VII. Review of Financial Status, Operating Results, and Risk Management

7.1 Analysis of Financial Status

Unit: NT$thousand

Item \ Year	2023/12/31	2022/12/31	Difference		Remark
			Amount	%	
Current Assets	52,480,611	50,317,421	2,163,190	4	
Fixed Assets	20,290,504	19,131,777	1,158,727	6	
Intangible Assets	4,832,979	4,668,399	164,580	4	
Other Assets	49,709,696	52,485,513	(2,775,817)	(5)	Note
Total Assets	127,313,790	126,603,110	710,680	1	
Current Liabilities	22,634,485	22,734,516	(100,031)	0	
Non Current Liabilities	18,236,525	17,550,095	686,430	4	
Total Liabilities	40,871,010	40,284,611	586,399	1	
Equity attributable to owners of parent	80,148,590	80,024,934	123,656	0	
Capital stock	21,387,966	21,387,966	0	0	
Capital surplus	9,629,730	9,575,822	53,908	1	
Retained Earnings	34,277,944	31,220,437	3,057,507	10	
Other equity	14,852,950	17,840,709	(2,987,759)	(17)	Note
Non Controlling Interest	6,294,190	6,293,565	625	0	
Total Stockholders' Equity	86,442,780	86,318,499	124,281	0	

Note: The decrease is mainly due to the unrealized loss on the valuation of financial assets at fair value through other comprehensive income held by the Group in 2023, which increased both assets and equity.

7.2 Analysis of Operating Results

7.2.1 Operating Results

Unit: NT$thousand

Item \ Year	2023	2022	Difference		Remark
			Amount	%	
Sales Revenue	59,393,661	58,315,216	1,078,445	2	
Operating Costs	(44,451,003)	(45,129,917)	678,914	(2)	
Gross Profit	14,942,658	13,185,299	1,757,359	13	
Realized(Unrealized) Profit from Sales	(1,068)	(997)	(71)	7	
Gross Profit - Net	14,941,590	13,184,302	1,757,288	13	
Operating Expenses	(8,278,338)	(8,110,648)	(167,690)	2	
Operating Profit	6,663,252	5,073,654	1,589,598	31	Note 1
Non-operating Income and Gains	1,610,892	348,171	1,262,721	363	Note 2
Profit before income tax	8,274,144	5,421,825	2,852,319	53	Note 3
Tax Expense	(1,942,112)	(1,429,815)	(512,297)	36	Note 4
Net Income	6,332,032	3,992,010	2,340,022	59	Note 5
Other comprehensive income	(2,506,178)	(10,137,765)	7,631,587	(75)	Note 6
Total comprehensive income	3,825,854	(6,145,755)	9,971,609	(162)	Note 7

Analysis and explanation for changes:

1. The increase is mainly due to the increase in revenue and gross profit for the current year, coupled with expense control measures.
2. The increase is primarily attributed to the recognition of unrealized gains on financial assets measured at fair value through profit or loss for the current year.
3. The increase is mainly due to the higher operating profit for the current year compared to the previous period, as well as the recognition of unrealized gains on financial assets measured at fair value through profit or loss.
4. The increase is primarily due to the higher pre-tax profit for the current year compared to the previous period.
5. The increase is mainly attributed to the higher operating profit for the current year compared to the previous period, as well as the recognition of unrealized gains on financial assets measured at fair value through profit or loss.
6. The increase is mainly due to the reduction in unrealized losses recognized through other comprehensive income on financial assets measured at fair value through profit or loss for the current year compared to the previous year, leading to an increase in other comprehensive income.
7. The increase is primarily attributed to the higher net profit and other comprehensive income for the current year compared to the same period last year.

7.2.2 Change in gross profit: No need of analysis since the change is less than 20%.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year (2023)

Cash and Cash Equivalents, Beginning of Year (1)	Net Cash Flow from Operating Activities (2)	Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Remedy for Cash Deficit	
				Investment Plans	Financing Plans
21,375,400	6,232,907	3,967,771	23,640,536	-	-

A. Analysis of change in cash flow:
   a. Operating activities: The increase in net cash inflow from operating activities is mainly due to stable profitability and proper control of the receipt and payment schedule.
   b. Investing activities: Disposal of financial assets measured at fair value through other comprehensive income and receipt of dividends are the main reasons for cash inflow from investment activities
   c. Financing activities: The payment of cash dividends, payment of borrowings and lease liabilities are the main causes of cash outflows from financing activities.

B. Remedy and liquidity analysis for insufficient cash: not applicable.

7.3.2 Improvement plan for insufficient liquidity: Not applicable

7.3.3 Cash Flow Analysis for the Coming Year

Unit: NT$thousand

Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Remedy for Cash Deficit	
				Investment Plans	Financing Plans
23,640,536	7,575,670	3,705,352	27,510,854	-	-

A. Analysis of change in cash flow in the current year:
   a. Operating activities: It is expected that net cash inflows from operating activities this year will reach double-digit growth, resulting from growth in revenue and profitability compared with 2023.
   b. Investing activities: It is expected that the dividend income earned in 2024 is just enough to pay for the investment in property, plant and equipment.
   c. Financing activities: Although the cash dividend of this year is higher than that of last year, the net cash inflow from operating activities of the Company in Taiwan will increase significantly. It is estimated that loans won't increase this year.

B. Remedy for Cash Deficit and Liquidity Analysis: Not Applicable

7.4 Financial and Business Impact from Major Capital Expenditure Items

7.4.1 Major Capital Expenditure Items and Source of Capital

Unit: NT$thousand

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual or Expected Capital Expenditure	
				2023	2024~2025
2023 Capital Expenditure – new equipment, equipment renewal and capacity expansion	Working Capital	2023/12/31	1,557,000	1,557,000	0-
2024 Capital Expenditure – new equipment, equipment renewal and capacity expansion	Working Capital	2024/12/31	1,593,000	0	1,593,000

7.4.2 Expected Benefits

After the above-mentioned capital expenditure and equipment replacement, in addition to increasing the output of high and low voltage motors, home appliances and air conditioners, and automation & intelligent system products, it will also help reduce production costs and improve product quality.

Furthermore, in the second half of 2023, the high-efficiency low-voltage motor factories in Mexico and India that were successively put into operation will help supply the market locally, reducing supply chain risks and enhancing competitiveness, injecting new momentum into revenue growth.

7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

7.5.1 Equity Investment Policy

In response to economic development trend and increasing competition, both on domestic and overseas fronts, investments are mainly for vertical or horizontal integration of the company's core businesses, including electromechanical, energy engineering, and home appliances & air conditioners, for materialization of the corporate vision of "energy conservation, emission reduction, intelligence and automation" and strengthen digital transformation, focusing on three major fileds, electromechanical, energy and air conditioners, in line with the company's long-term development plan and carefully evaluate various investment plans

7.5.2 Major reasons for profits or loss:

The investment gain recognized by the equity method of the Group in 2023 was NT$ 23,930 thousand, with an decrease of NT$166,349 thousand compared with the investment gain recognized in 2023, (NT$190,279 thousand). It was mainly due to less earnings at TPI BEARINGS .

7.5.3 Investment plan for the next year

In addition to the replacement of old equipment with new ones, the investment plan for the next year will continue to focus on energy conservation, intelligence, automation and digitalization to develop high- efficiency & high-power-density steel shell motor, IE5 high efficiency permanent magnet motor, low-speed direct-drive permanent magnet motors, synchronous reluctance motor, EC(electronically commutated) motor and high efficiency & energy saving inverter duty air conditioning products.

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

A. Effects of Changes in Interest Rates on Corporate Finance, and Future Response Measures

2023 Unit: NT$Thousand

Net Interest Income or Expense (1)	298,931
Sales Revenus(2)	59,393,661
Operating Profit(3)	6,663,252
(1)/(2)	0.50%
(1)/(3)	4.49%

The Company's net interest income for the year 2023 was NT $ 298,931 thousand, accounting for 0.5% of annual sales revenue and 4.49% of operating profit.

In 2023, global inflation moderated, with the annual inflation rate for the US CPI falling from a peak of 9.06% in June 2021 to 3.35% in December 2023. However, the recovery momentum post-pandemic was weaker than expected, coupled with persistent inflationary pressures. As a result, the US Federal Reserve raised interest rates by a total of 4 times (100 basis points) throughout the year, while the Taiwan Central Bank raised interest rates by a total of 0.5 basis points (12.5 basis points).

So far this year, the pace of inflation moderation has slowed down, with the CPI annual inflation rate in March at 3.48%, even higher than February's 3.15%. Market expectations for the number of interest rate cuts this year have decreased from an initial estimate of 3 cuts to 2 cuts, indicating that the US interest rates are expected to remain at their peak for a longer period. The Taiwan Central Bank raised interest rates by 0.5 basis points in March, and it is predicted that Taiwan's interest rates will remain at a high level for the year.

To mitigate the impact of interest rate fluctuations, the company will adjust its positions and durations of foreign currency deposits and borrowings in a timely manner to reduce interest rate risks.

B. Effects of Changes in Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

2023 Unit: NT$thousand

Currency Exchange Gain or Loss(1)	58,035
Sales Revenus(2)	59,393,661
Operating Profit(3)	6,663,252
(1)/(2)	0.10%
(1)/(3)	0.87%

The company's net curreny exchange gain was NT$58,035 thousand in year 2023, which was mainly due to the appreciation of US dollar against New Taiwan dollar, Japanese Yuan and RMB.

The prediction for the first half of this year suggests that the US dollar will experience range-bound fluctuations against various currencies, maintaining its position at high levels. It is expected that interest rates in Europe and the United States will gradually decline in the second half of the year, narrowing the interest rate differential, which will favor a more noticeable upward trend in other countries' currencies against the US dollar. In addition to closely monitoring exchange rate fluctuations, our company will implement the following response measures. In addition to natural hedging associated with positions of assets and liabilities, the company will undertake substantial hedging via forward forex transactions.

a. A. Utilize natural hedging through asset and liability positions, combined with forward foreign exchange transactions for effective hedging.

b. Maintain close communication between the finance department and the foreign exchange department of counterpart financial institutions, continuously gather relevant information on exchange rate changes, fully grasp international exchange rate trends and information changes, and proactively respond to the negative impacts of exchange rate fluctuations. Use the understanding of exchange rate movements as a reference for forward exchange transactions and settlements.

c. The finance department regularly prepares internal assessment reports on hedging positions for foreign currency net assets (liabilities) to be submitted to the company's management for judgment on the appropriate hedging measures to be taken.

C. The impact on company’s performance reselted from inflation and counter measures

The Taiwan Directorate-General of Budget, Accounting and Statistics announced that the annual CPI inflation rate for the year 2023 was 2.5%, the second-highest in 15 years. As for the main raw materials of our company, including steel, copper, and aluminum, compared to the past, the purchasing cost of copper remains relatively high, while the prices of aluminum and iron have declined compared to last year.

Our company typically negotiates procurement contracts for raw materials, allowing us to negotiate pricing with suppliers based on the pattern of price increases. Therefore, fluctuations in raw material prices do not have a significant adverse impact on the company's profits and losses. However, we will continue to cautiously assess the trend of basic metal prices in the future and develop the most suitable procurement strategies in accordance with operational needs.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

A. The company abstains from high-risk and high leveraged investments.

B. At the end of 2023, outstanding loans extended by the company amounted to NT$0 thousands.

C. In 2023, the outstanding amount of the endorsement and guarantee extended by the company reached NT$1,287,040 thousand, for the company’s subsidiaries, affiliates, and business partners. The company has obtained the financial statements and business profile information of the company endorsed and guaranteed at ordinary times, analyzes its profit situation, in order to evaluate the risk of the company's endorsement guarantee, and plans the risk reduction plan in advance

D. In 2023, the derivative products held by the company are mainly forward foreign exchange transactions. Since the counterparties of the transactions are all creditworthy international financial institutions, and the company also trades with many financial institutions to diversify risks, the contract counterparty default risk is very low, so the credit risk of the derivative commodity transactions that the company engages in is very low. In addition, the derivative products held by the company are mainly of a hedging nature, and the resulting profit and loss will offset the profit and loss of the hedging project, so the market risk is also very

low. The company calculates the fair value of individual contracts based on the mid-price of the exchange rate reported by the Taiwan Bank's exchange rate

E. The company has formulated numbers of investment guidelines for cutting risk, including "Procedure for the Acquisition and Disposal of Assets," "Procedure for Lending Capital to the Others", "Procedure for the Endorsement and Guarantee," and "Procedure for the Trading and Disposal of Derivatives."

7.6.3 Future Research & Development Projects and Corresponding Budget

TECO Group's estimated R&D expenditure in 2024 is NT$1,086,049 thousand.

In recent years, TECO has gathered the research and development strength and market experience of the company's research and development units at home and abroad, and strengthened its core business through industry-university-research cooperation, and actively invested in the green energy industry. We have initiated several important research and development projects in various areas, including: Permanent Magnet Synchronous Motors (PMSM), Integration of Electric Vehicle Power Systems, Power Regulation Systems, Medium Voltage Variable Frequency Drives, Precision Servo Motors, IE5 Synchronous Reluctance Motors and Drives, Advanced Control Algorithms, Solutions for Residential and Commercial Air Conditioning Systems, and Internet of Things (IoT) Applications.

In response to the mid-to-long term new technology and new product development, as well as short-term operational needs for product cost-effectiveness improvement, TECO's R&D team is actively looking for external resources, operating through technical consultation, cooperation, and introduction to enrich its technical capabilities.

Starting from existing core technologies such as rotating electrical machine and generator design, motor drive and design, power electronic control and design, and gateway technology, integrate new market demand, industrial specifications, new material applications, sensor application technology, wireless network technology, and the field of green energy industry technology (such as hydrogen energy and CCUS, Carbon Capture, Utilization and Storage, reuse and storage, etc.), coordinate the overall R&D strategy and technology planning.

The company formulates its future R&D plan on the following bases:

A. Grasp and analysis of industrial development, government policy, and market trend;

B. The establishment and rooting of key technologies;

C. Competitiveness relative to rivals in Europe, the U.S., and Japan;

D. Global market positioning and technological integration;

E. Grasp of R&D progress and quality.

Therefore, TECO is expected to continue or initiate the following R & D directions in 2024 in order to comply with the new European regulations in the existing product market and develop high-value-added innovative applications for existing marketing channels, while seeking specific commercialization of emerging technologies and creating new market opportunity, while seeking the specific commercialization of emerging technologies and the creation of new markets.

A. Electromechanical systems and automation products and technologies

a. Electromechanical products

- Development of MW-level high-voltage high-power-density steel shell motors
- IE5 ultra-high energy efficiency explosion-proof motor
- IE5 ultra-high energy efficiency synchronous reluctance motor and drive development

- Hydrogen Specialized Energy Reciprocating Compressor
- Research and development of four-quadrant control of medium-voltage inverters, industrial network and frequency conversion switching
- Development of low-speed high-torque permanent magnet motor direct drive system
- Development of E710 Next-Generation Miniaturized Frequency Converter
- Commercial drone power system development

b. Electrical Vehicle products

- 350kW SiC High-Power Electric Bus Direct Drive Solution
- 130kW Electric Commercial Vehicle Multi-in-One Powertrain Solution

c. Automation products

- Next-Generation High-Performance Servo Drive Development
- Ultra-Thin Simplified AC Servo Product Development
- EtherCat Simplified AC Servo Product Development
- Characteristic Selection Function Technology Development
- Upper-Level Command Adjustment Function Technology Development

B. Air conditioner and smart home appliance products and technologies:

a. Household products

- Development of Air Conditioners with CSPF Energy Efficiency Exceeding National Standards by 70% for Ultra-High Efficiency Models
- Development of Air Conditioners with Whole-Machine Antibacterial, Antifungal, and Self-Cleaning Functions for Both Indoor and Outdoor Units
- Development of Air Conditioners with Comfortable Ergonomic 3D Airflow Functionality
- Development of "i-Air" Smart Health Air Solution for Air Conditioners
- Development of Household Inverter Refrigerator with Level 1 Energy Efficiency and Dual-Door Freezing
- Development of AC Units with Hybrid AC/DC Power Supply

b. Commercial products

- Development of High-Efficiency IPLV Magnetic Levitation Centrifugal Chiller Units with Multi-Pressure Single-System
- Development of High-Efficiency IPLV Direct Current Variable Frequency Permanent Magnet Screw Chiller Units
- Development of Variable Frequency Condensing Unit for Refrigeration and Cold Storage Using Environmentally Friendly R407H Refrigerant
- Development of Brine Water Chiller Units for Specialized Refrigeration and Cold Chain for Food Preservation
- Development of Commercial Fixed/Variable Frequency Air-Cooled Box-Type Air Conditioners for Power Plants
- Development of Commercial Water-Cooled Box-Type Constant Temperature and Humidity Air Conditioners for Archive Preservation
- Development of Power Crystal Dedicated Two-Phase Heat Dissipation Units for Industrial Motor

Applications

c. Smart networking system

- Development of HVAC Air Conditioning Group Control System for Energy Saving Solutions
- Energy-saving Group Control for Four Major Peripheral Equipment, including Chilled Water Pumps, Cooling Water Pumps, Cooling Towers, and Air Handling Units
- Development of HVAC Air Conditioning Cloud Monitoring Expert Diagnosis System
- Energy-saving Retrofit Solutions and Services for Intelligent Chiller Control Systems
- Development of Smart Internet-of-Things (IoT) Dedicated Units for High-Performance Water-Cooled/Air-Cooled Systems in Data Centers
- Development of Next Generation TaiSEIA Connectivity Control and Mobile App for Residential Air Conditioning Series

C. Industrial Internet of Things:

(1) Edge Heterogeneous Network Integration and Feature Analysis System Application

- Data Analysis: Equipment Utilization Rate Reports, Fault Abnormality Indicators, VPI Equipment Diagnosis, Production Work Order, and Electricity Carbon Equivalent Calculation
- Planning and Testing of Integrated Data Extractors: Introduction of AI Vision for Remote Equipment Shutdown Applications in Vehicle and Material Handling and Handheld Devices

(2) Overseas Factory Deployment of Industrial Internet of Things:

Parallel Deployment of Electrical Monitoring and Process Monitoring for Wuxi Precision, Wuxi Jin Yi Plant, Wuxi Jin Er Plant, and Phase II of Jiangxi Dongyuan

(3) Layout and Planning of Industrial Internet of Things for New Overseas Factory Construction:

Establishment of New Plants in India and Mexico

(4) Intelligent Management of Entire Plant Compressed Air Systems and Electricity/Gas Usage Systems

D. New energy storage products and technologies

(1) Development of 1.725MW Power Conditioning System (PCS) Product

- Development of Power Conversion Quadrant Power Conversion Technology
- Development of Harmonic Suppression Technology
- Development of Battery Charging and Discharging Technology
- Development of Grid Connection Technology
- Development of Virtual Synchronous Generator Technology

(2) Development of High-Speed Aerodynamic Magnetic Bearing Permanent Magnet Synchronous Air Compressor and Drive Controller for Onboard Fuel Cell Vehicles

(3) Development of Energy Management Aggregation System Platform

The company's general research institute oversees the overall R&D strategy, technology deployment and ongoing product R&D, with an eye on technological deployment and product development in short-, medium-, and long-term, including:

Term of R&D	Focus	Major R&D items
Short-term	Develop new-product application market, Enhance performance of existing products & Enhance product profitability and market share	Mechatronics and Automation Products Development of ultra-high-efficiency motors (explosion-proof, synchronous reluctance type with steel plate shell) Development of low-speed high-torque permanent magnet motor direct drive system Development of reciprocating compressors for hydrogen energy applications Development of power systems for unmanned aerial vehicles Development of power systems for commercial vehicles and electric buses Mechatronics and Automation Technology Research and development of drive technology (sensorless, servo parameter auto-adaptation, regenerative braking, etc.) Air Conditioning and Smart Home Appliance Products and Technology HVAC air conditioning development projects (energy-saving solutions with group control systems and cloud-based diagnostic systems) Development of high-efficiency IPLV magnetic levitation centrifugal chiller units with multiple pressure single systems Development of specialized commercial variable/fixed frequency air conditioning/refrigeration units (environmentally friendly refrigerant R407H, for power plants, archival preservation, etc.) Development of new technologies (ultra-efficient variable frequency, whole-unit antibacterial and mold prevention with self-cleaning, and DC-DC converters, etc.) Energy Creation and Storage Products and Technology Development of 1.725MW power conditioning system (PCS) products and technology (grid connection, battery charging and discharging, and power quadrant control, etc.) Development of power converters (single/dual direction DC, AC-DC type)
Mid-term	Accumulation of core technological strength & Development of new technological strength	Mechatronics and Automation Technology Development of next-generation insulation systems Development of MW-class high-voltage high-power density steel shell motor technology Development of high-speed permanent magnet motor and drive SiC high-power power system solutions Development of ultra-low-speed direct drive permanent magnet motor Research and development of medium-high voltage inverters Development of ultra-high-speed pneumatic bearing permanent magnet synchronous motor drives Air Conditioning and Smart Home Appliance Technology Development of DC/AC-DC hybrid to variable frequency air conditioning technology Development of specialized fixed/variable frequency models (for food cold chain brine chillers, smart networked data centers, and energy-saving transformations for smart chilled water systems, etc.)

Term of R&D	Focus	Major R&D items
		Development of next-generation TaiSEIA digital home connectivity and app Energy Creation and Storage Technology Development of single/dual direction DC/AC-DC power converters Development of Energy Management Systems (EMS) Development of PCS technology (active islanding detection, harmonic suppression, and primary frequency regulation, etc.)
Long-term	Deployment in new business scope	Mechatronics and Automation Technology Development of traction motors for rail vehicles Research and development of machine-to-machine (M2M) integration systems Air Conditioning and Smart Home Appliance Technology Development of next-generation green energy variable frequency air conditioning technology Development of specialized two-phase flow cooling units for industrial cooling Energy Creation and Storage Technology Energy storage system aggregation platform solution Development of virtual synchronous generator technology Development of grid technology (micro smart grid systems and weak grid systems, etc.) Development of air compressor systems for on-board fuel cell vehicles

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

None

7.6.5 Effects of and Response to Changes in Technology (including cyber security risk) and in Industry Relating to Corporate Finance and Sales

In response to technological changes, TECO set up an information security committee under the Corporate Governance and Sustainability Committee of the board of directors in January 2021, with the President as the chairman of the committee, responsible for coordinating the Company's information security policy and governance. In addition, TECO information security management system (ISMS) was verified by a third party on October 2021 and passed the ISO27001 international standard certification, improving the information security management policy and relevant management procedures. In the future, the deployment of cyber security defense system will strengthen endpoint detection and response, network abnormal traffic monitoring, intrusion detection and protection, complete system backup and cyber security monitoring platform, and deepen defense in management and technology to reduce cyber security risks.

In terms of industry, based on the social trend of declining employment population and the demand for green energy, the company is considering global development trends, responding to government industrial policies, and examining its existing technological energy and corresponding industrial growth. In addition to continuing to strengthen its technical advantages in high-efficiency power motors, environmentally friendly refrigerant applications for home appliances, and frequency conversion energy saving, it also closely studies international technology trends and market trends reports, and introduces innovative methodologies. In order to respond to the social trend of declining employment population, plan the biomedical technology forum and long-term technology development blueprint, and complete the strategy and timetable of the plan. In order to meet the demand for green energy, there are plans for electric vehicle motors, wind generators, smart grid peripheral appliances, green energy-saving appliances, and multi-connected air-conditioning systems.

Since 2017, the Forward-looking Technology Advisory Committee will continue to scan the top forward-looking technologies, catch up with the technology and products of leading technology companies, strengthen and screen the applications and maintenance of effective intellectual wealth, and actively participate in the relevant disciplines of the new government's industrial policy. Join the R&D of gateway technology of the electronic control product series, strengthen the quality and taste of the remote monitoring of motors and generators, the R&D of high-end servo motor drives and the R&D of reluctance motors and drives, and the security of digital homes and mobile communications. Class commercial air-conditioning products, closely integrated with industrial compound networking and machine-connected networking applications. Re-enhance the density and depth of technical detectives, continue to strengthen the horizontal technical integration of related companies, and actively seek foreign technical cooperation to accumulate research and development capabilities in order to provide products that will be long-term demanded by the future society.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company’s Response Measures

The company has been pursuing sustained growth via “pluralized management” and “global deployment,” and has been striving to project a quality corporate image for a globalized group by manifesting in-depth social care via TECO Technology Foundation and rigorous demand for quality and service. The company’s crisis management plan covers its production bases worldwide and has helped the company respond properly to the ordeal of major incidents in recent years, thanks to the company’ constant effort in fostering crisis-management capability. In the future, the company will continue simulating the outbreak of major incidents and formulate response plans, in order to safeguard the interests of shareholders.

7.6.7 Expected Benefits from Risks Relating to and Response to Merger and Acquisition Plans

Our company convened a board meeting on April 10, 2024, resolving to merge with TECO Electro Devices Co., Ltd. through a cash transaction. The aim of this merger is to facilitate the integration of production, sales, and research resources through organizational restructuring, achieving product and cost optimization, strengthening the integration of electromechanical systems business, expanding overall scale economies and benefits, providing both parties' customers with higher quality and more diverse products and services, and reducing overall operating costs. This transaction is subject to approval at TECO Electro Devices Co., Ltd.'s shareholder meeting on June 17 and subsequent approval by regulatory authorities. Since this transaction constitutes an organizational restructuring of our company, there should be no potential risks involved.

7.6.8 Expected Benefits from Risks Relating to and Response to Factory Expansion Plans

In September and November 2023, respectively, we completed the construction of our Mexico and India plants. It is expected that the motor production capacity will reach 150,000 units and 20,000 units, respectively, in 2024. The main benefit is the collaboration with local distributors and OEM customers to expand distribution channels in Central and South America and India. Additionally, the Indian government plans to replace 800,000 diesel vehicles with electric vehicles by 2030, thereby capturing opportunities with local automotive and electric vehicle manufacturers. As the establishment of new overseas plants allows for supplying local demand nearby, there are no significant potential risks involved.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

None

7.6.10 Effects of Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%

Due to its investment strategy requirements, our corporate director, Creative Sensor Co., Ltd., has transferred 22,502 thousand shares of our company's stock on the centralized market from the fiscal year 2024 onwards until the printing date of the annual report. This represents 1.05% of the total issued shares of our company. As Creative Sensor Co., Ltd. only holds one directorship in our company and is not part of the main management team, there are no significant impacts or risks to our company's operations.

7.6.11 Effects of Risks Relating to and Response to Changes in Control over the Company

None

7.6.12 For litigation and non-litigation cases, specify the company and directors, supervisors, president, chief executive, and major shareholders with over 10% of shareholding, as well as affiliates. For major litigation, non-litigation, or administrative disputes with major effects on the interests of shareholders or stock prices, disclose the facts, target value, starting dates for litigation, major parties involved, and the status of the cases up to the publication of the yearbook

Unit: NT$ thousand

Number	The cause of the case	the counterparty	the progress of the case	Amount
1	Request for change and additional engineering payment	LiJin Engineering.	The court is hearing (the court appointed the Taiwan Construction Research Institute for appraisal. The first-instance verdict was announced on March 20, 2024). There is no significant adverse impact on TECO	$136,678
2	Request payment for the new construction of Nangang Exhibition Hall	Construction and Planning Agency, Ministry of the Interior	The first-instance judged that the counterparty should pay TECO (Leader Construction, TECO, TMA Architects and Assoiciate) a total of NT$407,657 thousand and interest from 2008.3.7 to the date of settlement. The counterparty filed an appeal on 2020.5.22. The second instance of the court on 2022.11.29 pronounced: the original judgment ordering the appellant to pay more than NT$392,052 thousand was rejected, and the Construction Administration of the Ministry of the Interior has appealed. Received notification from the Supreme Court on January 9, 2024, regarding the referral to the Taiwan High Court. At present, there is no material adverse effect on TECO.	$197,262
3	Kingdom Construction Co., Ltd. requests Tong An Asset Development & Management Co., Ltd. (a subsidiary of Tong An) to return unjust enrichment.	Kingdom Construction Co., Ltd.	As of December 29, 2023, the case was referred to mediation by the court. At present, there is no material adverse effect on TECO.	$538,543
4	Mediation for the performance dispute in the EID case	Central Engraving and Printing Plant	Received the Engineering Association's mediation proposal on December 1, 2023. Both parties agreed to the mediation proposal. Subsequently, the matter will be submitted to the Commission for confirmation, and a mediation agreement will be drawn up after the meeting.	$266,585

7.6.13 Other Major Risks and Countermeasures

In order to strengthen information security management, ensure the confidentiality, integrity and availability of information, as well as the reliability of information equipment and network systems, the company has established information security policies as guidelines for information security risk management in company regulations. At the same time, under the information security risk management framework, build intrusion prevention systems / email anti-spam systems / endpoint anti-virus systems to gradually complete information security protection. Also, regularly conducts data off-site backup systems and disaster recovery mechanism exercises to ensure that services are not interrupted.

7.7 Other Important Items

None