

I. Letter to Shareholders



Dear Shareholders,

In 2023, the global economy underwent multiple impacts, including U.S. Fed's interest-hike policy unsettling investment markets, Sino-U.S. AI chip war, Israel-HAMAs war straining geopolitics, and crash of Chinese realty enterprises pressuring the financial market, which, plus slackened end-market demand and adjustment of industrial inventory, putting a damper on global economic growth.

Affected by the adverse factors, Taiwan's investments and exports slackened, with economic growth reaching only 1.31% in 2023, the lowest in 14 years. Despite the sluggish external economic environment, the company still managed to record-high revenue and profits, thanks to the concerted effort of all the employees.

A. Review of 2023 business performance

a. Result from implementation of 2023 strategic development plan

In 2023, the company focused on energy generation and storage, electrification, and regional short-chain in its development.

1. Energy generation and storage: The newly established energy generation and storage department scored NT\$500 million revenue for its first-year operation, with self-built and self-managed PV power exceeding 20 MW in capacity, including the pioneering combination PV power generation and storage facility. The company has accumulated the track record of integrated engineering works for various types of systems, on top of development of EMS modules for optical storage and AFC frequency modulation service and related operating capability.

2. Electrification: Continue pushing e-vehicle powertrain, which has had 80% share on Taiwan's e-bus market and made inroads in the commercial pickup market. In North America, it has grasped several new energy-related businesses, such as prefabricated mobile electric room green transportation, and hydrogen-energy transportation and storage, on top of establishing a North American subsidiary for power-charging pole, to accelerate expanding power-charging pole sales and service, in addition to plan for setup of assembly lines.

3. Regional short chain: Complete establishment of two new plants, in Mexico and India, respectively, and continue pushing supply-chain and process optimization, as well as regional production and sale integration.

Besides, in line with the government's energy policy, the company has focused on the businesses of renewable-energy substation engineering and the contract and establishment of large energy-storage items, garnering NT\$9.7 billion new orders in the year and boosting total orders in hand to NT\$13.1 billion, plus completion of Longtan 60 MW energy-storage engineering works.

In home appliances, the main efforts include adjustment of operating directions, optimization of product mix, development of RAC/CAC product development and revenue growth. To meet the needs of food companies and low-temperature home-delivery logistics firms for fast cooling and freshness preservation, the company has launched variable-frequency freezing and refrigeration unit, as well as multi temperature-layer freezer, so as to boost food security and technology for flexible cooling power adjustment.

In digital transformation, in line with the trend of global supply-chain reshuffling, the company has completed automated TOS/EQS operating system, raised supply-chain response speed, and introduced concerted cloud-end industrial platform, concerted team operation platform, e-form signing and approval, and mobile office, boosting employee productivity. To strengthen information security, the company has collaborated with Deloitte in conducting information-security check and infiltration test, in addition to construction joint information-security protection mechanism with major affiliates worldwide, so as to enhance operating resilience, a performance which has won the acknowledgement of the information-leadership award granted by the Taiwan Institute for Sustainable Energy.

b.R&D results and development of forward-looking products

The company garnered abundant R&D results in 2023, notably 6 items granted in the 32nd Taiwan Excellence Awards. In energy conservation, emission reduction, intelligence, and automation, the company successfully developed multiple forward-looking products, including "e-car SiC driver and high-performance motor powertrain," industrial "E710 next-generation compact inverter," "high-performance high precision digital communication alternating servo driving system," "active magnetic-levitation bearing controller," "high-power density matrix inverter mechatronic system," and "back-type no fuse circuit breaker."

c.2023 financial status, business plan execution result, and profit analysis

1.Consolidated Financial Statements

Unit: NT\$1,000

	2023	2022	Growth rate
Net operating revenue	59,393,661	58,315,216	1.8%
Operating income	6,663,252	5,073,654	31.3%
Current net profit	5,830,061	3,457,667	68.6%

Consolidated revenue advanced 1.8%, thanks mainly to 16.2% growth of smart energy and 2.8% growth of electromechanical products, which, however, offset by revenue decline of air conditioner, home appliances, Tecom, Taiwan Pelican Express. Smart energy's growth is attributed mainly to engineering construction for offshore wind-farm substations and third terminal of International Taoyuan Airport. Growth momentum of electromechanical products derive mainly from North American, which, though, was dampened by sluggish European economy due to the impact of the Russian-Ukraine ware. Revenue of air conditioners and home appliances dropped, due to the higher comparison base of 2022, thanks to the government's program "air conditioner for every classroom." With daily life resuming normal, after the end of the pandemic, home delivery business dropped, dampening the revenue of Taiwan Pelican Express.

Consolidated operating income jumped 31.3%, thanks mainly to the remarkable performance of electromechanical products, benefitted from stable raw-material prices, increased shipment of high-margin products, shipping-fee decline, and devaluation of NT dollar against the greenback. In addition, the company increased its productivity, cut various costs, and controlled expenses adequately, further boosting operating income. Other favorable factors include increased assessed benefits of financial products in non-operating revenue, interest hike, increased interest income from time deposits. Current net profits jumped 68.6%.

2.Individual financial statement

Unit: NT\$1,000

	2023	2022	Growth rate
Net operating revenue	27,206,836	27,229,403	-0.1%
Operating income	2,178,463	1,845,542	18.0%
Current net profit	5,830,061	3,457,667	68.6%

d.Financial strategy and result

With the company's main business being R&D, production, and sale of industrial products, the company has adhered to the principle of stable operation in long-term financial strategy. The company makes precision planning for cash flow and decides adequate financial structure annually, taking into account business plan, capital outlay, working-capital need, and return on equity.

Table 1

Year	Net profit (NT\$100 million)	Net cash flow adequacy ratio %	Current ratio %	Debt ratio %
2019	32.21	126.69	216.55	37.73
2020	35.11	134.73	233.41	36.01
2021	50.13	126.64	213.81	29.98
2022	34.57	117.78	222.11	31.82
2023	59.09	118.73	231.86	32.08

Thanks to its stable cash flow generated by business activities and stable and sustainable operating strategy, Taiwan Ratings granted the company "twA" credit rating starting 2012, enabling the company to secure financing at lower interest rates, slashing financing cost. Taiwan Rating has upgraded the credit rating to "twA+" since 2015.

In 2024, the company's rating outlook advances from "stable" to "positive," not only highlighting increase of the company's crediting standings but also its fund-raising and price-negotiation ability and flexibility.

B. Brief 2024 business plan

In 2024, the global economy is still ridden with various unfavorable and uncertain factors, including trend of interest hike for curbing inflation, postponing loose policy, lackluster outlook of the Chinese economy, due to realty and local-debt problems, continuation of Russia-Ukraine and Israel-Hamas wars, and Red-Sea shipping crisis. To assure revenue growth, it's necessary to grasp ESG/net zero emission needs, grasp booming green-energy and electrification business opportunities, and deployment in emerging markets.

2024 major business strategy and growth plan:

a. Growth plan for existing businesses

Concerning Green Mechatronic Solution business group, following inauguration in 2023, the Mexican and Indian plants will further improve capacities and supply chain, boosting revenue growth in 2024. Along with the Texas plant, the Mexican plant will exhibit short-chain benefit, extending its reach to Latin America, in addition to supporting growth North American business. Also with short-chain production as its main development axis, the Indian plant will focus on the domestic market, before extending to Southeast Asian and even African market.

As for Intelligence Energy business group, given the trend of explosive growth for AI/cloud-end services, IDC-related engineering business is expected to further grow. In line with the government's renewable-energy policy and Taipower's resilient grid plan, except consolidating market share for offshore wind-power substation engineering works, the group has secured engineering order to SATTOM project, further boosting its engineering and service credential, conducive to winning new bidding projects in the future.

Meanwhile, Air and Intelligent Life business group will continue focusing on provision of all-purpose smart air conditioning and energy management, facilitating ESG carbon-neutrality life. In addition, it will expand commercial air-conditioning products and solutions, optimizing energy-conserving refrigerating and air conditioning system with AI technology and materializing active management via EMS platform, thereby attaining optimization of energy-conserving systems.

b. Strategic development plan

In line with the business vision of "energy conservation, emission reduction, intelligence, and automation," tap ESG-driven business opportunities worldwide and focus on the four main dimensions of green energy, electrification, energy conservation and carbon abatement, and high-potential area, thereby kicking off strategic revenue growth plan.

1. Green energy

- (1) In addition to expanding undertaking of engineering businesses related to wind power, solar power, and storage, introduce key components/parts and system integration technology and take part in carbon-capture and hydrogen filling station pilot plan, thereby strengthening value positioning in new-energy ecological system.
- (2) For power generation and storage business, the company will continue expanding the scale of EPC engineering and building up site operation experience and strengthening the capability for grid integration and demand maneuvering, gradually marching toward the goal of virtual power plant.

2. Electrification

For electric vehicles, the company will tap North American and Indian e-bus/remodel car/engineering vehicle markets, establish regional supply chain, and secure ship e-propelling business opportunities. For industrial electrification, zero in on fuel gas and mining applications, expand industrial mix, and expand systematic integrated sales.

3. Energy conservation and carbon abatement

Significantly raise the revenue share of high-performance electromechanical and air-conditioning products, such as IE4/IE5/SRM/T-HiPro motors and permanent-magnetic variable-frequency screw machines, which, in addition to strengthening corresponding sale of inverters, will target sales to industries with high ESG-related demands, such as steelmaking, petroleum, papermaking and electronics, especially energy-conservation transformative programs in Taiwan, China, and Southeast Asia.

4. Development of high-potential areas

In addition to sale of low-voltage electric products in Mexico and India, taking advantage of local short-chain benefit, plan to tap again overseas HVAC market starting from Indonesia.

c. Sustainable development

The company has won the acknowledgement of international sustainability rating institutions for three consecutive years and covered by DJSI sustainability index and S&P sustainability yearbook, while ranking 1st place in ESG evaluation in electromechanical category in emerging market and 3rd place in global electromechanical industrial section, ahead of major international brands, underscoring the group's long-term effort in sustainable development.

To fulfill the target of "10-year 50% emission reduction" target by 2030, the company will continuously execute emission reductions plans in the four aspects of energy generation, volume reduction, recycling, and substitution, including expansion of rooftop PV power devices in its factory premises worldwide. In 2023, the Italian plant installed a 2.03 MW PV power facility, boosting the group's solar power capacity to 9.66 MW, one step closer to the group's target having renewable energy meeting 30% of power consumption.

In climate governance, implement KPI & ICP quantified performance evaluation, to deepen overall grassroots-level awareness. Take advantage of those mechanisms to help various units identify potential risks and opportunities, prompt them to actively execute carbon-abatement plans, induce low-carbon capital outlay, and strengthen internalization of employees' emission-reduction awareness. In supply-chain management, demand major suppliers in Taiwan to carry out greenhouse-gas inventory, a task completed by over 50 small and medium enterprises under the assistance of TECO in 2023.

In social aspect, in order to encourage encouragement of young generation in R&D on new emission-reduction technologies, the company held "green-brain innovative competition" and "international competition for net-zero emission technologies," passing on the mission of net-zero emission sustainability. The company has also organized International Competition for Net Zero Emission Technology" for college students, encouraging engagement in R&D on emission reduction technology and passing on the mission of net zero emission sustainability. Moreover, the company holds "TECO Award" for outstanding Taiwan figures in science/technology and humanity, for their contribution to build a progressive society with equal emphasis on both fields. With high regard on the benefits of stakeholders, the company has been pushing DEI (diversity, equity, and inclusion), promoting new workplace culture via education and concept, spurring multiple values.

In sum, adhering to the concept of sustainable development, the company will spare no effort pushing ESG and new zero emission, conforming global current to raise international competitiveness, materializing corporate governance, continuous pushing digital transformation, to raise operating efficiency. The goal is forge a sustainable-development working environment and provide customers more quality services and solutions, creating sustainable value for shareholders.

Chairman: Sophia Chiu

President: Thomas Fann

Accounting chief: Tommy Wu