

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Review Report

For the Nine Months Ended September 30, 2023 and 2022

Address: No.3, Gong 6th Rd., Youshih Industrial Park, Dajia Dist Taichung, Taiwan (R.O.C.)
Telephone: (04)2682-1277

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

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Independent Auditors' Review Report

To the Board of Directors of Quaser Machine Tools, Inc.:

Introduction

We have reviewed the accompanying consolidated balance sheets of Quaser Machine Tools, Inc. and its subsidiaries as of September 30, 2023 and 2022, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2023 and 2022, the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2023 and 2022, and notes to the consolidated financial statements, including a summary of material accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with the Standards on Review Engagements of the Republic of China 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(b) to the consolidated financial statements, the financial statements of certain non-significant subsidiaries included in the consolidated financial statements were not reviewed by independent auditors. These financial statements reflect total assets amounting to NT\$250,593 thousand and NT\$142,398 thousand, constituting 6.33% and 3.49% of the consolidated total assets as of September 30, 2023 and 2022, respectively, and total liabilities amounting to NT\$43,247 thousand and NT\$17,432 thousand, constituting 1.72% and 0.62% of the consolidated total liabilities as of September 30, 2023 and 2022, respectively, and total comprehensive income (loss) amounting to NT\$7,338 thousand, NT\$(2,597) thousand, NT\$3,739 thousand, and NT\$(1,838) thousand, constituting 15.94%, (3.04)%, 2.46% and (1.01)% of the consolidated total comprehensive income (loss) for the three months and the nine months ended September 30, 2023 and 2022, respectively.

Furthermore, as stated in Note 6(e), the other equity accounted investments of Quaser Machine Tools, Inc. and its subsidiaries in its investee company of NT\$35,319 thousand as of September 30, 2023, and its equity in net earnings (loss) on this investee company of both NT\$(1) thousand for the three months and the nine months ended September 30, 2023, were recognized solely on the financial statements prepared by this investee company, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Quaser Machine Tools, Inc. and its subsidiaries as of September 30, 2023 and 2022, and of its consolidated financial performance for the three months and nine months ended September 30, 2023 and 2022, as well as its consolidated cash flows for the nine months ended September 30, 2023 and 2022 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by

the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Chun-Yuan Wu and Tzu-Hsin Chang.

KPMG

Taipei, Taiwan (Republic of China)
November 2, 2023

Notes to Readers

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

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

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

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2023, December 31 and September 30, 2022

(Expressed in thousands of New Taiwan Dollar)

Assets	September 30, 2023		December 31, 2022		September 30, 2022		Liabilities and Equity	September 30, 2023		December 31, 2022		September 30, 2022	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current assets:							Current liabilities:						
Cash and cash equivalents (Note 6(a))	\$ 732,592	18	900,149	23	853,733	21	Short-term borrowings (Note 6(j) and 8)	\$ 697,000	18	1,162,400	30	1,017,400	25
Current financial assets at fair value through profit or loss (Note 6(b))	-	-	-	-	7,012	-	Current financial liabilities at fair value through profit or loss (Note 6(b))	-	-	-	-	438	-
Notes receivable, net (Note 6(c))	10,896	-	23,269	1	28,672	1	Current contract liabilities (Note 6(t))	252,867	6	345,740	9	413,864	10
Trade receivable, net (Note 6(c))	659,912	17	490,699	12	619,825	15	Notes payable	77	-	162	-	2,094	-
Other receivables	27,980	1	22,016	1	28,012	1	Accounts payable	228,430	6	195,209	5	269,248	7
Current tax assets	4,189	-	12,811	-	8,916	-	Other payables (Note 6(l))	269,798	7	240,808	6	197,025	5
Inventories (Note 6(d))	1,217,928	31	1,157,309	30	1,164,348	28	Current tax liabilities	42,143	1	20,037	1	-	-
Other current assets (Note 6(i))	71,415	2	75,464	2	83,009	2	Current provisions (Note 6(o))	18,084	-	13,960	-	17,942	-
	2,724,912	69	2,681,717	69	2,793,527	68	Current lease liabilities (Note 6(k))	36,643	1	61,323	2	48,304	1
Non-current assets:							Current portion of bonds payable (Note 6(n))	-	-	-	-	4,798	-
Investments accounted for using equity method (Note 6(e))	35,319	1	-	-	-	-	Long-term borrowing, current portion (Note 6(m) and 8)	700	-	135,224	3	280,089	7
Property, plant and equipment (Note 6(f) and 8)	461,999	12	476,307	12	508,298	13	Other current liabilities	928	-	964	-	9,671	-
Right-of-use assets (Note 6(g))	138,525	3	149,684	4	165,133	4		1,546,670	39	2,175,827	56	2,260,873	55
Intangible assets (Note 6(h))	178,237	5	187,873	5	200,113	5	Non-Current liabilities:						
Goodwill (Note 6(h))	313,688	8	298,780	8	308,718	8	Long-term borrowings (Note 6(m) and 8)	807,594	21	302,889	8	364,929	9
Deferred tax assets	79,840	2	93,222	2	92,052	2	Provisions - non-current (Note 6(o))	4,437	-	4,106	-	5,607	-
Net defined benefit assets	19,504	-	18,657	-	11,461	-	Deferred tax liabilities	50,597	1	45,173	1	46,715	1
Other non-current assets (Note 6(i))	4,656	-	2,608	-	2,996	-	Lease liabilities - non-current (Note 6(k))	112,284	3	98,001	2	121,890	3
	1,231,768	31	1,227,131	31	1,288,771	32		974,912	25	450,169	11	539,141	13
								2,521,582	64	2,625,996	67	2,800,014	68
							Total liabilities						
							Equity attributable to owners of parent (Note 6(r)):						
							Common stock	549,500	14	549,500	14	549,500	14
							Capital surplus	820,363	21	880,109	22	880,109	22
							Unappropriated retained earnings (Accumulated deficit)	13,053	-	(136,598)	(3)	(145,044)	(4)
							Other equity	52,182	1	(10,159)	-	(2,281)	-
							Total equity	1,435,098	36	1,282,852	33	1,282,284	32
Total assets	\$ 3,956,680	100	3,908,848	100	4,082,298	100	Total liabilities and equity	\$ 3,956,680	100	3,908,848	100	4,082,298	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the three months and nine months ended September 30, 2023 and 2022
(Expressed in thousands of New Taiwan Dollar, except for earnings per share)

	For the three months ended September 30				For the nine months ended September 30			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenue (Note 6(t))	\$ 713,125	100	669,969	100	1,934,142	100	1,933,097	100
Operating costs (Note 6(d), (p) and 12)	551,915	77	492,555	74	1,410,491	73	1,451,811	75
Gross profit	161,210	23	177,414	26	523,651	27	481,286	25
Operating expenses (Note 6(p) and 12)								
Selling expenses	45,406	6	33,179	5	105,596	5	118,153	6
Administrative expenses	84,364	12	101,278	15	223,012	12	236,602	13
Research and development expenses	18,671	3	16,547	2	47,419	2	52,644	3
Expected credit loss (reversal) (Note 6(c))	(10,343)	(1)	3,481	1	(479)	-	4,499	-
	138,098	20	154,485	23	375,548	19	411,898	22
Operating income	23,112	3	22,929	3	148,103	8	69,388	3
Non-operating income and expenses (Note 6(v))								
Interest income	2,829	-	101	-	7,520	-	399	-
Other income	1,333	-	15,495	2	2,180	-	21,014	1
Other gains and losses	20,467	3	19,581	3	27,713	1	58,959	3
Finance costs (Note 6(k) and (n))	(9,065)	(1)	(8,933)	(1)	(28,255)	(1)	(24,191)	(1)
Share of loss of associates and joint ventures accounted for using equity method	(1)	-	-	-	(1)	-	-	-
	15,563	2	26,244	4	9,157	-	56,181	3
Profit before income tax	38,675	5	49,173	7	157,260	8	125,569	6
Less: Income tax expenses (Note 6(q))	16,305	2	6,639	1	67,355	3	19,690	1
Profit for the period	22,370	3	42,534	6	89,905	5	105,879	5
Other comprehensive income:								
Components of other comprehensive income that will be reclassified to profit or loss								
Exchange differences on translation of foreign financial statements	29,596	4	53,790	8	77,926	4	94,357	5
Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(q))	(5,919)	(1)	(10,758)	(1)	(15,585)	(1)	(18,871)	(1)
	23,677	3	43,032	7	62,341	3	75,486	4
Total comprehensive income	\$ 46,047	6	85,566	13	152,246	8	181,365	9
Earnings per share (expressed in NT dollars) (Note 6(s))								
Basic earnings per share	\$ 0.41		0.77		1.64		1.93	
Diluted earnings per share	\$ 0.41		0.77		1.64		1.92	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2023 and 2022
(Expressed in thousands of New Taiwan Dollar)

Equity attributable to owners of parent								
	Retained earnings						Other equity	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (Accumulated deficit)	Total	Exchange differences on translation of foreign financial statements	
Balance at January 1, 2022	\$ 549,500	880,109	204,502	2,724	(458,149)	(250,923)	(77,767)	1,100,919
Profit for the period	-	-	-	-	105,879	105,879	-	105,879
Other comprehensive income for the period	-	-	-	-	-	-	75,486	75,486
Total comprehensive income for the period	-	-	-	-	105,879	105,879	75,486	181,365
Appropriation of earnings:								
Legal reserve used to offset accumulated deficits	-	-	(204,502)	-	204,502	-	-	-
Balance at September 30, 2022	\$ 549,500	880,109	-	2,724	(147,768)	(145,044)	(2,281)	1,282,284
Balance at January 1, 2023	\$ 549,500	880,109	-	2,724	(139,322)	(136,598)	(10,159)	1,282,852
Profit for the period	-	-	-	-	89,905	89,905	-	89,905
Other comprehensive income for the period	-	-	-	-	-	-	62,341	62,341
Total comprehensive income for the period	-	-	-	-	89,905	89,905	62,341	152,246
Appropriation of earnings:								
Capital surplus used to offset accumulated deficits	-	(59,746)	-	-	59,746	59,746	-	-
Balance at September 30, 2023	\$ 549,500	820,363	-	2,724	10,329	13,053	52,182	1,435,098

See accompanying notes to consolidated financial statements.

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

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the nine months ended September 30, 2023 and 2022****(Expressed in thousands of New Taiwan Dollar)**

	For the nine months ended September 30	
	2023	2022
Cash flows from (used in) operating activities		
Profit before tax	\$ 157,260	125,569
Adjustments		
Adjustments to reconcile profit		
Depreciation expense	99,704	134,358
Amortization expense	21,505	20,400
Expected credit loss (reversal)	(479)	4,499
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	-	(6,288)
Interest expense	28,255	24,191
Interest income	(7,520)	(399)
Share of loss of associates and joint ventures accounted for using equity method	1	-
Loss on disposal of property, plant and equipment	494	9,114
Unrealized foreign exchange loss (gain)	4,576	(45,547)
Loss on lease modification	-	1,139
Total adjustments to reconcile profit (loss)	146,536	141,467
Changes in operating assets and liabilities		
Changes in operating assets		
Decrease in notes receivable	12,373	23,478
Increase in trade receivable	(156,761)	(190,964)
Decrease in other receivables	34	2,194
Increase in inventories	(68,519)	(187,907)
Adjustments for decrease (increase) in other current assets	4,049	(37,218)
Increase in net defined benefit assets	(847)	(672)
Total changes in operating assets	(209,671)	(391,089)
Changes in operating liabilities		
Increase (decrease) in contract liabilities	(92,873)	126,280
Decrease in notes payable	(85)	(2,696)
Increase (decrease) in accounts payable	24,684	(31,393)
Increase in other payables	4,322	93,698
Increase in provisions	4,455	6,418
Decrease in other current liabilities	(36)	(4,230)
Total changes in operating liabilities	(59,533)	188,077
Total changes in operating assets and liabilities	(269,204)	(203,012)

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

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the nine months ended September 30, 2023 and 2022****(Expressed in thousands of New Taiwan Dollar)**

	For the nine months ended September 30	
	2023	2022
Total adjustments	(122,668)	(61,545)
Cash inflow (outflow) generated from operations	34,592	64,024
Interest received	7,520	399
Interest paid	(26,195)	(24,044)
Income taxes refund (paid)	(39,374)	31,327
Net cash flows from (used in) operating activities	(23,457)	71,706
Cash flows from (used in) investing activities		
Acquisition of investments accounted for using equity method	(12,132)	-
Acquisition of property, plant and equipment	(32,347)	(24,290)
Proceeds from disposal of property, plant and equipment	34	188
Increase in refundable deposits	(2,072)	-
Acquisition of intangible assets	(3,342)	(538)
Decrease in other non-current assets	24	428
Net cash flows from (used in) investing activities	(49,835)	(24,212)
Cash flows from (used in) financing activities		
Increase in short-term borrowings	264,766	444,000
Decrease in short-term borrowings	(730,166)	(180,000)
Proceeds from long-term borrowings	784,294	-
Repayments of long-term borrowings	(414,113)	(319,144)
Payments of lease liabilities	(25,106)	(25,440)
Net cash flows from (used in) financing activities	(120,325)	(80,584)
Effect of exchange rate changes on cash and cash equivalents	26,060	17,785
Net decrease in cash and cash equivalents	(167,557)	(15,305)
Cash and cash equivalents at beginning of period	900,149	869,038
Cash and cash equivalents at end of period	\$ 732,592	853,733

See accompanying notes to consolidated financial statements.

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

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2023 and 2022

(Expressed in thousands of New Taiwan dollars, unless otherwise indicated)

1. Company history

Quaser Machine Tools, Inc. (the “Company”) was incorporated in May 23, 1991 as a company limited by shares under the Company Act of the Republic of China (R.O.C). The registered address is No.3, Gong 6th Rd., Youshih Industrial Park, Dajia Dist Taichung, Taiwan (R.O.C.). The Company and its subsidiaries (collectively referred to as the “Group”) mainly engage in manufacturing and sales of computer numerical control (CNC) machine centers, metal-working machines, and related machines.

The Company’s common shares were listed on the Taipei Exchange (TPEX) Mainboard since July 12, 2018.

2. Approval date and procedures of the consolidated financial statements

The consolidated financial statements were authorized for issue by the Board of Directors on November 2, 2023.

3. New standards, amendments and interpretations adopted

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

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2023:

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

The Group has initially adopted the new amendment, which do not have a significant impact on its consolidated financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform — Pillar Two Model Rules”

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

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”

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

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

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 21 “Lack of Exchangeability”

4. Summary of material accounting policies

(a) Statement of compliance

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

Except the following accounting policies mentioned below, the material accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2022. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2022.

(b) Basis of consolidation

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

Name of investor	Name of subsidiary	Main businesses	Percentage of ownership			Note
			September 30, 2023	December 31, 2022	September 30, 2022	
The Company	Quaser Europe Technical Center AG (“Quaser Europe”)	Buys and sells machines	100%	100%	100%	1
The Company	Quaser America Machine Tools, Inc. (“Quaser America”)	Buys and sells machines	100%	100%	100%	2
The Company	Kunshan Quaser Machine Tools, Inc. (“Kunshan Quaser”)	Buys and sells machines	100%	100%	100%	1
The Company	Quaser Europe Technical Center GmbH (“Quaser Europe GmbH”)	Buys and sells machines	100%	100%	100%	1
The Company	Winbro Group UK Limited (“Winbro UK”)	Overseas reinvested holding company	100%	100%	100%	
Winbro UK	Winbro Group Technologies Limited (“Winbro Ltd”)	Aerospace machinery manufacturing and machining	100%	100%	100%	
Winbro UK	Winbro Group Technologies LLC (“Winbro LLC”)	Aerospace machinery manufacturing and machining	100%	100%	100%	

Note 1: This is a non-significant subsidiary for which the financial statements are not reviewed by independent auditors.

Note 2: The liquidation of the Group’s subsidiary, Quaser America, was resolved by the Board of Directors. As of September 30, 2023, the relevant procedures are still in process. This is a non-significant subsidiary and its financial statements for the nine months ended September 30, 2023 are not reviewed by independent auditors.

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

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(c) Employee benefits

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

(d) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of IAS 34 “Interim Financial Reporting”.

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

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

5. Significant accounting assumptions and judgments, and major sources of estimation uncertainty

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

The preparation of the consolidated financial statements, estimates and underlying assumptions are consistent with the consolidated financial statements for the year ended December 31, 2022. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2022.

6. Explanation of significant accounts

Except for the following disclosures, there are no material differences in the disclosures of significant accounts between the interim consolidated financial statements for the current period and the consolidated financial statements for the year ended December 31, 2022. The related information is provided in note 6 to the consolidated financial statements for the year ended December 31, 2022.

(a) Cash and cash equivalents

	September 30, 2023	December 31, 2022	September 30, 2022
Petty cash and cash on hand	\$ 933	1,229	1,472
Checking and demand deposits	731,659	806,790	852,261
Time deposits	-	92,130	-
Cash and cash equivalents in the consolidated statement of cash flows	<u><u>\$ 732,592</u></u>	<u><u>900,149</u></u>	<u><u>853,733</u></u>

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

	September 30, 2023	December 31, 2022	September 30, 2022
Financial assets mandatorily classified as at FVTPL:			
Derivative instruments not used for hedging			
Forward exchange contracts	\$ -	-	129
Cross-currency swap contracts	-	-	6,883
	<u>\$ -</u>	<u>-</u>	<u>7,012</u>
Held-for-trading financial liabilities:			
Derivative instruments not used for hedging			
Forward exchange contracts	\$ -	-	438

As of September 30, 2022, outstanding forward exchange contracts and cross-currency swap contracts were as follows:

(i) Forward exchange contracts:

	September 30, 2022
	Contract amount (in thousands)
	Currency
	Maturity dates
Forward exchange sold	EUR 3,016 / NTD 93,906 EUR to NTD 22.10.05~22.12.12

(ii) Cross-currency swap contracts:

	September 30, 2022
	Contract amount (in thousands)
	Maturity dates
	Interest payable
	Interest receivable
Interest rate swap contract	USD 1,000 / NTD 29,775 22.12.14 0% 1.70%
Foreign exchange swap contract	USD 1,000 / NTD 29,372 22.11.02 0% 0.00%
Foreign exchange swap contract	USD 1,000 / NTD 29,372 22.11.02 0% 0.00%

The Group entered into derivative financial instruments to reduce its exposure to certain foreign exchange rate and interest rate risk arising from its operating activities.

(c) Notes receivable and trade receivable

	September 30, 2023	December 31, 2022	September 30, 2022
Notes receivable from operating activities	\$ 10,896	23,269	28,672
Trade receivables—measured as amortized cost	670,801	502,475	632,000
Less: Loss allowance	(10,889)	(11,776)	(12,175)
	<u>\$ 670,808</u>	<u>513,968</u>	<u>648,497</u>

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

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September 30, 2023			
	Carrying amount of notes and trade receivable	Weighted average expected credit loss rate	Loss allowance
Not past due	\$ 609,923	- %	-
1 to 30 days past due	37,972	- %	-
31 to 60 days past due	10,908	5.05 %	551
61 to 90 days past due	2,713	5.38 %	146
91 to 180 days past due	5,542	17.59 %	975
181 to 360 days past due	12,677	57.23 %	7,255
More than 361 days past due	1,962	100.00 %	1,962
	\$ 681,697		10,889

December 31, 2022			
	Carrying amount of notes and trade receivable	Weighted average expected credit loss rate	Loss allowance
Not past due	\$ 450,310	- %	-
1 to 30 days past due	30,146	- %	-
31 to 60 days past due	8,275	4.87 %	403
61 to 90 days past due	11,501	10.02 %	1,152
91 to 180 days past due	13,302	20.12 %	2,676
181 to 360 days past due	9,330	50.00 %	4,665
More than 361 days past due	2,880	100.00 %	2,880
	\$ 525,744		11,776

September 30, 2022			
	Carrying amount of notes and trade receivable	Weighted average expected credit loss rate	Loss allowance
Not past due	\$ 569,755	- %	-
1 to 30 days past due	13,910	- %	-
31 to 60 days past due	36,873	2.84 %	1,049
61 to 90 days past due	17,994	5.21 %	938
91 to 180 days past due	21,859	45.94 %	10,041
181 to 360 days past due	268	50.00 %	134
More than 361 days past due	13	100.00 %	13
	\$ 660,672		12,175

The movements of the loss allowance for notes receivable and trade receivable were as follows:

For the nine months ended September 30		
	2023	2022
Balance at beginning of period	\$ 11,776	7,428
Impairment losses (reversed) recognized	(479)	4,499
Effect of exchange rate changes	(408)	248
Balance at end of period	\$ 10,889	12,175

The Group's notes receivable and trade receivable were not pledged as collateral as of September 30, 2023, December 31, 2022, and September 30, 2022.

For further credit risk information, please refer to note 6(w).

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(d) Inventories

	September 30, 2023	December 31, 2022	September 30, 2022
Raw materials	\$ 627,928	658,265	516,395
Work in progress	415,314	365,191	352,214
Finished goods	174,686	133,853	295,739
	\$ 1,217,928	1,157,309	1,164,348

Write-down of inventories to net realizable value and reversal of write-down of inventories resulting from slow moving inventories were sold.

Net inventory losses for the three months and nine months ended September 30, 2023 were \$1,990 thousand and \$7,668 thousand.

Reversal of write-down of inventories for the three months and nine months ended September 30, 2022 were \$19,018 thousand and \$20,827 thousand.

As of September 30, 2023, December 31, 2022 and September 30, 2022, none of the Group's inventories were pledged as collateral.

(e) Investments accounted for using equity method

The components of investments accounted for using the equity method at the reporting date were as follows:

	September 30, 2023	December 31, 2022	September 30, 2022
Associates	\$ 35,319	-	-

(i) The Group invested in Zhongshan Xuguang Machinery Technology Co., Ltd. in June 2023 with an investment amount of CNY\$8,000 thousand and obtained 40% shareholding of Zhongshan Xuguang Machinery Technology Co., Ltd. The Group has significant influence on Zhongshan Xuguang Machinery Technology Co., Ltd.

(ii) The unreviewed financial statements of investments accounted for using equity method

Investments accounted for using equity method and the share of profit or loss and other comprehensive income of those investments were recognized solely on the financial statements prepared by this investee company, but not reviewed by independent auditors.

(iii) The Group's investment accounted for using equity method was not pledged as collateral as of September 30, 2023.

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the nine months ended September 30, 2023 and 2022 were as follows:

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	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Molding equipment	Other equipment	Construction in progress	Total
Cost:								
Balance at January 1, 2023	\$ 123,978	244,495	992,782	5,627	49,119	245,721	-	1,661,722
Additions	-	6,044	15,396	-	2,452	6,562	1,893	32,347
Disposals	-	-	(1,307)	(1,366)	-	(3,843)	-	(6,516)
Reclassification	-	217	8,330	(1,005)	-	358	-	7,900
Effects of exchange rate changes	-	2,547	55,839	69	-	5,753	80	64,288
Balance at September 30, 2023	<u>\$ 123,978</u>	<u>253,303</u>	<u>1,071,040</u>	<u>3,325</u>	<u>51,571</u>	<u>254,551</u>	<u>1,973</u>	<u>1,759,741</u>
Balance at January 1, 2022	\$ 123,978	242,583	973,514	4,345	48,614	239,666	-	1,632,700
Additions	-	-	22,704	-	505	1,081	-	24,290
Disposals	-	-	(63,989)	(232)	-	(534)	-	(64,755)
Reclassification	-	-	2,450	1,246	-	(1,014)	-	2,682
Effects of exchange rate changes	-	1,578	73,396	393	-	4,057	-	79,424
Balance at September 30, 2022	<u>\$ 123,978</u>	<u>244,161</u>	<u>1,008,075</u>	<u>5,752</u>	<u>49,119</u>	<u>243,256</u>	<u>-</u>	<u>1,674,341</u>
Accumulated depreciation and impairments loss:								
Balance at January 1, 2023	\$ -	223,196	681,044	4,802	46,262	230,111	-	1,185,415
Depreciation	-	5,970	61,953	125	1,233	5,065	-	74,346
Disposals	-	-	(1,307)	(1,366)	-	(3,315)	-	(5,988)
Reclassification	-	-	-	(1,005)	-	1,005	-	-
Effects of exchange rate changes	-	1,957	36,547	68	-	5,397	-	43,969
Balance at September 30, 2023	<u>\$ -</u>	<u>231,123</u>	<u>778,237</u>	<u>2,624</u>	<u>47,495</u>	<u>238,263</u>	<u>-</u>	<u>1,297,742</u>
Balance at January 1, 2022	\$ -	213,956	600,142	3,259	44,137	218,171	-	1,079,665
Depreciation	-	6,258	90,616	241	1,644	7,594	-	106,353
Disposals	-	-	(54,687)	(232)	-	(534)	-	(55,453)
Reclassification	-	-	-	1,246	-	(1,014)	-	232
Effects of exchange rate changes	-	674	30,903	359	-	3,310	-	35,246
Balance at September 30, 2022	<u>\$ -</u>	<u>220,888</u>	<u>666,974</u>	<u>4,873</u>	<u>45,781</u>	<u>227,527</u>	<u>-</u>	<u>1,166,043</u>
Carrying amount:								
Balance at January 1, 2023	<u>\$ 123,978</u>	<u>21,299</u>	<u>311,738</u>	<u>825</u>	<u>2,857</u>	<u>15,610</u>	<u>-</u>	<u>476,307</u>
Balance at September 30, 2023	<u>\$ 123,978</u>	<u>22,180</u>	<u>292,803</u>	<u>701</u>	<u>4,076</u>	<u>16,288</u>	<u>1,973</u>	<u>461,999</u>
Balance at January 1, 2022	<u>\$ 123,978</u>	<u>28,627</u>	<u>373,372</u>	<u>1,086</u>	<u>4,477</u>	<u>21,495</u>	<u>-</u>	<u>553,035</u>
Balance at September 30, 2022	<u>\$ 123,978</u>	<u>23,273</u>	<u>341,101</u>	<u>879</u>	<u>3,338</u>	<u>15,729</u>	<u>-</u>	<u>508,298</u>

As of September 30, 2023, December 31, 2022 and September 30, 2022, the property and plant of the Group had been pledged as collateral for bank borrowings are set out in note 8.

(g) Right-of-use assets

The Group leases many assets including buildings, machinery, transportation equipment, and other equipment. Information about leases is presented below:

	Buildings	Machinery and equipment	Transportation equipment	Other equipment	Total
Cost:					
Balance at January 1, 2023	\$ 220,022	2,358	13,141	9,452	244,973
Additions	994	2,542	4,201	-	7,737
Write-off	(8,977)	(826)	(2,144)	-	(11,947)
Effects of exchange rate changes	10,770	193	204	480	11,647
Balance at September 30, 2023	<u>\$ 222,809</u>	<u>4,267</u>	<u>15,402</u>	<u>9,932</u>	<u>252,410</u>
Balance at January 1, 2022	\$ 210,899	10,060	13,887	4,502	239,348
Additions	28,528	1,498	2,239	4,073	36,338
Write-off	(41,647)	-	(2,737)	(514)	(44,898)
Reclassification	-	(698)	(232)	698	(232)
Effects of exchange rate changes	29,645	1,545	693	1,013	32,896
Balance at September 30, 2022	<u>\$ 227,425</u>	<u>12,405</u>	<u>13,850</u>	<u>9,772</u>	<u>263,452</u>

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	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>Total</u>
Accumulated depreciation:					
Balance at January 1, 2023	\$ 82,748	1,688	7,142	3,711	95,289
Depreciation	20,405	647	2,612	1,694	25,358
Write-off	(8,977)	(826)	(2,144)	-	(11,947)
Effects of exchange rate changes	4,653	78	194	260	5,185
Balance at September 30, 2023	<u>\$ 98,829</u>	<u>1,587</u>	<u>7,804</u>	<u>5,665</u>	<u>113,885</u>
Balance at January 1, 2022	\$ 58,104	3,072	8,065	3,628	72,869
Depreciation	20,001	2,907	3,492	1,605	28,005
Write-off	(8,740)	(264)	(3,039)	(1,071)	(13,114)
Reclassification	-	-	1,137	(1,369)	(232)
Effects of exchange rate changes	9,199	669	458	465	10,791
Balance at September 30, 2022	<u>\$ 78,564</u>	<u>6,384</u>	<u>10,113</u>	<u>3,258</u>	<u>98,319</u>
Carrying amount:					
Balance at January 1, 2023	<u>\$ 137,274</u>	<u>670</u>	<u>5,999</u>	<u>5,741</u>	<u>149,684</u>
Balance at September 30, 2023	<u>\$ 123,980</u>	<u>2,680</u>	<u>7,598</u>	<u>4,267</u>	<u>138,525</u>
Balance at January 1, 2022	<u>\$ 152,795</u>	<u>6,988</u>	<u>5,822</u>	<u>874</u>	<u>166,479</u>
Balance at September 30, 2022	<u>\$ 148,861</u>	<u>6,021</u>	<u>3,737</u>	<u>6,514</u>	<u>165,133</u>

(h) Goodwill and intangible assets

The cost, amortization and impairment of the goodwill and intangible assets of the Group for the nine months ended September 30, 2023 and 2022 were as follows:

	<u>Goodwill</u>	<u>Customer relationship</u>	<u>Developed Technology</u>	<u>Software</u>	<u>Technology Licenses</u>	<u>Trademarks</u>	<u>Others</u>	<u>Total</u>
Cost:								
Balance at January 1, 2023	\$ 498,287	167,019	77,935	40,625	2,430	127	1,332	787,755
Additions	-	-	-	2,719	585	38	-	3,342
Disposals	-	-	-	(529)	-	(31)	(30)	(590)
Effects of exchange rate changes	25,042	10,466	5,967	2,006	-	-	-	43,481
Balance at September 30, 2023	<u>\$ 523,329</u>	<u>177,485</u>	<u>83,902</u>	<u>44,821</u>	<u>3,015</u>	<u>134</u>	<u>1,302</u>	<u>833,988</u>
Balance at January 1, 2022	\$ 449,658	150,540	70,246	41,144	2,000	83	2,076	715,747
Additions	-	-	-	508	-	-	30	538
Effects of exchange rate changes	65,335	22,135	10,329	(1,278)	-	-	-	96,521
Balance at September 30, 2022	<u>\$ 514,993</u>	<u>172,675</u>	<u>80,575</u>	<u>40,374</u>	<u>2,000</u>	<u>83</u>	<u>2,106</u>	<u>812,806</u>
Accumulated amortization and impairment losses:								
Balance at January 1, 2023	\$ 199,507	33,772	34,210	32,055	750	34	774	301,102
Amortization	-	8,513	8,623	3,594	460	25	290	21,505
Disposals	-	-	-	(529)	-	(31)	(30)	(590)
Effects of exchange rate changes	10,134	4,059	4,112	1,741	-	-	-	20,046
Balance at September 30, 2023	<u>\$ 209,641</u>	<u>46,344</u>	<u>46,945</u>	<u>36,861</u>	<u>1,210</u>	<u>28</u>	<u>1,034</u>	<u>342,063</u>
Balance at January 1, 2022	\$ 179,834	20,290	20,554	28,743	650	72	892	251,035
Amortization	-	8,066	8,171	3,633	75	9	446	20,400
Effects of exchange rate changes	26,441	3,649	3,696	(1,246)	-	-	-	32,540
Balance at September 30, 2022	<u>\$ 206,275</u>	<u>32,005</u>	<u>32,421</u>	<u>31,130</u>	<u>725</u>	<u>81</u>	<u>1,338</u>	<u>303,975</u>
Carrying amount:								
Balance at January 1, 2023	<u>\$ 298,780</u>	<u>133,247</u>	<u>43,725</u>	<u>8,570</u>	<u>1,680</u>	<u>93</u>	<u>558</u>	<u>486,653</u>
Balance at September 30, 2023	<u>\$ 313,688</u>	<u>131,141</u>	<u>36,957</u>	<u>7,960</u>	<u>1,850</u>	<u>106</u>	<u>268</u>	<u>491,925</u>
Balance at January 1, 2022	<u>\$ 269,824</u>	<u>130,250</u>	<u>49,692</u>	<u>12,401</u>	<u>1,350</u>	<u>11</u>	<u>1,184</u>	<u>464,712</u>
Balance at September 30, 2022	<u>\$ 308,718</u>	<u>140,670</u>	<u>48,154</u>	<u>9,244</u>	<u>1,275</u>	<u>2</u>	<u>768</u>	<u>508,831</u>

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(i) Impairment testing for goodwill

Goodwill amounted \$495,282 thousand arising from the acquisition of Winbro UK on October 31, 2019 was mainly attributable to the expected benefit derived from the considerations paid. According to IAS 36, goodwill acquired in a business combination should be tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units (CGU) that are expected to benefit from the synergies of the combination. Winbro UK itself is a separate CGU that can generate independent cash inflows; therefore, goodwill is tested for impairment by comparing the recoverable amount of Winbro UK with its carrying amount to determine whether an impairment loss should be recognized.

The Group evaluated the recoverable amount of goodwill at the end of reporting period and the recoverable amount was determined based on the value in use. The value in use was calculated based on the cash-generating unit cash flow forecast from the financial budgets covering the future five-year period with the annual discount rates to reflect the relevant specific risk in the cash-generating unit.

Based on the impairment assessment for the years ended December 31, 2022, no impairment losses were recognized as the recoverable amount of the CGU was higher than its carrying value.

(ii) Collateral

None of the intangible assets held by the Group were pledged collateral as of September 30, 2023, December 31, 2022 and September 30, 2022.

(i) Other current assets and other non-current assets

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

	September 30, 2023	December 31, 2022	September 30, 2022
Other current assets:			
Prepayments	\$ 50,515	58,401	70,430
Others	20,900	17,063	12,579
	\$ 71,415	75,464	83,009
	September 30, 2023	December 31, 2022	September 30, 2022
Other non-current assets:			
Refundable deposits	\$ 4,622	2,550	2,928
Others	34	58	68
	\$ 4,656	2,608	2,996

(j) Short-term borrowings

The short-term borrowings of the Group were summarized as follows:

	September 30, 2023	December 31, 2022	September 30, 2022
Unsecured bank loans	\$ 697,000	819,000	674,000
Secured bank loans	-	343,400	343,400
	\$ 697,000	1,162,400	1,017,400
Unused short-term credit lines	\$ 507,000	700,000	700,000
Range of interest rates	1.82%~2.125%	1.57%~2.325%	1.289%~1.818%

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(i) Issuance and repayment of the borrowings

For the nine months ended September 30, 2023 and 2022, the increase in short-term borrowings amounted to \$264,766 thousand and \$444,000 thousand, with an interest rate of 1.82%~2.125% and 1.289%~1.76%, as well as maturities ranging from October 2023 to February 2024 and October 2022 to August 2023, respectively. For the nine months ended September 30, 2023 and 2022, the repayments amounted to \$730,166 thousand and \$180,000 thousand, respectively.

(ii) Collateral for short-term borrowings

The Group sets out the assets as pledged collateral for short-term borrowings in note 8.

(k) Lease liabilities

The lease liabilities of the Group were summarized as follows:

	September 30, 2023	December 31, 2022	September 30, 2022
Current	\$ <u>36,643</u>	<u>61,323</u>	<u>48,304</u>
Non-current	\$ <u>112,284</u>	<u>98,001</u>	<u>121,890</u>

For the maturity analysis, please refer to note 6(w) Financial instruments.

The amounts recognized in profit or loss were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Interest on lease liabilities	\$ <u>1,244</u>	<u>1,455</u>	<u>3,639</u>	<u>3,991</u>
Expenses relating to short-term leases	\$ <u>1,090</u>	<u>1,332</u>	<u>4,005</u>	<u>3,440</u>

The amounts recognized in the statement of cash flows were as follows:

	For the nine months ended September 30	
	2023	2022
Total cash outflow for leases	\$ <u>32,750</u>	<u>32,871</u>

(i) Building leases

The Group leases buildings for the use of offices and plants with lease terms of 1 to 15 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

(ii) Other leases

The Group leases machinery, transportation equipment, and other equipment with lease terms of 2 to 6 years. The ownership of machinery belongs to the lessee at the end of the lease terms.

(l) Other payables

The other payables of the Group were summarized as follows:

	September 30, 2023	December 31, 2022	September 30, 2022
Salary and bonus payable	\$ 30,048	72,262	36,958
Pensions payable	1,753	1,950	1,777
Others	237,997	166,596	158,290
	\$ <u>269,798</u>	<u>240,808</u>	<u>197,025</u>

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(m) Long-term borrowings

The long-term borrowings of the Group were summarized as follows:

	September 30, 2023	December 31, 2022	September 30, 2022
Unsecured bank loans	\$ 290,000	73,252	223,827
Secured bank loans	518,294	364,861	421,191
	808,294	438,113	645,018
Less: current portion	(700)	(135,224)	(280,089)
	\$ 807,594	302,889	364,929
Unused long-term credit lines	\$ 871,706	242,725	238,825
Range of interest rates	1.896%~2.204%	2.275%~2.757%	1.29%~2.49%

(i) Issuance and repayment of the borrowings

For the nine months ended September 30, 2023 and 2022, the proceeds from long-term borrowings amounted to \$784,294 thousand and \$0 thousand, respectively.

For the nine months ended September 30, 2023 and 2022, the repayments amounted to \$414,113 thousand and \$319,144 thousand, respectively.

(ii) Syndicated loan

The Group entered into US\$38,100 thousand and NT\$526,000 thousand syndicated loan agreement with Taishin International Bank in October 2019 with annual interest rate of 2.084%. The agreement period is 5 years, which can be extended for 2 years upon application for once only. The funds were used to acquire 100% ownership of Winbro UK.

Under the syndicated loan agreement revised in 2021, the ratios and limitations shall be maintained as follows and calculated based on independent auditors' annual and semi-annual consolidated financial statements. For the collateral for long-term borrowings, please refer to note 8.

- 1) Current ratio (current assets /current liabilities) – not less than 100%.
- 2) Leverage ratio (net financial liabilities/sum of profit before income tax, depreciation expenses, amortizations and interest expenses) - each year shall not be higher than the following:

Financial year	2022	2023	2024	2025	2026
Leverage ratio	350%	275%	200%	150%	150%

- 3) Interest coverage ratio (sum of profit before income tax, depreciation expenses, amortizations, and interest expenses/interest expenses) - each year shall not be lower than the following:

Financial year	2022	2023	2024	2025	2026
Interest coverage ratio	350%	500%	500%	500%	500%

- 4) Equity - each year shall not be lower than the following:

Financial year	2022	2023	2024	2025	2026
Equity	1,200,000	1,200,000	1,300,000	1,350,000	1,400,000

The Group breached the specific terms of the syndicated loan, which included the leverage ratio, interest coverage ratio and equity limitation in 2021 and the outstanding borrowings was \$463,438 thousand in the end of 2021. The management applied for a waiver in January 2022, and obtained majority of banks' consent on March 23, 2022.

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The Group has re-signed the syndicated loan agreement with Taishin International Bank in July 2023. The loan amount is NT\$1,290,000 thousand with 5-year credit period, and the annual interest rate is 2.204%. The funds obtained from the syndicated loan agreement are used to repay outstanding loans and enrich medium-term working capital.

Under the syndicated loan agreement re-signed in 2023, the ratios and limitations shall be maintained as follows and calculated based on independent auditors' annual and semi-annual consolidated financial statements from 2023. For the collateral for long-term borrowings, please refer to note 8.

- 1) Current ratio (current assets /current liabilities) – not less than 100%.
- 2) Gearing ratio (total liabilities deduct cash / total equity) – not higher than 200%.
- 3) Interest coverage ratio (sum of profit before income tax, depreciation expenses, amortizations, and interest expenses/interest expenses) – not less than 300%.
- 4) Equity – not less than \$1,000,000 thousand.

As of September 30, 2023, the Group was in compliance with the above borrowing covenants.

(iii) Collateral for long-term borrowings

The Group sets out the assets as pledged collateral for long-term borrowings in note 8.

(n) Bonds payable

The details of unsecured convertible bonds were as follows:

	December 31, 2022	September 30, 2022
Total convertible corporate bonds issued	\$ 200,000	200,000
Unamortized discounted corporate bonds payable	-	(2)
Cumulative redeemed amount	(200,000)	(195,200)
Less: current portion	-	(4,798)
Corporate bonds issued balance at period-end	<u>\$ -</u>	<u>-</u>
Equity component – conversion options, included in capital surplus – stock options	<u>\$ -</u>	<u>160</u>
Equity component – conversion options, included in capital surplus – expired stock options	<u>\$ 6,642</u>	<u>6,482</u>

	For the three months ended September 30	For the nine months ended September 30
	2023	2022
Interest expense	<u>\$ -</u>	<u>23</u>
	<u>-</u>	<u>68</u>

The Group issued 2,000 unsecured convertible bonds with three years on October 9, 2019. The coupon rate of the bond was 0%. The Group paid interest quarterly at an effective interest rate of 0.1582%.

The conversion price was set at \$52.50 per share at the time of issuance. In the event of an adjustment to the conversion price of the Company's ordinary shares that complies with the terms of issuance, the conversion price shall be adjusted according to the formula specified in the terms of issuance. There were no reset terms for this bond.

At any time within three months after the issuance date till 40 days before maturity date (from January 10, 2020 to August 30, 2022), the Company could call back the outstanding bonds by cash at par value within five business days after the benchmark date of bond retirement if the closing price of the Company's common shares exceeded the conversion price for 30 successive business days for up to

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES
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30% (inclusive), or the outstanding balance of the bonds was less than 10% of total initial issuance value.

Bondholders were entitled to exercise the put options after 2 years from the issuance date, and the put date would be on October 9, 2021. The interest compensation was 101.0025% of face value of convertible bond (the real yield was 0.5%). Upon receipt of a sell request, the Company should pay the amount to the bondholders by cash within five business days of the put date.

(o) Provisions

	September 30, 2023	December 31, 2022	September 30, 2022
Current - Warranties	\$ 18,084	13,960	17,942
Non-current - Employee benefits	4,437	4,106	5,607
	\$ 22,521	18,066	23,549

There were no significant changes in provisions for the nine months ended September 30, 2023 and 2022. Please refer to note 6(n) to the consolidated financial statements for the year ended December 31, 2022 for other related information.

(p) Employee benefits

(i) Defined benefit plans

Since there were no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2022 and 2021.

The pension costs recognized in profit or loss for the Group were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Operating cost	\$ (37)	(10)	(111)	(28)
Selling expenses	(22)	(3)	(66)	(8)
Administration expenses	(13)	(2)	(39)	(7)
	\$ (72)	(15)	(216)	(43)

(ii) Defined contribution plans

The pension costs of the Group under the defined contribution pension plans were as follows and contributed to the Bureau of Labor Insurance.

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Operating cost	\$ 5,421	4,993	15,825	13,965
Selling expenses	610	549	1,584	1,588
Administration expenses	1,842	1,425	5,674	4,314
Research and development expenses	203	206	622	619
	\$ 8,076	7,173	23,705	20,486

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(q) Income taxes

(i) The income tax of the Group was as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Current tax expense				
Current period	\$ 18,163	-	48,135	-
Adjustment for prior periods	229	-	17,832	-
	18,392	-	65,967	-
Deferred tax expense				
Origination and reversal of temporary differences	(2,087)	6,639	1,388	19,690
	<u>\$ 16,305</u>	<u>6,639</u>	<u>67,355</u>	<u>19,690</u>

(ii) The amounts of income tax recognized in other comprehensive income were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements	<u>\$ (5,919)</u>	<u>(10,758)</u>	<u>(15,585)</u>	<u>(18,871)</u>

The Company's income tax returns for the year 2021 has been examined and approved by the tax authorities. However the Company's income tax returns of 2020 year is still on assessment.

(r) Capital and other equity

Except for the following disclosure, there was no significant change in capital and capital surplus for the periods from January 1 to September 30, 2023 and 2022. For the related information, please refer to note 6(q) to the consolidated financial statements for the year ended December 31, 2022.

(i) Retained earnings

In accordance with the Company's articles of incorporation, in the event that the annual audit renders earnings, the Company shall pay taxes according to law and cover cumulative losses before setting aside 10% to be the legal reserve; if the legal reserve has reached the Company's paid-in capital size, however, it is allowed not to set aside further earnings. From the remainder the special reserve shall be set aside or reversed as required by law and any further remainder after that shall be brought forth in the shareholder's meeting based on the Earnings Distribution Proposal prepared by the Board of Directors along with accumulated retained earnings for a decision on assignment of dividend bonus to shareholders.

The distribution of dividends by the Company can be in the form of cash or issuing new shares according to the Company's annual surplus in the current year and the overall industry's environment. However, cash dividends shall not be lower than 60% of the total dividends distributed, which may be adjusted in the shareholders' meeting based on the actual profit in the current year or the state of operations.

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

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2) Special reserve

As the Company opted for the exemptions allowed under IFRS1 “First-time Adoption of International Financial Reporting Standards” during the Company’s first-time adoption of the IFRSs as endorsed by the FSC, it is stipulated to set aside the same amount of special surplus reserve of \$2,724 thousand were reclassified to retained earnings. A special reserve is appropriated from retained earnings for the aforementioned reclassification. In addition, during the use, disposal or reclassifications of relevant assets, this special reserve is reverted to distributable earnings proportionately.

In accordance with the requirements issued by the FSC, a portion of earnings shall be allocated as special reserve during earnings distribution. If the Company has already reclassified a portion of earnings to special reserve under the preceding subparagraph, it shall make supplemental allocation of special reserve for any difference between the amount it has already allocated and the amount of the current-period total net reduction of other shareholders’ equity. An equivalent amount of special reserve shall be allocated from the after-tax net profit in the period, plus items other than after-tax net profit in the period, that are included in the undistributed current-period earnings and the undistributed prior-period earnings. A portion of undistributed prior-period earnings shall be reclassified to special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to the net reduction of other shareholders’ equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders’ equity shall qualify for additional distributions.

3) Earnings distribution

There were no earnings distribution for 2022 and 2021 based on the resolution made during the shareholders’ meeting on June 15, 2023, and June 16, 2022, respectively.

(ii) Other comprehensive income accumulated in reserves, net of tax

		Exchange differences on translation of foreign financial statements
Balance at January 1, 2023	\$	(10,159)
Exchange differences on translating the net asset of foreign operations		77,926
Income tax effect		(15,585)
Balance at September 30, 2023	\$	52,182
Balance at January 1, 2022	\$	(77,767)
Exchange differences on translating the net asset of foreign operations		94,357
Income tax effect		(18,871)
Balance at September 30, 2022	\$	(2,281)

(s) Earnings per share

The calculations of the Group’s basic earnings per share and diluted earnings per share were as follows:

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(i) Basic earnings per share

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Net profit attributable to ordinary shareholders of the Company (basic)	\$ 22,370	42,534	89,905	105,879
Weighted average number of ordinary shares outstanding (in thousands of shares)	54,950	54,950	54,950	54,950
Basic earnings per share (expressed in NT dollars)	\$ 0.41	0.77	1.64	1.93

(ii) Diluted earnings per share

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Net profit attributable to ordinary shareholders of the Company (basic)	22,370	42,534	89,905	105,879
Effect of dilutive potential ordinary shares				
Interest expense on convertible bonds, net of tax	-	18	-	54
Net profit attributable to ordinary shareholders of the Company (diluted)	\$ 22,370	42,552	89,905	105,933
Weighted average number of ordinary shares outstanding (basic) (in thousands of shares)	54,950	54,950	54,950	54,950
Effect of dilutive potential ordinary shares				
Effect of conversion of convertible bonds	-	96	-	96
Effect on employees' compensation	37	-	37	-
Weighted average number of ordinary shares outstanding (diluted) (in thousands of shares)	54,987	55,046	54,987	55,046
Diluted earnings per share (expressed in NT dollars)	\$ 0.41	0.77	1.64	1.92

(t) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
<u>Primary geographical markets</u>				
Asia	\$ 194,336	52,479	361,600	264,040
Europe	371,710	476,185	993,937	1,199,440
Americas	146,945	141,143	577,167	469,067
Others	134	162	1,438	550
	\$ 713,125	669,969	1,934,142	1,933,097
<u>Major products/services</u>				
Sales of goods	576,394	593,907	1,595,820	1,717,717
Rendering of services	136,731	76,062	338,322	215,380
	\$ 713,125	669,969	1,934,142	1,933,097

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(ii) Contract balances

	September 30, 2023	December 31, 2022	September 30, 2022
Contract liabilities	\$ <u>252,867</u>	<u>345,740</u>	<u>413,864</u>

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

The changes in the balance of contract liabilities primarily resulted from the timing difference between the Group's satisfaction of performance obligation and the customer's payment.

(u) Compensation of employees and remunerations of directors

In accordance with the articles of incorporation the Company should contribute more than 5.52% of the profit as employees' compensation and less than 2.07% as directors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the three months and nine months ended September 30, 2023, the Company recognized the employees' compensation of both \$1,960 thousand and the directors' remuneration to be both \$735 thousand. There were profit before tax for the nine months ended September 30, 2022, but the Company still have accumulated losses, so there should be retained for offsetting deficits, no employees' compensation and directors' remuneration was recognized. In addition, there was profit before tax for the year ended December 31, 2022, but the Company still have accumulated losses, so there should be retained for offsetting deficits, no employees' compensation and directors' remuneration was recognized. For the year ended December 31, 2021, the Company did not accrue the employees' compensation of employees and directors' remuneration of directors due to the deficit incurred by the Company in 2021. The relevant information is available at the Market Observation Post System website.

(v) Non-operating income and expenses

(i) Interest income

The details of interest income were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Interest income from bank deposits	\$ <u>2,829</u>	<u>101</u>	<u>7,520</u>	<u>399</u>

(ii) Other income

The details of other income were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Rent income	\$ 51	59	129	136
Other income, others	1,282	15,436	2,051	20,878
	<u>\$ 1,333</u>	<u>15,495</u>	<u>2,180</u>	<u>21,014</u>

(iii) Other gains and losses

The details of other gains and losses were as follows:

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	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Losses on disposals of property, plant and equipment	\$ (213)	(9,299)	(494)	(9,114)
Foreign exchange gains	20,578	34,118	28,230	63,986
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	107	(1,904)	-	6,288
Others	(5)	(3,334)	(23)	(2,201)
	\$ 20,467	19,581	27,713	58,959

(iv) Finance costs

The details of finance costs were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
Interest expenses-bank loans	\$ 7,821	7,455	24,616	20,132
Interest expenses-convertible bonds	-	23	-	68
Interest expenses-lease liabilities	1,244	1,455	3,639	3,991
	\$ 9,065	8,933	28,255	24,191

(w) Financial instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For related information, please refer to note 6(v) to the consolidated financial statements for the year ended December 31, 2022.

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

As of September 30, 2023, December 31, 2022 and September 30, 2022, the Group's major customers consisted of five customers which accounted for 58%, 61% and 67%, respectively, of trade receivable so that management believes the concentration of credit risk.

3) Receivables and debt securities

For credit risk exposure of trade receivables and notes receivable, please refer to note 6(c).

Other financial assets at amortized cost include other receivables. The financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected credit losses. Other receivables did not have impairment provision for the nine months ended September 30, 2023 and 2022.

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(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>Over 1 year</u>
September 30, 2023				
Non derivative financial liabilities				
Short-term borrowings	\$ 697,000	699,515	699,515	-
Trade and other payables	498,305	498,305	498,305	-
Long-term borrowings (current portion included)	808,294	876,711	17,752	858,959
Lease liabilities (current and non-current)	148,927	149,127	36,766	112,361
	<u>\$ 2,152,526</u>	<u>2,223,658</u>	<u>1,252,338</u>	<u>971,320</u>
December 31, 2022				
Non derivative financial liabilities				
Short-term borrowings	\$ 1,162,400	1,170,191	1,170,191	-
Trade and other payables	436,179	436,179	436,179	-
Long-term borrowings (current portion included)	438,113	451,278	143,277	308,001
Lease liabilities (current and non-current)	159,324	159,426	61,385	98,041
	<u>\$ 2,196,016</u>	<u>2,217,074</u>	<u>1,811,032</u>	<u>406,042</u>
September 30, 2022				
Non derivative financial liabilities				
Short-term borrowings	\$ 1,017,400	1,021,903	1,021,903	-
Trade and other payables	468,367	468,367	468,367	-
Long-term borrowings (current portion included)	645,018	660,442	288,768	371,674
Lease liabilities (current and non-current)	170,194	172,298	50,398	121,900
Bonds payable (including current portion)	4,798	4,800	4,800	-
	<u>\$ 2,305,777</u>	<u>2,327,810</u>	<u>1,834,236</u>	<u>493,574</u>

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

(iii) Market risk

1) Currency risk

The Group's significant exposure to foreign currency risk were as follows:

	September 30, 2023				December 31, 2022			September 30, 2022		
	Foreign currency	Exchange rate	NTD		Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets										
Monetary items										
EUR	\$	10,994	33.91	372,791	9,897	32.72	323,827	15,445	31.26	482,811
USD		21,292	32.27	687,085	15,544	30.71	477,349	13,164	31.75	417,957
CNY		8,307	4.415	36,675	7,958	4.408	35,079	7,883	4.473	35,261
Financial liabilities										
Monetary items										
EUR		155	33.91	5,250	284	32.72	9,301	99	31.26	3,095
USD		4,019	32.27	129,697	2,659	30.71	81,650	1,793	31.75	56,928

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The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, financial assets at fair value through profit or loss, loans and borrowings; and trade and other payables that are denominated in foreign currencies.

A strengthening (weakening) of 1% of the NTD against the EUR, USD, and CNY as of September 30, 2023 and 2022, would have increased (decreased) the profit before tax by \$7,693 thousand and \$7,008 thousand, respectively. The analysis assumes that all other variables remain constant and was performed on the same basis for both periods.

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the three months ended September 30, 2023 and 2022, and the nine months ended September 30, 2023 and 2022, foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$20,578 thousand, \$34,118 thousand, \$28,230 thousand and \$63,986 thousand, respectively.

2) Interest rate analysis

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

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, the Group's net income would have increased or decreased by \$3,763 thousand and \$4,156 thousand for the nine months ended September 30, 2023 and 2022, with all other variable factors remaining constant. This is mainly due to the Group's borrowing at variable rates.

(iv) Fair value of financial instruments

1) Fair value hierarchy

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

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September 30, 2023

	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at amortized cost					
Cash and cash equivalents	\$ 732,592	-	-	-	-
Trade receivables and notes receivable	670,808	-	-	-	-
Other receivables	27,980	-	-	-	-
Subtotal	\$ 1,431,380	-	-	-	-
Financial liabilities at amortized cost					
Short-term borrowings	\$ 697,000	-	-	-	-
Accounts and notes payable and other payables	498,305	-	-	-	-
Long-term borrowings (current portion included)	808,294	-	-	-	-
Lease liabilities (current and non-current)	148,927	-	-	-	-
Subtotal	\$ 2,152,526	-	-	-	-

December 31, 2022

	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at amortized cost					
Cash and cash equivalents	\$ 900,149	-	-	-	-
Trade receivables and notes receivable	513,968	-	-	-	-
Other receivables	22,016	-	-	-	-
Subtotal	\$ 1,436,133	-	-	-	-
Financial liabilities at amortized cost					
Short-term borrowings	\$ 1,162,400	-	-	-	-
Accounts and notes payable and other payables	436,179	-	-	-	-
Long-term borrowings (current portion included)	438,113	-	-	-	-
Lease liabilities (current and non-current)	159,324	-	-	-	-
Subtotal	\$ 2,196,016	-	-	-	-

September 30, 2022

	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Derivative financial assets mandatorily measured at FVTPL	\$ 7,012	-	7,012	-	7,012
Financial assets at amortized cost					
Cash and cash equivalents	\$ 853,733	-	-	-	-
Trade receivables and notes receivable	648,497	-	-	-	-
Other receivables	28,012	-	-	-	-
Subtotal	\$ 1,530,242	-	-	-	-
Financial liabilities at FVTPL					
Derivative financial liabilities mandatorily measured at FVTPL	\$ 438	-	438	-	438
Financial liabilities at amortized cost					
Short-term borrowings	\$ 1,017,400	-	-	-	-
Accounts and notes payable and other payables	468,367	-	-	-	-
Long-term borrowings (current portion included)	645,018	-	-	-	-
Lease liabilities (current and non-current)	170,194	-	-	-	-
Bonds payable (current portion included)	4,798	-	-	-	-
Subtotal	\$ 2,305,777	-	-	-	-

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

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

2.1) Financial assets measured at amortized cost

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

2.2) Financial assets and financial liabilities measured at amortized cost

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

3) Valuation techniques for financial instruments measured at fair value

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow or option pricing models. Fair value of forward currency is usually determined by the forward currency exchange rate.

4) Transfers between Level 1 and Level 2

There was no transfer between the fair value hierarchy levels for the nine months ended September 30, 2023 and 2022.

(x) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in note 6(w) to the consolidated financial statements for the year ended December 31, 2022.

(y) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2022. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2022. Please refer to note 6(x) to the consolidated financial statements for the year ended December 31, 2022 for further details.

(z) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the nine months ended September 30, 2023 and 2022, were as follows:

- (i) Acquisition of right-of-use assets by lease, please refer to note 6(k).
- (ii) Reconciliation of liabilities arising from financing activities were as follows:

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			Non-cash changes		September 30, 2023
			Increase (decrease) for the period	Foreign exchange movement	
Short-term borrowings	\$	January 1, 2023 1,162,400	Cash flows (465,400)	-	697,000
Lease liabilities (current and non-current)		159,324	(25,106)	7,737	148,927
Long-term borrowings (current portion included)		438,113	370,181	-	808,294
Total liabilities from financing activities	\$	1,759,837	(120,325)	7,737	1,654,221

			Non-cash changes		September 30, 2022
			Increase (decrease) for the period	Foreign exchange movement	
Short-term borrowings	\$	January 1, 2022 753,400	Cash flows 264,000	-	1,017,400
Lease liabilities (current and non-current)		167,367	(25,440)	5,693	170,194
Long-term borrowings (current portion included)		963,659	(319,144)	-	645,018
Total liabilities from financing activities	\$	1,884,426	(80,584)	5,693	1,832,612

7. Related-party transactions

Key management personnel compensation:

		For the three months ended September 30		For the nine months ended September 30	
		2023	2022	2023	2022
Short-term employee benefits	\$	2,573	3,715	7,970	11,199
Post-employment benefits		126	164	405	492
Other long-term benefits		-	14	-	43
	\$	2,699	3,893	8,375	11,734

8. Assets pledged as security

The carrying values of pledged assets were as follows:

Pledged assets	Subject of pledge guarantee	September 30, 2023	December 31, 2022	September 30, 2022
Land	Collateral for bank borrowings and credit lines	\$ 123,978	123,978	123,978
Buildings and structures	Collateral for bank borrowings and credit lines	4,888	7,637	8,554
		\$ 128,866	131,615	132,532

9. Commitments and contingencies

The Group's unrecognized contractual commitments were as follows:

	September 30, 2023	December 31, 2022	September 30, 2022
Acquisition of property, plant and equipment	\$ -	3,234	-

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10.Losses due to major disasters: None

11.Subsequent events: None

12.Other

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

By function By item		For the three months ended September 30, 2023			For the three months ended September 30, 2022		
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits							
Salary	\$	90,375	52,439	142,814	86,650	52,900	139,550
Labor and health insurance		12,026	5,945	17,971	15,892	5,848	21,740
Pension		5,384	2,620	8,004	4,983	2,175	7,158
Others		610	1,795	2,405	682	1,365	2,047
Depreciation		25,973	7,571	33,544	22,140	36,864	59,004
Amortization		20	7,287	7,307	21	6,927	6,948

By function By item		For the nine months ended September 30, 2023			For the nine months ended September 30, 2022		
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits							
Salary	\$	257,257	138,823	396,080	242,541	140,200	382,741
Labor and health insurance		36,205	17,027	53,232	33,376	15,758	49,134
Pension		15,714	7,775	23,489	13,937	6,506	20,443
Others		1,804	6,585	8,389	1,888	4,758	6,646
Depreciation		76,094	23,610	99,704	67,004	67,354	134,358
Amortization		62	21,443	21,505	114	20,286	20,400

(b) Seasonality of operations

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

QUASER MACHINE TOOLS, INC. AND SUBSIDIARIES
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13. Other disclosures

(a) Information on significant transactions

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the nine months ended September 30, 2023:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

No.	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 3)	Transaction amount for business between two parties (Note 4)	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits (Note 1)	Maximum limit of fund financing (Note 2)
													Item	Value		
0	The Company	Quaser Europe Gmbh	Other receivables	Yes	83,046	83,046	83,046		1	90,147	-	-	-	-	143,510	574,039
0	The Company	Kunshan Quaser	Other receivables	Yes	21,333	-	-		1	42,966	-	-	-	-	143,510	574,039
0	The Company	Quaser America	Other receivables	Yes	42,692	6,065	6,065		1	119,632	-	-	-	-	143,510	574,039
0	The Company	Winbro LLC	Other receivables	Yes	54,616	206	206		1	81,249	-	-	-	-	143,510	574,039
0	The Company	Winbro Ltd	Other receivables	Yes	15,267	174	174		1	48,151	-	-	-	-	143,510	574,039
1	Quaser Europe	Quaser Europe Gmbh	Other receivables	Yes	43,020	43,020	43,020		1	-	-	-	-	-	177,627	177,627
1	Winbro Ltd	Winbro LLC	Other receivables	Yes	55,736	48,415	48,415		1	86,985	-	-	-	-	2,065,157	2,065,157
1	Winbro LLC	Winbro Ltd	Other receivables	Yes	8,777	8,777	8,777		1	479	-	-	-	-	1,185,539	1,185,539

Note 1: Individual financing amount must be less than 10%, 400%, 400% and 400% of the Company's, Quaser Europe's, Winbro Ltd's and Winbro LLC's latest net asset value (the Company's net asset value as of September 30, 2023 was \$1,435,098 thousand \times 10% = \$143,510 thousand; Quaser Europe's net asset value as of September 30, 2023 was \$44,407 thousand \times 400% = \$177,627 thousand; Winbro Ltd's net asset value as of September 30, 2023 was \$516,289 thousand \times 400% = \$2,065,157 thousand; Winbro LLC's net asset value as of September 30, 2023 was \$296,385 thousand \times 400% = \$1,185,539 thousand).

Note 2: The maximum amount must be less than 40%, 400%, 400% and 400% of the Company's, Quaser Europe's, Winbro Ltd's and Winbro LLC's latest net asset value (the Company's net asset value as of September 30, 2023 was \$1,435,098 thousand \times 40% = \$574,039 thousand; Quaser Europe's net asset value as of September

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30, 2023 was \$44,407 thousand \times 400% = \$177,627 thousand; Winbro Ltd's net asset value as of September 30, 2023 was \$516,289 thousand \times 400% = \$2,065,157 thousand; Winbro LLC's net asset value as of September 30, 2023 was \$296,385 thousand \times 400% = \$1,185,539 thousand).

Note 3: The nature of financing provided could be:

- 1) business relationship.
- 2) short-term financial assistance.

Note 4: When the nature of financing provided was for business relationship, the business transaction amount should be listed. The amounts were from the business transactions of the most recent year between the lender and the borrower.

Note 5: Significant intercompany accounts and transactions have been eliminated.

(ii) Guarantees and endorsements for other parties: None.

(iii) Marketable securities held at the reporting date (excluding investment in subsidiaries, associates and joint ventures): None.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding NT\$300 million or 20% of the capital stock: None.

(v) Acquisition of individual real estate with amount exceeding NT\$300 million or 20% of the capital stock: None.

(vi) Disposal of individual real estate with amount exceeding NT\$300 million or 20% of the capital stock: None.

(vii) Related-party transactions for purchases and sales with amounts exceeding NT\$100 million or 20% of the capital stock: None.

(viii) Receivables from related parties with amounts exceeding NT\$100 million or 20% of capital stock:

Name of related party	Counter-party	Relationship	Balance of receivable from related party	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	Quaser Europe Gmbh	Parent and subsidiary companies	107,958	Note	-	-	-	-
Winbro Ltd	The Company	Subsidiary and parent companies	102,653	13%	-	-	-	-

Note : The balance of receivable from related party was the other receivables.

(ix) Trading in derivative instruments: None.

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(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counterparty	Nature of relationship (Note 2)	Intercompany transactions for the nine months ended September 30, 2023			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Kunshan Quaser	1	Sales	90,579	T/T 180 days	5 %
0	The Company	Kunshan Quaser	1	Trade receivable	21,658	T/T 180 days	1 %
0	The Company	Quaser Europe Gmbh	1	Sales	84,025	T/T 180 days	4 %
0	The Company	Quaser Europe Gmbh	1	Trade receivable	44,658	T/T 180 days	1 %
0	The Company	Quaser Europe Gmbh	1	Other receivables	107,958	T/T 180 days	3 %
0	The Company	Winbro Ltd	2	Sales	37,869	T/T 120 days	2 %
0	The Company	Winbro Ltd	2	Trade receivable	35,892	T/T 120 days	1 %
0	The Company	Winbro Ltd	2	Accounts payable	102,653	T/T 30 days	3 %
0	The Company	Winbro LLC	2	Sales	96,292	T/T 120 days	5 %
0	The Company	Winbro LLC	2	Trade receivable	49,050	T/T 120 days	1 %
1	Quaser America	Winbro LLC	4	Trade receivable	98,217	T/T 120 days	2 %
2	Quaser Europe Gmbh	Quaser Europe	3	Accounts payable	43,201	T/T 180 days	1 %
3	Winbro Ltd	Winbro LLC	5	Sales	63,800	T/T 90 days	3 %
3	Winbro Ltd	Winbro LLC	5	Trade receivable	80,899	T/T 90 days	2 %
4	Winbro LLC	Winbro Ltd	5	Trade receivable	10,522	T/T 90 days	- %

Note 1: Companies are numbered as follows:

- 1) “0” represents the parent company.
- 2) Subsidiaries are sorted in a numerical order starting from “1”.

Note 2: The relationships between transaction parties are numbered as follows:

- 1) “1” represents the transactions from parent company to subsidiary.
- 2) “2” represents the transactions from parent company to sub-subsidiary.
- 3) “3” represents the transactions between subsidiaries.
- 4) “4” represents the transactions from subsidiary to sub-subsidiary.
- 5) “5” represents the transactions between sub-subsidiaries.

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(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2023 (excluding information on investees in mainland China):

(In Thousands of New Taiwan Dollars/Foreign Currencies in Thousands)

Name of investor	Name of investee	Location	Main businesses	Original investment amount		Amount held at the end of the period			Net income (loss) of the investee	Investment income (loss) recognized by the Company	Note
				End of the period	End of the previous year	Shares	Percentage of ownership	Carrying value			
The Company	Quaser Europe	Switzerland	Buys and sells machines	3,076	3,076	1,000	100%	44,407	(85)	(85)	Subsidiary
The Company	Quaser America	America	Buys and sells machines	189,455	189,455	6,000,000	100%	106,530	(2,062)	(2,062)	Subsidiary (Note 3)
The Company	Winbro UK	United Kingdom	Overseas reinvested holding company	1,845,204	1,845,204	1,425,000	100%	1,365,959	58,920	27,729	Subsidiary
The Company	Quaser Europe Gmbh	Germany	Buys and sells machines	841	841	25,000	100%	(27,782)	1,925	1,925	Subsidiary
Winbro UK	Winbro Ltd	United Kingdom	Aerospace machinery manufacturing and machining	GBP 90	GBP 90	9,029,804	100%	GBP 13,161	GBP (475)	(Note 2)	Sub-subsubsidiary
Winbro UK	Winbro LLC	America	Aerospace machinery manufacturing and machining	USD 33,576	USD 33,576	-	100%	USD 9,185	USD 2,467	(Note 2)	Sub-subsubsidiary

Note 1: Significant intercompany accounts and transactions have been eliminated.

Note 2: According to regulations, it does not need to fill out.

Note 3: The liquidation of the Group's subsidiary, Quaser America, was resolved by the Board of Directors. As of September 30, 2023, the relevant procedures are still in process.

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(c) Information on investment in mainland China:

(i) The names of investees in mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars/In Thousands of Chinese Yuan/In Thousands of United States Dollars)

Investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2023	Investment		Accumulated outflow of investment from Taiwan as of September 30, 2023	Net income (losses) of the investee	Percentage of ownership	Investment income (loss) recognized	Carrying value as of September 30, 2023	Accumulated inward remittance of earnings as of September 30, 2023
					Outflow	Inflow						
Kunshan Quaser	Buys and sells machines	49,238 (USD 1,500)	The investment was made direct investments in companies in mainland China	38,500 (USD 1,280)	-	-	38,500 (USD 1,280)	3,962	100%	3,962	3,930	-
Zhongshan Xuguang	Manufacturing and selling machines	86,220 (CNY 20,000)	The investment was made direct investments in companies in mainland China	-	12,132 (CNY2,800)	-	12,132 (CNY2,800)	(3)	40%	(1)	35,319	-

Note: Significant intercompany accounts and transactions have been eliminated.

(ii) Limitation on investment in mainland China:

(In Thousands of New Taiwan Dollars/In Thousands of United States Dollars)

Accumulated Investment in mainland China as of September 30, 2023	Investment Amount Authorized by Investment Commission, MOEA	Upper limit on investment
NTD\$ 50,632 (USD\$ 1,280) (CNY\$ 2,800)	NTD\$ 72,988 (USD\$ 1,280) (CNY\$ 8,000)	861,059

(iii) Significant transactions

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

(d) Major shareholders

Unit: Shares

Shareholding	Shares	Percentage
Shareholder's Name		
Yeh Chiang Technology Co., Ltd.	12,433,500	22.62 %
Shieh, Raui-Mu	5,511,310	10.02 %
Xude Investment Co., Ltd.	5,107,118	9.29 %

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14. Segment information

The Group's operating segment information and reconciliation were as follows:

For the three months ended September 30, 2023			
	Computer numerical control machines	Aerospace processing machines	Total
Total revenue	\$ 329,701	383,424	713,125
Reportable segment profit or loss	\$ 17,750	5,363	23,113

For the three months ended September 30, 2022			
	Computer numerical control machines	Aerospace processing machines	Total
Total revenue	\$ 403,466	266,503	669,969
Reportable segment profit or loss	\$ 1,545	21,384	22,929

For the nine months ended September 30, 2023			
	Computer numerical control machines	Aerospace processing machines	Total
Total revenue	\$ 850,854	1,083,288	1,934,142
Reportable segment profit or loss	\$ 44,810	103,293	148,103

For the nine months ended September 30, 2022			
	Computer numerical control machines	Aerospace processing machines	Total
Total revenue	\$ 1,161,300	771,797	1,933,097
Reportable segment profit or loss	\$ 20,742	48,646	69,388

Segment revenue reported above represents revenue generated from external customers. The intersegment sales had been eliminated for the three months and nine months ended September 30, 2023 and 2022.

Segment profit represented the profit before tax earned by each segment without other income, other gains and losses, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.