at the lower of cost or net realizable value and comparisons between cost and net realizable value are made on an item-by-item basis, except for inventories of the same type. Net realizable value is the estimated selling price in normal circumstances less the estimated costs still to be invested until completion and the estimated costs required to complete the sale.

(6) Investment accounted for using equity method

The Company accounts the equity method for the investment of the subsidiaries and relevant enterprises.

A. Investments in subsidiaries

Subsidiaries refer to entities controlled by the Company (including entities with special purposes).Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries the original investment under the equity method is recognized by cost. The carrying amount obtained shall increase or decrease based on the distribution of the income of the subsidiary, and the shares and profits of other comprehensive income. The change of equity of the subsidiary is recognized based on the shareholding ratio.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of loss of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further loss, if any.

When the Company's share of loss of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary that constitutes a business at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary that constitutes a business over the cost of acquisition is recognized immediately in profit or loss. That, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further loss, if any.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Company directly disposed of the related assets or liabilities.

Profit or loss resulting from downstream transactions is eliminated in full only in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only in the parent company only financial statements and only to the extent of interests in the subsidiaries that are not related to the Company.

B. Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates. When a reciprocal relationship exists between the Group and its investee, each holds an equity method investment interest in each other's shares, and the Group chooses to apply the to calculate its shares in the associate's profit or loss.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates and joint ventures accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognizing its share of further loss, if any. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate and a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

When the Group transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate and joint venture that are not related to the Group.

(7) Fund

In accordance with the regulations of the Ministry of Economic Affairs Jingnengzi No. 10004604740, the company has calculated the reserves for the replacement of gas pipelines since 2012, and allocated the reserves for the replacement of gas pipelines in accordance with the provisions of Article 54 of the Natural Gas Business Law. In exchange for reserve funds, the allocation of the reserve funds shall be calculated based on the net profit after tax, and shall be allocated to a special account for safekeeping, so as to be used for the replacement of gas pipelines. The appropriation method is calculated based on the net profit after tax of the previous year, and is calculated accumulatively according to the appropriation level and ratio in Item 2, Article 3 of the appropriation method.

A. The portion below NT$5 million does not need to be withdrawn.

B. For the portion exceeding NT$5 million to NT$10 million, 20% will be appropriated.

C. Fifteen percent of the portion exceeding NT$10 million to NT$50 million shall be appropriated.

D. For the portion exceeding NT$50 million to NT$100 million, 10% will be appropriated.

E. For the portion exceeding NT$100 million, 5% shall be appropriated.

Pursuant to Article 3 of the Regulations on Allocation of Reserve Funds for Gas Transmission Pipeline Replacement of Public Natural Gas Enterprises, the reserve fund for gas pipeline replacement is the balance allocated after deducting the actual payment from the reserve amount for gas pipeline replacement.

(8) Property, plant, and equipment

Property, plant, and equipment are recognized by cost, and then measured by cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment under construction are recognized at cost less accumulated impairment losses. Cost includes fees for professional services and borrowing costs eligible for capitalization. These assets are classified into the appropriate categories of property, plant and equipment and depreciation commences when they are completed and in their intended state of use.

The property, plant, and equipment are depreciated separately for each major part by the straight-line basis method over the life of service. Depreciation is accrued in accordance with the following durable service years:

Gas transportation equipment	12~40 years
Gas selling equipment	8 years
Machinery and equipment	5 years
Transportation equipment	3~5 years
Other equipment	5~10 years

The Company reviews the estimated useful lives, residual values and depreciation methods at least at each year-end and defers the effect of changes in applicable accounting estimates.

Assets held under financial lease are depreciated within the useful years in the same manner as their own assets. Those with shorter lease terms are depreciated within the lease term.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss when property, plant, and equipment are derecognized.

(9) Lease

A. Lease assets are recognized as right-of-use assets and lease liabilities on the date they become available to the Company. When the lease contract is a short-term lease or a lease of a low-value underlying asset, the lease payment is recognized as an expense during the lease period using the straight-line method.

B. Lease liabilities are recognized at the present value of unpaid lease payments discounted at the increased borrowing rate of the Company on the lease commencement date. Lease payments include fixed payments, deducting any lease incentives that can be received, and subsequently amortized using the interest method Measured by the post-cost method, the interest expense is provided during the lease period. When the lease term or lease payment changes due to non-contract modification, the lease liability will be reassessed, and the remeasurement amount will be adjusted to the right-of-use asset. The repayment of the principal amount of the lease liability and the payment of interest are expressed as financing activities and operating activities, respectively.

C. At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

a. the amount of the initial measurement of the lease liability;

b. any lease payments made at or before the commencement date;

c. any initial direct costs incurred by the lessee;

Subsequent measurement using the cost model, when the useful life of the right-of-use asset expires or the lease period expires, whichever is earlier, depreciation expenses are provided on a straight-line basis. When the lease liability is reassessed, the right-of-use asset will adjust any remeasurement of the lease liability.

D. the Company negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by December 31, 2022 that results in the revised consideration for the lease there is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to all of these rent concessions and, therefore, does not assess whether the rent concessions are lease modifications. Instead, recognizes the reduction in lease payment in profit or loss as, and makes a corresponding adjustment to the lease liability

(10) Intangible assets

A. Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

B. Derecognition

Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(11) Impairment of tangible and intangible assets

At each balance sheet date, the Company review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and 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.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(12) Employee benefits

A. Short-term employee benefits

Short-term employee benefit-related liabilities are measured at the non-discounted amount expected to be paid in exchange for employee services.

B. Post-employment benefits

The defined contribution pension plan is an expense that recognizes the amount of pension benefits to be contributed during the employees' service period.

The defined benefit cost (including service cost, net interest and remeasurement) of the defined benefit pension plan is actuarially determined using the projected unit credit method. Service cost (including current service cost and net interest on the net defined benefit liability (asset)) is recognized as employee benefit expense as incurred. Remeasurements (including actuarial gains and losses, changes in asset ceiling effect and compensation on plan assets net of interest) are recognized in other comprehensive income and included in retained earnings as incurred and are not reclassified to profit or loss in subsequent periods.

The net defined benefit liability (asset) represents the shortfall (surplus) in contributions to a defined benefit retirement plan. The net defined benefit asset may not exceed the present value of contributions refunded from the plan or the present value of future contributions that could be reduced.

(13) Financial Instrument

Financial assets and financial liabilities shall be recognized when the Company becomes a party of the said financial instrument clause.

Upon the original recognition of financial assets and financial liabilities, they shall be measured according to fair values. Upon the original recognition, concerning the acquired or distributed transaction cost directly attributable to financial assets and financial liabilities (except for the financial assets and financial liabilities classified as measurement according to fair value of profit and loss), it shall be increased or decreased from the fair values of the said financial assets or financial liabilities. The transaction costs of financial assets and financial liabilities directly attributable to the ones measured according to fair values through profit and loss shall be immediately recognized as profit and loss.

A. Financial assets

The convention trading of financial assets is recognized and removed by trading day accounting.

a. Type of measurement

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, financial assets at amortized cost, investment in debt instruments measured at fair value through other comprehensive income, and investments in equity instruments at fair value through other comprehensive income.

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

Financial assets measured at fair value through profit or loss are financial assets mandatorily measured at fair value through profit or loss and financial assets at fair value through profit or loss, designated as upon initial recognition. Financial assets mandatorily measured at fair value through profit or loss include investments in equity instruments that are not designated by the Company to be measured at fair value through other comprehensive income and investments in debt instruments that fail to meet the criteria as to be measured at amortized cost or at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss are measured at fair value. The dividends and interests generated are recognized in other income and interest income, respectively, and any gain or loss arising from remeasurement is recognized in other gains and losses.

(B) Measured at amortized cost

When a company after merger simultaneously meets the following two conditions in its investment in financial assets, the financial assets are classified as the ones carried at cost after amortization:

(a) The financial assets are held under a specific operation mode, in which the purpose of the mode is to hold the financial assets in order to collect contract cash flows.

(b) The cash flow generated on a specific date due to contract clauses is completely for the payment of the principal and the interest accrued from the outstanding principal amount.

Subsequent to initial recognition, financial assets measured at amortized cost are measured at amortized cost, which equals to carrying amount determined by the effective interest method less any impairment loss. Foreign exchange gains and losses are recognized in profit or loss.

Except for the two conditions below, the interest income is calculated by multiplying the effective interest rate by the total book value of the financial assets:

(a) The interest income of the purchased or originated credit-impaired financial assets is calculated by multiplying the credit-adjusted effective interest rate by the cost of amortized financial assets.

(b) The interest income of the financial assets which are not purchased or originated credit-impairment but subsequently become credit-impaired financial assets is calculated by multiplying the effective interest rate by the cost of amortized financial assets.

(C) Investments in equity instruments at fair value through other comprehensive income

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading or if it is contingent consideration on recognized by an acquirer in a business combination.

Investments in equity instruments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments at fair value through other comprehensive income are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

B. The impairment of financial assets

At the end of each reporting period, a loss allowance for expected credit loss is recognized for financial assets at amortized cost, including accounts receivable.

The loss allowance for accounts receivable due is measured at an amount equal to lifetime expected credit losses. For financial assets at amortized cost, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from possible default events of a financial instrument within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from all possible default events over the expected life of a financial instrument.

The expected credit loss is calculated according to the average weighted credit loss in which the risk rated ratio of default occurrence is used in calculation. The 12-month expected credit loss represents the credit loss expected to occur to the financial instruments within 12 months after their reporting day due to possible default. The expected credit loss in the duration period refers to the credit loss expected to occur to the financial instruments in the expected duration period due to possible default.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial assets.

C. Derecognition of financial assets

The Company derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss

(14) Income recognition

Revenue is measured by the consideration to which goods are transferred and to which they are expected to be entitled. The Company's recognition of various revenues is as follows:

A. Sales of natural gas

The company recognizes the revenue according to the usage rate shown on the meter when the natural gas is exported, and has the right to unconditionally receive the consideration at this point in time.

B. Income from equipment

The company's major judgment on the recognition of installation revenue is based on the time point of the company's settlement and acceptance, which is also the time point when the customer's performance obligations are met, because the transfer of the current rights and entity holdings of the pipeline for the installation of natural gas depends on the achievement of After the company completes the inspection and acceptance of the installation pipeline through the public safety inspection, it will be the asset status accepted by the customer.

Devices that are on-balance sheet shall be recognized at one time after settlement and acceptance, and those that are off-balance sheet shall be in accordance with the Ministry of Economic Affairs 2013 Article 26-1 was added to the Accounting Treatment Standards for Public Natural Gas Enterprises issued on February 27, 2019, as revised and issued by Neng Zi No. After deducting the book value of the resulting damaged or scrapped operating assets, the amount should be apportioned to each business and recognized as long-term deferred income, and in subsequent years, it will be amortized year by year in conjunction with the depreciation of related assets and transferred to equipment income.

C. Dividend income and interest income

Dividend income from investments is recognized when the shareholder's right to receive payments is established, provided that the economic benefits associated with the transaction are likely to flow to the Company and the amount of income can be reliably measured.

Interest income from financial assets is recognized when the economic benefits are likely to flow to the Company and the amount of income can be measured reliably. Interest income is recognized on an accrual basis based on the principal outstanding and the applicable effective interest rate over time.

D. Financial composition

The transaction price of the Company's revenue from contracts with customers does not have a time value of money.

(15) Government grants

Government grants can only be recognized when it is reasonably certain that the company will comply with the conditions attached to the government grant and will receive the grant. Government grants are recognized in profit or loss on a systematic basis over the period in which the Company recognizes as an expense the associated costs that the government intends to compensate. When a government subsidy becomes receivable, if it is used as compensation for incurred expenses or losses, it will be recognized as an expense during the period in which it is receivable.

(16) Income tax

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

A. Current income tax

The additional income tax on the undistributed surplus calculated in accordance with the Income Tax Act shall be included in the income tax expense for the year of resolution of the shareholders’ meeting.

The adjustment of income tax payable in the previous year shall be included in the current income tax.

B. Deferred income tax

Deferred income tax is calculated based on the temporary differences between the carrying amount of assets and liabilities on the books and the basis for the calculation of taxable income.

Deferred tax liabilities are generally recognized for all temporary differences in taxable income, while deferred tax assets are recognized when there is a high likelihood that the taxable income will be used as a tax deduction for deductible temporary differences.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences associated with such investments only to the extent that it is probable that sufficient taxable income will be available to allow the temporary differences to be realized and to the extent that reversal is expected in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced for those where it is no longer probable that there will be sufficient taxable income to allow all or part of the assets to be recovered. Deferred tax assets not previously recognized as such are also reviewed at each balance sheet date and the carrying amount is increased for those where it is probable that taxable income will be available to recover all or part of the assets.

Deferred tax assets and liabilities are measured by the tax rate of the expected liabilities settlement or assets realization in the current period, according to the tax rate and the tax law which have been legalized or substantively legalized on the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences of the way in which the Company is expected to recover or pay off the carrying amount of its assets and liabilities on the balance sheet date.

C. Current and deferred income tax for the year

The current and deferred tax are recognized in profit or loss, provided that current and deferred tax in relation to the items recognized in other comprehensive income or directly included in equity are recognized in other comprehensive income or directly included in equity, respectively.

5. <u>Primary sources of uncertainty in major accounting judgments, estimates, and assumptions</u>

In the application of the Company's accounting policies, management is required to make judgments, estimations, and assumptions on the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgments, apart from those involving estimations, that the Company has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements

(1) Estimation of gas fee income receivable at the end of the period

The recognition of the company's gas fee income depends on the use of gas sales equipment. Accounts receivable and revenue should be estimated on the basis of rights and liabilities at the end of the financial report period. Due to the large number of users, the estimation method adopted by the company's management the historical experience of previous years is used as a reference to evaluate the accounts receivable at the end of the period, and changes in the number of users and seasonal changes may affect the results of management estimates.

(2) Estimated impairment of financial assets

When there is objective evidence of impairment loss, the Company take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(3) Recognition and measurement of defined benefit plans

The net defined benefit liabilities (assets) and the resulting defined benefit costs under the defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rates, rates of employee turnover, expected rates of salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of related expenses and assets.

6. Cash and cash equivalents

	Dec. 31, 2022	Dec. 31, 2021
Cash on hand & petty cash	$ 289	$ 289
Cash in banks	165,008	169,049
Total	$ 165,297	$ 169,338

7. Financial assets at fair value through profit or loss – current

	Dec. 31, 2022	Dec. 31, 2021
Financial assets at fair value through profit or loss, mandatorily measured at fair value		
Mutual funds	$ 7,860	$ 14,280

8. Financial assets at fair value through other comprehensive income

	Dec. 31, 2022	Dec. 31, 2021
Exchange-listed (OTC-listed) stocks	$ 382,722	$ 430,142

9. Notes receivable and accounts receivable

	Dec. 31, 2022	Dec. 31, 2021
Notes receivable	$ 20,418	$ 11,683
Less: Loss allowance	—	—
Net amount	$ 20,418	$ 11,683

	Dec. 31, 2022	Dec. 31, 2021
Accounts receivable	$ 142,697	$ 120,936
Less: Loss allowance	(261)	(426)
Net amount	$ 142,436	$ 120,510

In principle, the Company's credit period for customers is one month after the payment deadline for business accounts, and six months for general users.

In principle, the Company adopts the simplified method of IFRS9 to measure the amount of expected credit losses of accounts receivable and bills, which is to recognize the allowance loss of accounts receivable and bills according to the expected credit losses during the duration. The amount of expected credit loss during the duration of accounts receivable and bills is mainly measured based on the customer's past historical records and current financial situation, and considering factors such as the objective evidence of actual receivables. The Company has no significant difference in the past customer loss patterns, so the measurement When reducing losses, no group is distinguished, and the expected loss rate is determined only by the number of days overdue. The analysis is as follows:

	Dec. 31, 2022			
	Non past due	Past due 180-365 days	More than 365 days past due	Total
Expected credit loss ratio	0%～0.06%	15%	25%～100%	
Total carrying amount	$ 162,436	$ 431	$ 248	$ 163,115
Loss allowance	(6)	(65)	(190)	(261)
Amortized cost	$ 162,430	$ 366	$ 58	$ 162,854

	Dec. 31, 2021			
	Non past due	Past due 180-365 days	More than 365 days past due	Total
Expected credit loss ratio	0%～0.12%	15%	25%～100%	
Total carrying amount	$ 131,809	$ 430	$ 380	$ 132,619
Loss allowance	(15)	(64)	(347)	(426)
Amortized cost	$ 131,794	$ 366	$ 33	$ 132,193

Information on the changes in loss allowance is as follows:

	2022	2021
Opening balance	$ 426	$ 426
Net remeasurement of loss allowance	(165)	—
Ending balance	$ 261	$ 426

The expected credit Impairment loss (impairment gain and reversal of impairment loss) from January 1 to December 31, 2022 are listed as operating costs $(165) thousand.

10. Inventories

	Dec. 31, 2022	Dec. 31, 2021
Stock material	$ 11,797	$ 13,614
Contractor material	145,922	128,085
Gas	128	133
Installation in progress	104,468	101,654
Total	$ 262,315	$ 243,486

(1) Materials and construction costs for the Internal Piping device of the device under construction.

(2) Please see note 27 for the status of interest capitalization.

(3) Inventory cost recognized as expense and loss in the current period：

	2022	2021
The cost of goods sold	$ 1,021,209	$ 960,907
Gain on physical inventory	(67)	(75)
Operating costs	$ 1,021,142	$ 960,832

11. Investment accounted for using equity method

	Dec. 31, 2022	Dec. 31, 2021
Investment in subsidiaries	$ 520,575	$ 546,813
Investment in associates	37,913	30,600
Total	$ 558,488	$ 577,413

(1) Investment in subsidiaries

Name of investee company	Book value		Voting rights directly held by the Company and percentage of ownership interest	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Hexin International Co., Ltd.	$ 520,575	$ 546,813	92.31	92.31

(2) Investment in associates

Name of investee company	Book value		Voting rights directly held by the Company and percentage of ownership interest	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Shengxinyuan Construction Co., Ltd.	$ 32,868	$ 25,430	8.00	8.00
Jieyang Construction Co., Ltd.	5,045	5,170	16.67	16.67
Total	$ 37,913	$ 30,600		

Although the company's shareholding ratio in Shengxinyuan Construction Co., Ltd. and Jieyang Construction Co., Ltd. has not reached 20%, the company and its subsidiary Hexin international Co., Ltd. jointly hold 34.60% and 33.33% of the voting rights of each company, which has a significant influence on each company, so it is listed as an affiliated enterprise.

Information about associates that are not individually material was as follows

	2022	2021
The Company’s share of:		
Net profit (loss) from continuing operations for the year	$ (687)	$ 8,687
Other comprehensive income	—	—
Total comprehensive profit (loss)	$ (687)	$ 8,687

(3) The shares of earnings and other comprehensive income are recognized based on the audited financial statements of the associates for the same periods.

(4) Please see note 33 for the status of transactions with related parties.

12. Property, plant, and equipment

Item	January 1 to December 31, 2022				
	Opening balance	Additions	Disposals	Reclassification	Ending balance
Cost					
Building	$ 27,243	$ —	$ —	$	$ 27,243
Gas transportation equipment	4,369,911	127,297	(70,229)	—	4,426,979
Gas selling equipment	443,713	56,973	(8,121)	—	492,565
Machinery and equipment	9,038	—	(1,106)	—	7,932
Transportation equipment	3,085	276	(650)	—	2,711
Other equipment	42,490	1,289	(7,083)	—	36,696
Construction in progress	245,848	9,579	—	—	255,427
Total	5,141,328	195,414	(87,189)	—	5,249,553
Accumulated depreciation					
Building	1,668	683	—	—	2,351
Gas transportation equipment	2,320,997	155,381	(70,229)	—	2,406,149
Gas selling equipment	149,390	50,826	(8,087)	—	192,129
Machinery and equipment	5,424	1,155	(1,106)	—	5,473
Transportation equipment	1,996	357	(650)	—	1,703
Other equipment	21,791	7,747	(7,083)	—	22,455
Total	2,501,266	216,149	(87,155)	—	2,630,260
Net	$ 2,640,062				$ 2,619,293

Item	January 1 to December 31, 2021				
	Opening balance	Additions	Disposals	Reclassification	Ending balance
Cost					
Building	$ 1,410	$ 953	$ —	$ 24,880	$ 27,243
Gas transportation equipment	4,266,645	149,290	(46,024)	—	4,369,911
Gas selling equipment	401,281	52,541	(10,109)	—	443,713
Machinery and equipment	7,661	1,377	—	—	9,038
Transportation equipment	3,466	210	(591)	—	3,085
Other equipment	45,294	843	(3,647)	—	42,490
Construction in progress	201,549	44,299	—	—	245,848
Total	4,927,306	249,513	(60,371)	24,880	5,141,328
Accumulated depreciation					
Building	1,028	640	—	—	1,668
Gas transportation equipment	2,213,168	153,853	(46,024)	—	2,320,997
Gas selling equipment	113,393	46,049	(10,052)	—	149,390
Machinery and equipment	4,396	1,028	—	—	5,424
Transportation equipment	2,110	478	(592)	—	1,996
Other equipment	17,720	7,718	(3,647)	—	21,791
Total	2,351,815	209,766	(60,315)	—	2,501,266
Net	$ 2,575,491				$ 2,640,062

Please see note 27 for the status of interest capitalization.

13. Lease

(一) Right-of-use assets

(二)

Item	January 1 to December 31, 2022 Opening balance	Additions	Disposals	Ending balance
Cost				
Land	$ 53,709	$ —	$ —	$ 53,709
Building	8,934	5,206	(8,934)	5,206
Transportation equipment	—	3,520	—	3,520
Total	62,643	8,726	(8,934)	62,435
Accumulated depreciation and impairment				
Land	2,300	2,880	—	5,180
Building	6,700	2,978	(8,934)	744
Transportation equipment	—	1,173	—	1,173
Total	9,000	$ 7,031	$ (8,934)	7,097
Net	$ 53,643			$ 55,338

Item	January 1 to December 31, 2021 Opening balance	Additions	Disposals	Ending balance
Cost				
Land	$ 1,421	$ 53,709	$ (1,421)	$ 53,709
Building	8,934	—	—	8,934
Transportation equipment	1,957	—	(1,957)	—
Other equipment	260	—	(260)	—
Total	12,572	53,709	(3,638)	62,643
Accumulated depreciation and impairment				
Land	1,070	2,651	(1,421)	2,300
Building	3,723	2,977	—	6,700
Transportation equipment	1,656	301	(1,957)	—
Other equipment	220	40	(260)	—
Total	6,669	$ 5,969	$ (3,638)	9,000
Net	$ 5,903			$ 53,643

(2) Lease liabilities

	December 31, 2022		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less 1 year	$ 6,837	$ 286	$ 6,551
Over 1 year	43,144	2,131	41,013
Total	$ 49,981	$ 2,417	$ 47,564

The discount rate for lease liabilities range from 0.53% to 1.02%.

	December 31, 2021		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less 1 year	$ 4,903	$ 265	$ 4,638
Over 1 year	43,111	2,369	40,742
Total	$ 48,014	$ 2,634	$ 45,380

The discount rate for lease liabilities range from 0.53% to 0.69%.

(3) Other information on the lease

Because of the market conditions severely affected by COVID-19 in 2022 and 2021, the Group negotiated with the lessor for rent concessions for land lease. The lessor agreed to provide unconditional 20% rent reduction for the years ended December 31, 2022 and 2021, respectively. The Group recognized in profit or loss the impact of rent concessions of $654 thousand and $681 thousand (presented in other income) for the years ended December 31, 2022 and 2021, respectively.

	2022	2021
Short-term lease expenses	$ —	$ 155
Lease expenses of low-value assets	$ 411	$ 266

	2022	2021
Total amount of cash (outflow) from lease	$ (6,595)	$ (5,519)

14. Fund

	Dec. 31, 2022	Dec. 31, 2021
Provision for gas transportation pipeline replacement	$ 244,156	$ 205,324

In accordance with the newly amended Natural Gas Business Law and the Regulations Governing the Provision of Gas Pipeline Line Replacement Reserves by Public Gas Utilities starting in fiscal 2012, Hsin Kao Gas Co., Ltd. should make annual contributions to the gas pipeline replacement reserve based on the previous year's net income and set aside a special account for safekeeping.

15. Other non-current assets - others

	Dec. 31, 2022	Dec. 31, 2021
Prepayments for equipment	$ 116,154	$ 107,144
Prepayment for real estate	484,285	306,727
Refundable deposits	2,945	3,163
Total	$ 603,384	$ 417,034

The prepayment for real estate is mainly the prepayment for the company's purchase of a building jointly constructed by a subsidiary and another company at a price of NT$507,371 thousand (before tax) approved by the board of directors in August 2016. As of Dec. 31, 2022 and 2021, NT$456,634 thousand (before tax) and NT$304,423 thousand (before tax) have been paid in advance for this house and land respectively.

Since the subsidiary company contributed 50% of the construction funds for this building, the company has set aside a special surplus reserve in 2016 according to regulations.

16. Short-term notes and bills payable

	Dec. 31, 2022	Dec. 31, 2021
Commercial paper payable	$ 230,000	$ 70,000
Less: Unamortized discount	(441)	(70)
Net	$ 229,559	$ 69,930
Interest rate range %	1.390～1.927	0.450～0.792

17. Other payables

	Dec. 31, 2022	Dec. 31, 2021
Payable salary and bonus	$ 9,697	$ 10,762
Refundable customer security deposit	132,606	132,887
Others	9,469	9,239
Total	$ 151,772	$ 152,888

Refundable customer security deposit refers to the refund of user gas meter security deposit in accordance with the Ministry of Economic Affairs' letter Jing-Shou-Neng-Zi No. 09420084070 dated November 25, 2005, the customer has not yet applied for a refund.

18. Long-term deferred income

	Dec. 31, 2022	Dec. 31, 2021
Benefits of External Pipelines	$ 696,736	$ 691,700
Government donation income	38,305	39,229
Total	$ 735,041	$ 730,929

19. Retirement benefit plans

(1) Defined contribution plans

The employee retirement plan established by the Company in accordance with "Labor Pension Act" belongs to a defined contribution plans. Concerning the above, the Company would contribute 6% of the monthly salaries of employees to the exclusive individual accounts of Labor Insurance Bureau. In accordance with the above related regulations, the pension costs recognized as expenses in the consolidated comprehensive income statement in 2022 and January 1 to December 31,2021 are respectively NT$2,492 thousand and NT$2,367 thousand.

(2) Defined benefit plans

The Company's pension plan under the Labor Standards Act is a defined benefit pension plan. Employees' pension payments are calculated based on the service years and average salary for the six months prior to the approved retirement date. The company allocates and contributes to the pension fund according to a fixed proportion of the employee's monthly salaries to the pension fund, which is deposited in the name of the Supervisory Committee of Business Entities' Labor Retirement Reserve and Staff Pension Fund Management Committee in a special account at the Bank of Taiwan and Yuanta Bank.

Before the end of the year, if the balance in the account is not sufficient to pay the employees who are expected to meet the retirement requirements in the following year, the difference will be contributed in one lump sum by the end of March of the following year.

(3) The amount of pension expenses recognized in the consolidated income statement for the defined benefit plans is as follows:

	2022	2021
Service cost	$ 1,527	$ 1,818
Current service cost	1,527	1,818
Net interest on net defined benefit liabilities (assets)	(388)	(142)
Interest cost of defined benefit obligation	744	396
Interest income from plans assets	(1,132)	(538)
Recognized in profit and loss	$ 1,139	$ 1,676
Remeasurements		
Actuarial profit (loss)	(5,579)	(4,422)
Return on plan assets	(6,920)	(4,184)
Recognized in other comprehensive income	$ (12,499)	$ (8,606)

(4) The pension expense series recognized in profit or loss for the above defined benefit plan is included in the following items：

	2022		2021	
Operating costs	$	678	$	1,030
Administrative expenses		281		349
Selling expenses		180		297
Total	$	1,139	$	1,676

(5) The amounts of defined benefit plans listed in the balance sheets are as follows:

	Dec. 31, 2022		Dec. 31, 2021	
Current value of defined benefit obligations	$	(114,373)	$	(121,151)
Fair value of plan assets		185,985		179,878
Net defined benefit assets	$	71,612	$	58,727

(6) The changed of defined benefit obligation present value is as follows:

	2022		2021	
Beginning defined benefit obligation	$	(121,151)	$	(136,047)
Current service cost		(1,527)		(1,818)
Interest cost of defined benefit obligation		(744)		(396)
Actuarial profit (loss)		5,579		4,422
Changes in financial assumptions		4,429		3,233
Changes in demographic assumptions		–		(176)
Experience adjustments		1,150		1,365
Benefits paid from plan assets		3,470		12,688
Ending defined benefit obligation	$	(114,373)	$	(121,151)

(7) The changed of plan asset fair value of this Company is as follows

	2022	2021
Beginning plan asset fair value	$ 179,878	$ 182,400
Interest income from plans assets	1,132	538
Return on plan assets	6,920	4,184
Contribution by employer	1,525	5,444
Benefits paid from plan assets	(3,470)	(12,688)
Ending plan asset fair value	$ 185,985	$ 179,878

A. The fair value and asset allocation of the main categories of project assets at the end of the reporting period are listed below：

	Fair value of plan assets	
	Dec. 31, 2022	Dec. 31, 2021
Cash	$ 152,782	$ 146,096
Equity instruments	31,278	30,285
Investment funds	1,925	3,497
Total	$ 185,985	$ 179,878

B. Among the project assets, the fair value of the transferable financial instruments of the enterprise itself will be 33,203 thousand and 33,782 thousand on December 31, 2022 and 2021, respectively.

C. The Company is exposed to the following risks as a result of the Labor Standards Act pension scheme:

a. Investment risk: According to the relevant provisions of the Labor Standards Law, the labor retirement reserve allocated by the employer on a monthly basis is stored in a designated financial institution and is centrally managed by the Labor Fund Utilization Bureau of the Ministry of Labor established by the central competent authority. The fund can only be used to support the old system of labor retirement. For the payment of funds, the maximum amount of movable expenditure according to law is the balance after adding the accumulative appropriation amount plus the accumulative surplus distribution of the part appropriation and deducting the amount of payment. According to the relevant provisions of the Labor Pension Fund's income and expenditure storage and use method, the surplus distribution of the fund depends on its annual operation performance, but it should not be lower than the income of the local bank's two-year time deposit interest rate. If there is a loss or insufficient part, the treasury makes up for it.

b. Salary risk: The present value of the defined benefit obligation is calculated by referring to the prospective salary of the plan member. Therefore, increases in plan members' salaries will contribute to an increase in the present value of the defined benefit obligation.

c. The present value of the defined benefit obligation of the Company was actuarially determined by a qualified actuary, with the following significant assumptions at the measurement date:

	Dec. 31, 2022	Dec. 31, 2021
Discount rate	1.20%	0.65%
Expected growth rate of salary	2.00%	2.00%

The analysis of the present value of the defined benefit obligations affected by changes in the main actuarial assumptions adopted is as follows:

	Discount rate		Expected growth rate of salary	
	Increase by 0.25%	Decrease by 0.25%	Increase by 0.25%	Decrease by 0.25%
December 31, 2022 impact on present value of defined benefit obligations	$ (1,922)	$ 1,978	$ 1,958	$ (1,912)
December 31, 2021 impact on present value of defined benefit obligations	$ (2,256)	$ 2,327	$ 2,290	$ (2,232)

The sensitivity analysis above may not reflect actual changes in the present value of the defined benefit obligation because the actuarial assumptions may be correlated and changes in only one assumption are unlikely.

(8) The upper limit of net defined benefit assets on December 31, 2022 and 2021 is 71,612 thousand and 58,727 thousand. Respectively.

(9) The Company expects to contribute the amount of NT$1,816 thousand to the defined benefit plans within one year after December 31, 2022; the weighted average duration of defined benefits obligations is 6 years.

20. Equity

(1) Share capital for common stock

	Dec. 31, 2022	Dec. 31, 2021
Authorized share capital	$ 1,104,306	$ 1,104,306
Share capital of issued shares	$ 1,104,306	$ 1,104,306

(2) Capital surplus

	Dec. 31, 2022	Dec. 31, 2021
Capital surplus	$ 30,000	$ 30,000
Others	113	113
Total	$ 30,113	$ 30,113

According to the Company Act, the capital reserve shall not be used except for offsetting the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the Company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Legal reserve

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

(4) Special reserve

	Dec. 31, 2022	Dec. 31, 2021
Provision for gas transportation pipeline replacement	$ 249,829	$ 212,093
Transactions with related parties	20,047	20,047
Total	$ 269,876	$ 232,140

Please see note 14 for the provision for gas transportation pipeline replacement. Please see note 15 for the status of transactions with related parties.

(5) Retained earnings and dividend policy

A. The company's articles of association stipulate that if there is profit in the year, 1.5% to 2.5% should be appropriated for employee remuneration and no more than 0.5% for director and supervisor remuneration. However, if the company still has accumulated losses, it shall reserve the compensation amount in advance.

If the company's year-end final accounts have a current net profit, it should first make up for the loss, and then add the items other than the current after-tax net profit included in the undistributed surplus of the current year, and then withdraw 10% of the balance from the statutory reserve, and the current year The amount of deduction of shareholders' equity (such as unrealized evaluation loss of financial assets measured at fair value through other comprehensive profit and loss, etc., except for treasury stocks), is set aside as a special surplus reserve, and the rest, together with the accumulated undistributed surplus at the beginning of the period and the undistributed surplus of the current year In addition to the distribution of dividends, the adjusted amount of distribution surplus shall also be allocated to the Provision for gas transportation pipeline replacement, and the amount shall be determined by the board of directors.

B. According to the overall environment and the characteristics of industrial growth, the company cooperates with the company's long-term financial planning, and uses the future capital budget planning to measure the capital demand. After retaining the surplus to finance the necessary funds, if there is no major capital expenditure, the remaining surplus will be mainly distributed in cash dividends; in case of major capital expenditure, part of the distribution of stock dividends will be distributed. The stock dividends distribution is between 20% and 100%, and cash dividends are between 80% and 0%.

C. The appropriations of 2021 and 2020 earnings had been approved by the shareholders during their meeting on June 13, 2022 and July 12, 2021, respectively. The actual distribution situation is the same as the proposed distribution situation approved by the original board of directors.

Details are summarized below:

	2021	2020
Legal reserve appropriated	$ 24,425	$ 19,338
Special reserve appropriated	37,736	33,079
Cash dividends	154,603 ($1.4 per share)	143,560 ($1.3 per share)
Total	$ 216,764	$ 195,977

D. the Company proposed the following distribution of earnings for fiscal 2022 at the Board of Directors' meeting on March 13, 2023:

	Earnings distribution	Dividend per share (NT$)
Legal reserve appropriated	$ 18,328	
Special reserve appropriated	31,328	
Cash dividends	33,129	$ 0.3
Stock dividends	99,388	$ 0.9
Total	$ 182,173	

(6) Other equity interest items

Unrealized valuation gains and losses on financial assets measured at fair value through other comprehensive income

	2022	2021
Opening balance	$ 279,141	$ 156,202
Generated in the fiscal year	(86,544)	122,939
Ending balance	$ 192,597	$ 279,141

21. Earnings per share

Basic earnings per share

	2022	2021
Net profit in the fiscal year (in thousands of NTD)	$ 173,284	$ 237,364
Weighted average number of common shares used for the calculation of basic earnings per share (1,000 shares)	110,431	110,431
Basic earnings per share (NT$)	$ 1.57	$ 2.15

Diluted earnings per share

	2022	2021
Net profit in the fiscal year (in thousands of NTD)	$ 173,284	$ 237,364
Weighted average number of common shares used for the calculation of basic earnings per share (1,000 shares)	110,431	110,431
Influence of dilutive potential common shares (thousand shares)		
Compensation to employees (1,000 shares)	108	127
Weighted average number of common shares used for the calculation of diluted earnings per share (1,000 shares)	110,539	110,558
Diluted earnings per share (NT$)	$ 1.57	$ 2.15

If the Company has the option of paying employees in stock or cash, it is assumed that employee compensation will be paid in stock and is included in the weighted-average number of shares outstanding for the purpose of calculating diluted earnings per share when the potential ordinary share has a dilutive effect. The dilutive effect of these potential ordinary shares shall also continue to be considered in the calculation of diluted earnings per share before the following year's resolution by shareholders' meeting on the number of employee compensation shares to be distributed.

22. Operating revenue

	2022	2021
Income from the sales of gas	$ 957,835	$ 914,226
Installation revenue	266,161	249,385
Others	23,484	29,561
Total	$ 1,247,480	$ 1,193,172

Contract liability – current

	Dec. 31, 2022	Dec. 31, 2021	January 1, 2021
Payment for equipment collected in advance	$ 1,378,138	$ 1,285,984	$ 1,271,765

The revenue from customer contracts in fiscal 2022 and 2021, including $149,793 thousand and $156,765 thousand from contract liabilities to installation revenue, and $104,135 thousand and $96,464 thousand from long-term deferred revenue to installation revenue.

23. Operating cost

	2022	2021
Cost from the sales of gas	$ 792,109	$ 756,662
Installation cost	216,698	189,072
Others	12,335	15,098
Total	$ 1,021,142	$ 960,832

24. Interest income

	2022	2021
Bank deposit interest	$ 1,313	$ 726
Others	16	6
Total	$ 1,329	$ 732

25. Other income

	2022	2021
Dividend income	$ 26,543	$ 20,963
Others	19,843	14,400
Total	$ 46,386	$ 35,363

26. Other gains and losses

	2022	2021
Gains (losses) on disposal of property, plant, and equipment	$ (15)	$ (41)
Gains (losses) on financial assets at fair value through profit or loss	(6,420)	1,790
Miscellaneous expenses	(20)	(245)
Total	$ (6,455)	$ 1,504

27. Finance costs

	2022	2021
Interest expense	$ 1,767	$ 297
Interests from lease liabilities	297	265
Capitalization of interest	(1,760)	(284)
Total	$ 304	$ 278
Interest capitalization rate％	0.52％～1.43％	0.33％～0.69％

28. Income taxes

(1) Income tax expenses recognized in profit and losses

The income tax expense listed as profit and loss is composed of as follows:

	2022	2021
Current income tax expense		
Generated in the current year	$ 37,600	$ 38,351
Surtax on undistributed retained earnings	3,261	1,523
	40,861	39,874
Deferred tax expense		
Net change in deferred tax	(932)	(188)
Income tax expenses recognized in profit and losses	$ 39,929	$ 39,686

The adjustments of accounting income and current income tax expenses are as follows:

	2022	2021
Income tax expenses of pre-tax profit calculated with the statutory tax rate	$ 42,643	$ 55,410
Influenced amount of income tax adjustment items:		
The increase (decrease) should be adjusted when determining the taxable income	121	(12,854)
Tax-free income	(5,309)	(4,193)
Adjustments of the income tax expenses of the prior year in this year	145	(12)
Current income tax expense (income)	$ 37,600	$ 38,351

(2) Income tax recognized in other comprehensive income

	2022	2021
Remeasurement of defined benefit plans	$ (2,500)	$ (1,721)

(3) Deferred income tax assets and liabilities

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

2022	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Pension	$ (5,272)	$ (77)	$ (2,500)	$ (7,849)
Short-term employee benefits	318	33	–	351
Income tax recognition difference	42,642	839	–	43,481
Others	1,301	137	–	1,438
Total	$ 38,989	$ 932	$ (2,500)	$ 37,421
Deferred income tax assets				$ 46,241
Deferred income tax liabilities				$ (8,820)

2021	Opening balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Pension	$ (2,797)	$ (754)	$ (1,721)	$ (5,272)
Short-term employee benefits	326	(8)	–	318
Income tax recognition difference	40,141	2,501	–	42,642
Others	2,852	(1,551)	–	1,301
Total	$ 40,522	$ 188	$ (1,721)	$ 38,989
Deferred income tax assets				$ 45,345
Deferred income tax liabilities				$ (6,356)

(4) Income tax assessment

The income tax returns of the Company have been assessed and approved by the tax authorities through fiscal 2020.

29. <u>Extra information on the items with the expense characteristics</u>

Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2022 and 2021:

By Function / By Nature	2022			2021		
	Attributed to operating cost	Attributed to operating expenses	Total	Attributed to operating cost	Attributed to operating expenses	Total
Employee benefits expenses	$ 86,647	$ 45,927	$ 132,574	$ 84,011	$ 45,977	$ 129,988
Salaries	74,922	33,271	108,193	72,724	33,165	105,889
Labor and health insurance	5,297	3,515	8,812	4,978	3,521	8,499
Pension	2,251	1,380	3,631	2,440	1,603	4,043
Compensation for directors	—	5,674	5,674	—	5,659	5,659
Other employee benefits expenses	4,177	2,087	6,264	3,869	2,029	5,898
Depreciation expenses	219,359	3,820	223,179	213,069	2,666	215,735
Amortization expenses	1,670	—	1,670	1,819	—	1,819

The respective numbers of employees of the Company calculated until December 31 of 2022 and 2021 are 120 and 118, while the number of directors who do not serve as employees are 6 and 5.

The average fees of employee benefit of this year and last year respectively are $1,113 thousand and $949 thousand. The average compensations respectively are $1,100 thousand and $937 thousand, and the average adjustment of compensation is 1.3%.

The company's remuneration policy: Directors, supervisors, and managers are remunerated in accordance with the company's articles of association and the manager's remuneration standards, which are reviewed by the remuneration committee and approved by the board of directors. The overall remuneration of the company's employees is based on the principle of taking into account internal fairness and external competitiveness, including fixed remuneration and variable bonuses, and bonuses are distributed according to the company's operating performance to share operational results with colleagues in order to attract, motivate and retain talents.

The compensation to employees and compensation to directors for the years 2022 and 2021 were resolved by the Board of Directors on March 13, 2023 and March 14, 2022, respectively, as follows:

	2022		2021	
	Amount	Estimated listing ratio	Amount	Estimated listing ratio
Compensation to employees	$ 3,263	1.5%	$ 4,241	1.5%
Compensation to directors	1,088	0.5%	1,414	0.5%

The company's articles of association stipulate that if there is profit in the year, 1.5% to 2.5% should be appropriated for employee remuneration and no more than 0.5% for director and supervisor remuneration. However, if the company still has accumulated losses, it shall reserve the compensation amount in advance.

Shall there be any change to the annual consolidated financial report after the reporting date, the accounting treatment shall be applied, and the adjustment is accounted for in the next year. There was no difference between the actual amount of compensation to employees and compensation to directors and supervisors for fiscal 2021 and the amount recognized in the 2021 Consolidated Financial Statements.

The company held a general meeting of shareholders on July 12, 2021, and it was resolved to pass the 2020 annual employee remuneration of $3,526 thousand and directors and supervisors' remuneration of $1,175 thousand. There is no difference between the aforementioned resolution allotment amount and the amount recognized in the 2020 individual financial report.

The information about the appropriations of the Company’s profit sharing bonus to employees and compensation to directors is available at the Market Observation Post System website.

30. Interpretation of seasonality or cyclicality of operations

The natural gas industry has seasonal characteristics. According to historical experience, the company's business peak period for people's livelihood is during the winter period of each year. If there is no major change in natural gas prices, the gas sales revenue and the amount of gas sales receivables during this period are higher than those in other seasons. For high.

31. Capital management

Based on the characteristics of the current operating industry and the future development of the company, and considering factors such as changes in the external environment, the company plans the working capital needs of the company in the future to ensure the sustainable operation of the company and to give back to shareholders while taking into account other interests of related parties, and maintain an optimal capital structure to enhance shareholder value. Overall, the Company adopts a prudent risk management strategy.

The natural gas business law stipulates that the capital amount shall not be lower than 35% of the original acquisition cost of the existing transmission and storage equipment. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

32. Financial instrument

(1) Types of financial instruments

		Dec. 31, 2022		Dec. 31, 2021
Financial assets				
Measured at amortized cost				
Cash and cash equivalents	$	165,297	$	169,338
Receivables		162,909		132,193
Fund		244,156		205,324
Refundable deposits		2,945		3,163
Financial assets at fair value through profit or loss		7,860		14,280
Financial assets at fair value through other comprehensive income - Investments in equity instruments		382,722		430,142
Financial liabilities				
Measured at amortized cost				
Short-term notes and bills payable	$	229,559	$	69,930
Payables		241,943		256,846
Deposits received		161,454		158,005

(2) Fair Value Information

A. Fair value measurement is divided into Level 1 to Level 3 according to the degree of observability and importance of relevant input values：

a. Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

b. Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

c. Level 3: Unobservable inputs for the asset or liability

B. Valuation techniques used for financial instruments measured at fair value

a. The fair value of financial assets and financial liabilities with standard terms and conditions and traded in an active market is determined by referring to market quotations, including listed (over-the-counter) and fund beneficiary certificates.

b. The fair value of other financial assets and financial liabilities is determined by the generally accepted evaluation model based on discounted cash flow analysis.

C. Financial instruments not measured at fair value

The management of the Company believes that the book value of financial assets and financial liabilities not measured at fair value approximates their fair value.

D. Fair value hierarchy - Fair value of financial instruments measured at fair value on a recurring basis

	Dec. 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Mutual funds	$ 7,860	$ －	$ －	$ 7,860
Financial assets at fair value through other comprehensive income				
Investments in equity instruments Domestic exchange-listed (OTC-listed) stock or emerging stock	$ 382,722	$ －	$ －	$ 382,722

	Dec. 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Mutual funds	$ 14,280	$ —	$ —	$ 14,280
Financial assets at fair value through other comprehensive income				
Investments in equity Domestic exchange-listed (OTC-listed) stock or emerging stock	$ 430,142	$ —	$ —	$ 430,142

There were no transfers between Level 1 and Level 2 fair value measurements this year.

(3) Purpose of financial risk management

The financial risk management of the Company is to manage interest rate risk, credit risk and liquidity risk related to operation activities. In order to reduce related financial risks, the Company has devoted to identification, evaluation and avoiding uncertainty of market, to reduce any potential unfavorable impact of market changes on the corporate financial performance.

The important financial activities of the Company are specified by the board and in accordance with related specifications and double checked through an internal control system. During the execution period of financial planning, the Company shall scrupulously observe the related financial operation procedures concerning comprehensive financial risk management and division of authority and responsibility.

(4) Market risk

The Company mainly exposes to such market risks as changes in changes in interest rate.

Interest rate risk refers the risk caused by the change in the fair value of financial instruments as a result of change of the market interest rate. The Company's interest rate risk mainly comes from the floating of the interest rates for the income investments with a fixed or floating interest rate.

Regarding the sensitivity analysis of the interest rate risk, the calculation is made according to the amount of the bank loan and the floating interest rate at the final day of the financial report period, and a quarter's effect is assumed to be held. If the interest rate increased or decreased by 0.1%, the Company's profit or loss as of December 31, 2022 and December 31, 2021 would increase or decrease by $180 thousand and $304 thousand respectively.

(5) Credit risk management

The credit risk management refers to the opposing party of trade violates contract obligations and causes risks of financial loss to the Company. The credit risk of the Company comes mainly from the accounts receivable generated from operation activities,

A. Operation related credit risks

In order to maintain the quality of accounts receivable, the Company already establishes the procedures of operation related credit risks.

The risk evaluation of an individual customer considers such numerous factors with potential impacts on customer payment abilities as the financial status of the said customer, internal credit ratings of the Company, historical trade record and current economic status, etc. The company will also use certain credit enhancement tools in due course, such as collecting deposits to reduce the credit risk of specific customers.

Up to December 31, 2022 and December 31, 2021, the accounts receivable balances of the top 10 major customers account for the accounts receivable balances of the Company respectively as 17% and 21%; the risk concentration risks of the rest accounts receivable are relatively insignificant risk.

B. Financial credit risk

Credit risk from balances with banks, fixed income securities. The Company transacts which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(6) Liquidity risk management

The object of liquidity risk management of the Company is to maintain cash and equivalent cash required for operation, and sufficient bank financing quota, etc., to ensure the Company to possess sufficient financial flexibility, operation fund sufficient to cope up with the financial liabilities

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principles and interests.

	Dec. 31, 2022			
	Less than 1 year	1-3 years	More than 3 yeas	Total
Non-derivative financial liabilities				
Short-term notes and bills payable	$ 229,559	$ –	$ –	$ 229,559
Accrued payables	241,943	–	–	241,943
Lease liabilities	6,837	7,047	36,097	49,981
Deposits received	156,652	4,802	–	161,454
Total	$ 634,991	$ 11,849	$ 36,097	$ 682,937

	Dec. 31, 2021			
	Less than 1 year	1-3 years	More than 3 yeas	Total
Non-derivative financial liabilities				
Short-term notes and bills payable	$ 69,930	$ –	$ –	$ 69,930
Accrued payables	256,846	–	–	256,846
Lease liabilities	4,903	43,111	–	48,014
Deposits received	153,809	4,196	–	158,005
Total	$ 485,488	$ 47,307	$ –	$ 532,795

33. Related party transaction

(1) Names and relationship of related parties

Name of related parties	Relationship with the Company
Hexin International Co., Ltd.	Subsidiaries of the Company
Shengxinyuan Construction Co., Ltd.	Investment accounted for using equity method
Jieyang Construction Co., Ltd.	Investment accounted for using equity method

(2) Significant transactions with the related parties

A. New investments using the equity method:

Shengxinyuan Construction Co., Ltd. will handle a cash capital increase in 2022, and the Company will subscribe for $8,000 thousand according to the shareholding ratio.

Jieyang Construction Co., Ltd. will handle a cash capital increase in 2021, and the Company will subscribe for $6,000 thousand according to the shareholding ratio.

B. Endorsement and guarantee

The amount of guarantee endorsed by the company is as follows:

	Dec. 31, 2022	Dec. 31, 2021
Hexin International Co., Ltd.	$ 180,000	$ 180,000

(3) Compensation to key management

The compensation to directors and other key management personnel were as follows:

	2022	2021
Short-term employee benefits	$ 14,644	$ 13,827

34. Pledged assets: None.

35. Material contingent liabilities and unrecognized contractual commitments:

As of December 31, 2022 and 2021, the amount of endorsement guarantee provided by the company to Hexin international Co., Ltd. is $180,000 thousand.

36. Significant disaster loss: None.

37. Significant events after the balance sheet date: None.

38. Others: None.

39. Supplementary disclosures

When preparing the consolidated financial report, all major transactions and balances between the company and its subsidiaries have been eliminated.

(1) Information on major transactions:

A. Lending to others: None.

B. Endorsement and guarantee for others:

Unit: NT$1,000

Number (Note 1)	Endorser / guarantor	Party being endorsed/guaranteed		Limit on endorsements / guarantees provided for a single party (Note 3)	Maximum outstanding endorsement / guarantee amount as at December 31, 2021	Outstanding endorsement / guarantee amount at December 31, 2021	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement / guarantee amount to net asset value of the endorser / guarantor company	Ceiling on total amount of endorsements / guarantees provided (Note 3)	Provision of endorsements / guarantees by parent company to subsidiary	Provision of endorsements / guarantees by subsidiary to parent company	Provision of endorsements / guarantees to the party in Mainland China	Footnote
		Company name	Relationship with the endorser / guarantor (Note 2)											
0	Hsin Kao Gas Co., Ltd.	Hexin International Co., Ltd.	2	$ 471,057	$ 180,000	$ 180,000	$ 56,600	$ –	7.64%	$ 1,177,644	Y	N	N	

Note 1：The Company and its subsidiaries are coded as follows:
(1) The Company is coded “0”
(2) the subsidiaries are coded consecutively beginning from”1” in the order presented in the table above.

Note 2：According to the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” issued by the R.O.C. Securities and Futures Bureau, receiving parties should be disclosed as one of the following:
(1) A company with which it does business.
(2) A company in which the public company directly and indirectly holds more than 50% of the voting shares.
(3) A company that directly and indirectly holds more than 50 % of the voting shares in the public company.
(4) A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
(5) A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
(6) A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
(7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other

Note 3：The endorsements/guarantees amount of the Company toward a single enterprise is limited to 20% of the Company’ s net value in the most recent financial statement(December 31, 2022); the total amount of endorsement/guarantee made by the Company shall not exceed 50% of the net value in the most recent financial statement.

C. Marketable securities held at the end of the period:

Unit: NT$1,000

Holding company	Type and name of marketable securities	Relationships with issuers of marketable securities	Accounting item	At the end of the period: Shares	Carrying amount	Shareholding ratio	Fair value	Remark
Hsin Kao Gas Co., Ltd.	Fund							
	Yuanta Taiwan High-yield Leading Company Fund	None	Financial assets at fair value through profit or loss – current	1,000,000	$ 7,860	–	$ 7,860	
	Stock							
	The Great Taipei Gas Corporation	〃	Financial assets at fair value through other comprehensive income – current	1,888,000	58,811	0.37	58,811	
	Fubon Financial Holding Co., Ltd.	〃	〃	466,060	26,239	–	26,239	
	Fubon Financial Holding Co., Ltd. Class C special stock	〃	〃	9,043	498	–	498	
	Yuanta Financial Holding Co., Ltd.	〃	〃	11,631,080	252,395	0.09	252,395	
	Long Da Construction & Development Corporation	〃	〃	1,111,105	24,889	0.51	24,889	
	CTBC Financial Holding Co., Ltd.	〃	〃	900,000	19,890	–	19,890	
Hexin International Co., Ltd.	Fund							
	Yuanta Taiwan High-yield Leading Company Fund	〃	Financial assets at fair value through profit or loss – current	1,000,000	7,860	–	7,860	
	Stock							
	Fubon Financial Holding Co., Ltd.	〃	Financial assets at fair value through other comprehensive income – current	5,594,490	121,401	0.05	121,401	Note
	Dayi Jinmao Co., Ltd.	〃	〃	396,666	6,565	0.53	6,565	
	Hon Hai Precision Industry Co., Ltd.	〃	〃	71,404	7,133	–	7,133	
	San Far Property Limited	〃	〃	166,409	2,030	0.05	2,030	
	Fubon Financial Holding Co., Ltd.	〃	〃	466,060	26,239	–	26,239	
	Fubon Financial Holding Co., Ltd. Class C special stock	〃	〃	9,043	498	–	498	
	Cathay Financial Holding Co., Ltd.	〃	〃	755,201	30,208	0.01	30,208	
	Energenesis Biomedical Co., Ltd.	〃	〃	230,000	9,775	0.34	9,775	
	Victory Construction Co., Ltd.	〃	Financial assets at fair value through other comprehensive income – non-current	150,000	6,329	15.00	6,329	
	Heyi Construction Co., Ltd.	〃	〃	10,500,000	86,803	10.50	86,803	

Note: Provide 5,430,000 shares as a guarantee for the loan amount.

D. The cumulative amount of securities purchased or sold reaches NT$300 million or 20% of the paid-in capital: None.

E. Acquisition of real estate amounting to at least NT$300 million or 20% of the paid-in capital:

Unit: NT$1,000

Real estate acquired by	Real estate acquired	Date of the event (Note 1)	Transaction amount (untaxed)	Status of payment (untaxed)	Counterparty (Note 2)	Relationship with the counterparty	If the counterparty is a related party, information as to thelast transaction of the real estate is disclosed below:				Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
							Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount			
Hsin Kao Gas Co., Ltd.	Land and housing	2016.8.8	$ 507,371	$ 456,634	Jialiuyuan Construction Co., Ltd.	None	—	—	—	—	Reference Real Estate Valuation Report	as an office	—
					Yang Cing Construction Co., Ltd.	None							
					Hexin International Co., Ltd.	Subsidiary							
					Ding,You-Hong	None							

Note 1：The day when the fact happened and the resolution of the board of directors.

Note 2：The company signed a pre-determined real estate sales contract with Jialiuyuan Construction Co., Ltd. (representing subsidiary and Yang Cing Construction Co., Ltd. at the same time) and the landlord. Jialiuyuan Construction Co., Ltd. is solely responsible for the construction and sales of this case. The relevant instructions are detailed in Note 16.

F. Disposal of real estate amounting to at least NT$300 million or 20% of the paid-in capital: None.

G. The amount of purchase or sale of goods with related parties reaches NT$100 million or 20% of the paid-in capital: None.

H. Related party receivables amounting to at least NT$100 million or 20% of the paid-in capital: None.

I. Engage in derivative transactions: None.

(2) Related information of investees:

Unit: NT$1,000

Name of investing company	Name of investee company	Location	Main business	Original investment amount: Balance as at December 31, 2021	Original investment amount: Balance as at December 31, 2020	Held at the end of the period: Number of shares	Held at the end of the period: Ownership (%)	Held at the end of the period: Book value	Profit or loss of the investee company for the period	Investment profit or loss recognized for the period	Remark
Hsin Kao Gas Co., Ltd.	Hexin International Co., Ltd.	Taiwan	A. Residential and building development, rental and sales. B. International trade.	$ 120,443	$ 120,443	12,000,000	92.31	$ 520,575	$ 13,959	$ 12,885	Subsidiaries of the Company (Note)
	Shengxinyuan Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	28,000	20,000	2,800,000	8.00	32,868	(7,021)	(562)	Invested companies evaluated by the equity method
	Jieyang Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	16,000	16,000	1,600,000	16.67	5,045	(750)	(125)	Invested companies evaluated by the equity method
Hexin International Co., Ltd.	Shengxinyuan Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	93,100	66,500	9,310,000	26.60	109,285	(7,021)	(1,868)	Invested companies evaluated by the equity method
	Jieyang Construction Co., Ltd.	Taiwan	Residential and building development, rental and sales, etc.	16,000	16,000	1,600,000	16.67	5,045	(750)	(125)	Invested companies evaluated by the equity method

Note: It has been eliminated when preparing the consolidated report.

(3) Information on investment in China: None.

(4) Information on major shareholders:

Name of major shareholder \ Shares	Shares held	Shareholding ratio
Xinxiang Investment Co., Ltd.	24,810,977	22.46%
Veterans Affairs Council, R.O.C.	23,482,362	21.26%

Note: A. The Major Shareholder Information in this table is calculated by the Depository & Clearing Corporation based on the last business day of each quarter and is calculated based on the total number of common and preferred shares of the Company held by shareholders of 5% or more of the Company's total unregistered shares (including treasury shares) issued by non-physical securities delivered through the book-entry system. The number of shares recorded in the Company's financial statements and the actual number of shares delivered without physical registration may differ depending on the foundation of computer algorithms.

B. If the above information belongs to the shareholder who transfers shareholding to the Trust, it is the individual ledger announcement by the consignor who opened the trust account by the consignee. As for shareholders, according to the Securities and Exchange Act, they handle Insiders' equity declarations with shareholding exceeding 10%. Their shareholding includes their own shareholding plus the calculation of their delivery trust and shares under Trust with Discretion Reserved for the trust asset, etc., related to Insiders' equity declarations. For information, please refer to Market Observation Post System.

40. SEGMENT INFORMATION

The Company has provided the segment information disclosure in the year of 2022 consolidated financial statements.

HSIN KAO GAS CO., LTD.

TABLE OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

ITEMS	NO./REFERENCE
Statement of cash and cash equivalents	Statement 1
Statement of financial assets at fair value through profit or loss - current	Statement 2
Statement of financial assets measured at fair value through other comprehensive income - current	Statement 3
Statement of notes receivable	Statement 4
Statement of accounts receivable	Statement 5
Statement of inventory	Statement 6
Statement of changes in investments accounted for using the equity method	Statement 7
Statement of changes in property, plant and equipment	Note 12
Statement of changes in accumulated depreciation of property, plant and equipment	Note 12
Statement of changes in right-of-use assets	Note 13
Statement of changes in accumulated depreciation of right-of-use assets	Note 13
Statement of changes in intangible assets	Statement 8
Statement of other non-current assets	Note 15
Statement of short-term notes and bills payable	Statement 9
Statement of accounts payable	Statement 10
Statement of other payables	Statement 11
Statement of lease liabilities	Statement 12
Statement of operating revenue	Statement 13
Statement of operating cost	Statement 14
Statement of gas supply cost	Statement 15
Statement of installation expense	Statement 16
Statement of selling expense	Statement 17
Statement of administrative expense	Statement 18

Statement of Cash and Cash equivalents

December 31, 2022

Statement 1

Items	Summary	Amount
Petty cash		$ 289
Check deposits		1,454
Demand deposits		163,554
Total		$ 165,297

Financial Assets at Fair Value through Profit or Loss-current

December 31, 2022

Statement 2

Name of Securities	Summary	Shares	Par value (NT$)	Amount	Interest rate	Acquisition	Fair value		Remark
							Unit price (NT$)	Amount	
Domestic funds：									
Yuanta Taiwan High-yield Leading Company Fund		1,000,000	$ 10	$ 10,000	—	$ 10,000	$ 7.86	$ 7,860	

Statement of Financial Assets Measured at Fair Value through Other Comprehensive Income - Current

December 31, 2022

Statement 3

Name of Securities	Summary	Shares	Par value (NT$)	Amount	Acquisition	Fair value		Remark
						Unit price (NT$)	Amount	
Exchange-listed (OTC-listed) domestic stocks :								
The Great Taipei Gas Corporation		1,888,000	$ 10	$ 18,880	$ 34,443	$ 31.15	$ 58,811	
Fubon Financial Holding Co., Ltd.		466,060	10	4,661	20,736	56.3	26,239	
Yuanta Financial Holding Co., Ltd.		11,631,080	10	116,311	130,321	21.7	252,395	
Long Da Construction & Development Corporation		1,111,105	10	11,111	12,247	22.4	24,889	
CTBC Financial Holding Co., Ltd.		900,000	10	9,000	19,803	22.1	19,890	
Fubon Financial Holding Co., Ltd. Class C special stock		9,043	10	90	543	55.1	498	
Total					$ 218,093		$ 382,722	

Statement of Notes Receivable

December 31, 2022

Statement 4

Name of customer	Summary	Amount	Remark
Client A		$ 1,292	
Client C		2,231	
Client D		12,501	
Client E		2,985	
Others	The balance of each account does not exceed 5% of the balance of this account.	1,409	
Total		$ 20,418	

Statement of Accounts Receivable

December 31, 2022

Statement 5

Name of customer	Summary	Amount	Remark
Client A		$ 8,498	
Client G		8,646	
Others	The balance of each account does not exceed 5% of the balance of this account.	125,553	
Total		142,697	
Less: Loss allowance		(261)	
Net		$ 142,436	

Statement of Inventory

December 31, 2021

Statement 6

Item	Amount		Remark
	Cost	Net realizable value	
Stock material	$ 11,797	$ 11,887	
Contractor material	145,922	147,031	
Gas	128	180	
Installation in progress	104,468	104,468	
Total	$ 262,315	$ 263,566	

Statement of Changes in Investments Accounted for Using the Equity Method

From January 1 to December 31, 2022

Statement 7

Name of investee company	Opening balance		Increase in the fiscal year		Decrease in the fiscal year		Ending balance			Market value or net equity		Provision of guarantees and pledges	Remark
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Shareholding ratio %	Amount	Unit price	Total		
Hexin International Co., Ltd.	12,000,000	$ 546,813	—	$	—	$ 26,238	12,000,000	92.31	$ 520,575		$ 520,575	None	
Shengxinyuan Construction Co., Ltd.	2,000,000	25,430	800,000	8,000	—	562	2,800,000	8.00	32,868		32,868	None	
Jieyang Construction Co., Ltd.	1,600,000	5,170	—		—	125	1,600,000	16.67	5,045		5,045	None	
Total		$ 577,413		$ 8,000		$ 26,925			$ 558,488				

Note: Changes in the current period include the share of profit and loss of subsidiaries and affiliated enterprises recognized using the equity method and the share of other comprehensive profits and losses.

Statement of Changes in Intangible Assets

December 31, 2022

Statement 8

Item	Opening balance	Additions	Disposals	Ending balance	Remark
Computer software	$ 2,133	$ —	$ 1,670	$ 463	

Statement of short-term notes and bills payable

December 31, 2022

Statement 9

Item	Guarantee/Accepting Institution	Contract Period	Interest rate range %	Amount			Remark
				Issue Amount	Discount Amount	Carrying Amount	
Commercial paper	Mega Bills Finance Co., Ltd.	2022.12.09～2023.02.07	1.927%	$ 30,000	$ 58	$ 29,942	
Commercial paper	China Bills Finance Corporation	2022.12.30～2023.02.24	1.390%	100,000	206	99,794	
Commercial paper	Grand Bills Finance Corporation	2022.12.15～2023.02.13	1.500%	100,000	177	99,823	
Total				$ 230,000	$ 441	$ 229,559	

Statement of Accounts Payable

December 31, 2022

Statement 10

Name of customer	Summary	Amount	Remark
Client A		$ 57,019	
Client B		17,683	
Others	The balance of each account does not exceed 5% of the balance of this account.	15,469	
Total		$ 90,171	

Statement of other payables

December 31, 2022

Statement 11

Item	Summary	Amount	Remark
Payable salary and bonus		$ 9,697	
Refundable customer security deposit		132,606	
Others	The balance of each account does not exceed 5% of the balance of this account.	9,469	
Total		$ 151,772	

Statement of Lease Liabilities

December 31, 2022

Statement 12

Item	Summary	Lease period	Discount rate	Ending balance	Remark
Land	Gas connection and pressure rectification station, land, warehouse land	2021.02～2041.01	0.62%～0.69%	$ 40,742	
Building	office building	2022.10～2024.06	1.02%	4,467	
Transportation equipment	Chairman's car	2022.01～2025.01	0.69%	2,355	
Total				$ 47,564	
Less: Current portion				(6,551)	
Net				$ 41,013	

Statement of Operating Revenue

From January 1 to December 31, 2022

Statement 13

Item	Summary	Amount	Remark
Income from the sales of gas		$ 958,310	
Income from equipment		266,239	
Others		23,673	
Total		$ 1,248,222	
Less: Sales return and allowance		(742)	
Net		$ 1,247,480	

Statement of Operating Cost

From January 1 to December 31, 2022

Statement 14

Item	Subtotal	Total
Cost from the sales of gas		$ 792,109
Gas cost		522,551
Inventory of natural gas at the beginning of the period	$ 133	
Add：Natural gas purchased in the period	522,546	
Less：Inventory of natural gas at the end of the period	(128)	
Additional gas sales costs		2,266
Gas provision cost		267,292
Installation cost		216,698
Material used during the period		65,486
Beginning material	141,699	
Add: Materials purchased for the year	181,585	
At the beginning of the period, the material of the external Pipelines is transferred in	107,144	
Construction in progress transferred in	11,195	
Gain on physical of finished goods	67	
Less：final materials	(157,719)	
Transfer external Pipelines Material	(116,154)	
Transfer maintenance cost	(1,485)	
Equipment use	(100,213)	
Others	(633)	
Installation expense		151,279
Other installation cost		(67)
Other operating costs		12,335
Total		$ 1,021,142

Statement of Gas Supply Cost

From January 1 to December 31, 2022

Statement 15

Item	Summary	Amount	Remark
Salary expenses		$ 71,884	
Depreciation expenses		137,935	
Repair and maintenance fee		21,522	
Other expenses	The balance of each account does not exceed 5% of the balance of this account.	35,951	
Total		$ 267,292	

Statement of Installation Expense

From January 1 to December 31, 2022

Statement 16

Item	Summary	Amount	Remark
Salary expenses		$ 11,204	
Construction cost		43,681	
Depreciation expenses		81,424	
Other expenses	The balance of each account does not exceed 5% of the balance of this account.	14,970	
Total		$ 151,279	

Statement of Selling Expense

From January 1 to December 31, 2022

Statement 17

Item	Summary	Amount	Remark
Salary expenses		$ 15,215	
Insurance expense		1,514	
Donation expense		1,342	
Depreciation expenses		1,523	
Other expenses	The balance of each account does not exceed 5% of the balance of this account.	6,467	
Total		$ 26,061	

Statement of Administrative Expense

From January 1 to December 31, 2022

Statement 18

Item	Summary	Amount	Remark
Salary expenses		$ 24,844	
Insurance expense		3,727	
Entertainment expense		1,209	
Depreciation expenses		2,297	
Other expenses	The balance of each account does not exceed 5% of the balance of this account.	8,141	
Total		$ 40,218	

In the most recent year and up to the date of preparation and printing of the annual report, the company and its affiliated companies have not experienced any financial turnover difficulties.

Seven. Financial Status, and Review and Analysis of Financial Performance and Risk Management Matters

I. Financial status

Unit: NT$ thousand

Year / Item	2021	2022	Difference	
			Amount	%
Current assets	1,528,568	1,565,334	36,766	2.41%
Property, plant and equipment	2,640,062	2,619,293	(20,769)	-0.79%
Intangible assets	2,133	463	(1,670)	-78.29%
Other assets	1,039,974	1,311,821	271,847	26.14%
Total assets	5,210,737	5,496,911	286,174	5.49%
Current liabilities	1,679,986	1,942,095	262,109	15.60%
Non-current liabilities	1,072,032	1,156,148	84,116	7.85%
Total liabilities	2,752,018	3,098,243	346,225	12.58%
Capital stock	1,104,306	1,104,306	0	0.00%
Capital reserve	30,113	30,113	0	0.00%
Retained earnings	999,591	1,028,271	28,680	2.87%
Other equity	279,141	192,597	(86,544)	-31.00%
Equity attributable to owners of the parent company	2,413,151	2,355,287	(57,864)	-2.40%
Non-controlling interest	45,568	43,381	(2,187)	-4.80%
Total equity	2,458,719	2,398,668	(60,051)	-2.44%

Main reasons for and impact of major changes in assets, liabilities, and equity in the last two years. If the impact is significant, a future response plan should be outlined: None

Reduction in intangible assets: This is due to a reduction of intangible assets in the period.

Increase in other assets: The advance payments for buildings and land for the current term.

Increase in other equity: This was caused by changes in unrealized appraisal gains and losses for financial assets at fair value through other comprehensive income.

Explanation of increase in non-controlling interest: from a change in unrealized appraisal gains and losses for financial assets at fair value through other comprehensive income.

II. Financial performance Unit: NT$ thousand

Item	2021	2022	Amount of increase or decrease	Change percentage %
Operating revenue	1,193,172	1,247,480	54,308	4.55%
Operating costs	(960,832)	(1,021,142)	60,310	6.28%
Operating income	232,340	226,338	(6,002)	-2.58%
Operating expenses	(66,379)	(68,245)	1,866	2.81%
Operating profit	165,961	158,093	(7,868)	-4.74%
Non-operating income and expenses	124,833	61,742	(63,091)	-50.54%
Net profit before tax	290,794	219,835	(70,959)	-24.40%
Income tax expense	(48,156)	(45,478)	(2,678)	-5.56%
Net profit after tax	242,638	174,357	(68,281)	-28.14%
Other comprehensive income (after tax)	133,518	(79,805)	(213,323)	-159.77%

Operating revenue, operating profit, and pre-tax net profit in the last 2 years, and expected sales volume and its basis, and possible impact on the Company's future financial business, and response plan:

Increase in non-operating revenues and information on reduced expenditure: mainly due to the changes in the portions of gains or losses of affiliates and joint ventures recognized through the gains or losses in financial assets measured at fair value and adopting the equity method.

Explanation of increase in net profit before tax: This was due to the decrease in non-operating revenues and expenditure.

Explanation of increase in other comprehensive income: this was caused by changes in unrealized gains and losses for financial assets at fair value through other comprehensive income.

Response plan: None

III. Cash flows

Unit: NT$ thousand

Beginning cash balance (1)	Estimated net cash flow from proprietary business activities throughout the year (2)	Estimated annual cash outflow (3)	Estimated cash surplus (insufficiency) amount (1)+(2)-(3)	Remedial measures for cash shortages	
				Investment plan	Financing plan
165,297	207,996	141,160	232,133	—	—

1. Changes in cash flows for the current year:
   (1) Operating activities: expected to increase in 2022, resulting in increased cash inflows.
   (2) Investing activities: Mainly for the expansion of business, an expected fixed assets purchase of NT$103,680 thousand would result in an increase in cash outflows.
   (3) Financing activities: Payment of 2021 cash dividends, employee compensation, and director and supervisor compensation would come to about NT$37,480 thousand.
2. Improvement plan for estimated cash flow insufficiency in the most recent year and investment plan for the coming year: None

IV. The impact of major capital expenditures in recent years on financial operations: None

The use of major capital expenditures and sources of funds

Unit: NT$ thousand

Plan item	Actual or expected source of funds	Actual or expected completion date	Required funds total amount	Actual or projected use of funds				
				Year	Year	Year	Year	Year
Gas transmission equipment	Borrowing and operating revenue	2023	103,680	2023	-	-	-	-
Gas transmission equipment	Borrowing and operating revenue	2022	108,896	2022	-	-	-	-

Note: If it is expected that there will be major changes in the relative cost of capital or debt and capital increase policy in respect to debt and capital increases in the future, this should be stated: None

Expected possible production benefits: Not applicable

1. Expected increase in production and sales value and gross profit

Sales value and gross profit Unit: NT$ thousand

Year	Item	Production volume	Sales volume	Sales value	Gross profit
2022	Gas sales revenue	6,324 x 10,000 kWh	6,324 x 10,000 kWh	983,232	169,883
2022	Installation revenue:	5,868 households	5,868 households	263,749	27,358

2. Other benefits (such as product quality, pollution prevention, cost reduction): None

V. Reinvestment policy in the most recent year, main reasons for its profit or loss, improvement plan and investment plan for the next year.

(I) Reinvestment policy for the most recent year: None

(II) 2022 investment plan: None

VI. Risk issues:

(I) The impact of interest rates, exchange rate changes, and inflation on the Company's profit and loss for the most recent year and future countermeasures:

Interest rates for the borrowings of the Company over the past year and up to the date the Annual Report was printed. The continuous interest rate raises by the Central Bank led to an increase in the interest rate of 0.625% in 2023 compared to that in 2022. The interest rate change did not significantly impact the Company's gains and losses.

The Company's business is 100% domestic and profit and loss are not affected by exchange rates.

Conduit devices and materials are mainly obtained from contractors. Prices of materials and supplies in 2022 rose by around 35% due to inflation. It is expected that in 2023, with the slightly easing pandemic, global inflation shall ease compared to last year and it is expected that prices of raw materials and regular materials will rise by about 10%.

In respect to the gross profit margin of gas sales, in response to the measures of the Energy Commission, starting from January 1, 2007, the basic charging system that had been implemented for many years was replaced by a basic amount plus specified charges, thereby reducing the original gross profit per unit from NT$4.80 to NT$3.20.

(II) Policies, main reasons for profit or loss, and future countermeasures for engaging in high risk and high leverage investments, loans of funds to others, endorsements/guarantees, and derivatives transactions:

1. The Company does not engage in high-risk and high-leverage activities and investments in derivative transactions.
2. Main reasons for profit or loss and future response measures: No such situation.
3. Loans of funds to other parties: No such situation.
4. Endorsements/guarantees:

Unit: NT$ thousand

Name of company providing endorsement/ guarantee	Counterparty receiving endorsement/ guarantee		Endorsement/ guarantee quota for a single enterprise	Highest endorsement/ guarantee in this period balance	Ending endorsement/ guarantee balance	Endorsement/ guarantee amount subject to property guarantees	The ratio of accumulated endorsement/ guarantee amount to the net value of the latest financial statements	Endorsement/ guarantee ceiling
	Company name	Relationship						
Hsin-Kao Gas Co., Ltd.	Hexin International Co., Ltd.	Subsidiary	471,057	180,000	180,000	0	7.64	1,177,644

Although the Company has engaged in endorsement/guarantee activities, no bad debt losses have occurred.

(III) Future research plans and estimated R&D expenses: please refer to page 46.

(IV) The impact of important domestic and foreign policies and legal changes on the Company's financial business and corresponding measures: None.

(V) The impact of technological changes and industrial changes on the Company's financial business and corresponding measures: None.

(VI) The impact of corporate image change on corporate crisis management and countermeasures: None.

(VII) Expected benefits and possible risks of mergers and acquisitions and countermeasures: None.

(VIII) Expected benefits and possible risks of plant expansion and countermeasures: None.

(IX) Risks and countermeasures faced by purchase or sales concentration: None.

(X) The influence and risk of the massive transfer of shares or the replacement of the directors, supervisors, or major shareholders holding more than 10% of the shares issued by the Company, and the response: None.

(XI) The impact, risks, and countermeasures of a change of management rights on the Company: No such situation.

(XII) Litigation or non-litigation events shall be stated for the Company and its directors, supervisors, general managers, substantive persons in charge, and major shareholders whose shareholding ratio exceeds 10%, and major litigation or non-litigation events or administrative disputes confirmed or still being adjudicated for affiliated companies, where the outcomes may have a significant impact on shareholders' equity or the price of securities; and the facts in dispute, the amount involved, the start date of the lawsuit, the main parties involved in the lawsuit, and the handling situation as of the publication date of the annual report shall be disclosed: None.

(XIII) Other important risks and countermeasures:

1. Information security risk assessment analysis:
   The Company has about 230,000 users, and due to the need to obtain personal information for procedures such as gas pipeline installation, connected meters, and transfer of ownership, the protection of user files has become the most important part of the Company's personal information protection. The Company uses information to establish basic files of personal data of users, employees and suppliers. The Data Office and the Information Technology Office are managed by specialized personnel and set up as independent spaces, and the management personnel and business-related personnel have signed confidentiality clauses.
2. The Company has established personal data protection rules that are followed by all employees while also establishing an Internal Control System. In addition to being audited by the Audit Office, cooperation is undertaken every year with the Bureau of Energy to check operation results based on the Personal Data Protection Operation Manual of the Ministry of Economic Affairs. After evaluation, it is assessed not to be a major operational risk.

VII. Other important matters: None

Eight. Special Disclosures

I. Related information of affiliated companies

1. Organization chart of affiliated companies:

Hsin-Kao Gas Co., Ltd.

Shareholding of 92% (controlling company)
12,000,000 shares
NT$120,000,000

Hexin International Co., Ltd.

2. Affiliated enterprise consolidated statement relationship report: Listed on pages 64 to 122.

3. Name of each affiliated enterprise, date of establishment, address, paid-up capital amount, and major operating items

Unit: NT$ thousand

Company Name	Date Established	Address	Paid-in capital amount	Main business or production items
Hexin International Co., Ltd.	2000.08.15	No. 56, Dayi Street, Yancheng District, Kaohsiung City	130,000	Residence and Buildings Lease Construction and Development, International Trade, General Investing

4. The industries covered by the business of the overall related company:

Industry	Names of affiliated companies	Relationship with other affiliated enterprise operations
Construction industry, international trade industry, General Investing	Hexin International Co., Ltd.	None

(I) Operation of Affiliates:

Financial status and operating results of each affiliated enterprise

Unit: NT$ thousand

Company name	Capital	Assets Total amount	Liabilities Total amount	Net worth	Operating revenue	Operating profit	Profit and loss for the current period (after tax)	Earnings per share (after tax) : NT$
Hexin International Co., Ltd.	130,000	832,214	268,258	563,956	-	(1,966)	20,379	1.57

II. Handling of privately placed securities in the most recent year and as of the date of publication of the annual report: None.

III. Status of holding or disposing of the Company's stocks by subsidiaries in the most recent year and as of the date of publication of the annual report: None.

IV. Other necessary supplementary explanations: None

V. In the most recent year and as of the printing date of the annual report, the occurrence of matters that have a significant impact on shareholders' equity or securities prices as specified in Item 2, Paragraph 3, Article 36 of the Securities and Exchange Act: None.

Hsin-Kao Gas Co., Ltd.

Chairman Chen Chien-Tung