

**SHUI-MU INTERNATIONAL CO., LTD. AND  
SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Report  
For the Years Ended December 31, 2023 and 2022**

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

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## **Representation Letter**

The entities that are required to be included in the combined financial statements of SHUI-MU International Co., Ltd. as of and for the year ended December 31, 2023 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, SHUI-MU International Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: SHUI-MU International Co., Ltd.

Chairman: Jung-Yueh Lo

Date: March 12, 2024



安侯建業聯合會計師事務所

KPMG

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## Independent Auditors' Report

To the Board of Directors of SHUI-MU International Co., Ltd.:

### Opinion

We have audited the consolidated financial statements of SHUI-MU International Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

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

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

#### 1. Revenue recognition

Please refer to Note 4(o) for the accounting policy on revenue recognition and Note 6(s) for details of revenue from contracts with customers.

Description of key audit matter:

The Group's revenues primarily derive from its retail stores and consist of a high volume of small-value transactions. The sales data transfer process is highly dependent on IT systems. Revenue recognition is the main concern of the users of the financial statements. Therefore, we determined that the revenue recognition is a key audit matter.

How the matter was addressed in our audit:

Our principal audit procedures included:

- 1) Understanding the Group's revenue recognition policy and assessing whether it is consistently applied in comparative periods.
- 2) Examining supporting documents for retail sales transactions and the IT control environment related to financial reporting process.
- 3) Inspecting, on a sample basis, the daily cash report and reconciling items.
- 4) Verifying, on a sample basis, whether the cash receipt amount of the daily cash report is consistent with the bank remittance amount.
- 5) Verifying, on a sample basis, whether the sales amount of daily sales report is consistent with the amount recorded in the accounting system.

## 2. Inventory valuation

Please refer to Note 4(h) for the accounting policy on inventories, Note 5 for significant accounting estimates and uncertainty of assumptions related to inventory valuation, and Note 6(f) for details of inventories.

Description of key audit matter:

The Group is primarily engaged in the sale of shoes and other leather products. As the fashion trends and styles change constantly, the risk of inventory obsolescence is higher. Therefore, we determined that inventory valuation is a key audit matter.

How the matter was addressed in our audit:

Our principal audit procedures included:

- 1) Verifying whether the Group's accounting policy on the allowance for inventory valuation loss is consistently applied, and assessing the reasonableness of the policy.
- 2) Inspecting supporting documents to test the accuracy of inventory classification according to quarterly changes, and verifying whether the allowance for valuation loss is provided in accordance with the Group's policy.
- 3) Obtaining the net realizable value report to verify whether the calculation logic is used consistently, and testing the assumptions used by inspecting supporting documents.

## Other Matter

SHUI-MU International Co., Ltd. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2023 and 2022, on which we have issued an unmodified opinion.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chen, Pei-Chi and Yu, Chi-Lung.

KPMG

Taipei, Taiwan (Republic of China)

March 12, 2024

#### **Notes to Readers**

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2023		December 31, 2022				December 31, 2023		December 31, 2022	
		Amount	%	Amount	%			Amount	%	Amount	%
<b>Current Assets</b>											
<b>Current assets:</b>											
1100	Cash and cash equivalents (notes 6(a)(v))	\$ 286,128	16	162,553	9	2130	Current contract liabilities (note 6(s))	\$ 372,778	21	356,034	20
1110	Current financial assets at fair value through profit or loss (notes 6(b)(v))	30,973	2	30,826	2	2170	Accounts payable (note 6(v))	44,097	3	66,564	4
1136	Financial assets at amortised cost, net (notes 6(c)(v))	48,670	3	9,100	1	2180	Accounts payable to related parties (notes 6(v) and 7)	7,849	1	6,889	1
1150	Notes receivable, net (notes 6(d)(s)(v))	446	-	-	-	2200	Other payables (notes 6(l)(v))	73,816	4	85,405	5
1170	Accounts receivable, net (notes 6(d)(s)(v))	24,412	1	26,072	1	2220	Other payables to related parties (notes 6(v) and 7)	1,462	-	211	-
1200	Other receivables (notes 6(e)(v))	730	-	496	-	2250	Current provisions (note 6(n))	2,351	-	1,839	-
1220	Current income assets	51	-	15	-	2280	Current lease liabilities (notes 6(l)(v))	126,604	7	128,292	7
130X	Inventories (notes 6(f))	456,813	26	570,828	33	2300	Other current liabilities	3,047	-	2,874	-
1410	Prepayments (Note 7)	24,987	2	32,260	2		<b>Total non-current liabilities</b>	632,004	36	648,108	37
	<b>Total current assets</b>	873,210	50	832,150	48		<b>Non-Current liabilities:</b>				
<b>Non-current assets:</b>						2550	Non-current provisions (note 6(n))	5,659	1	5,703	-
1550	Investments accounted for using equity method	1,100	-	603	-	2580	Non-current lease liabilities (notes 6(m)(v))	284,887	16	274,342	16
1600	Property, plant and equipment (notes 6(g) and 8)	315,773	18	352,067	20	2600	Other non-current liabilities (note 6(v))	4,761	-	4,817	-
1755	Right-of-use assets (note 6(h))	393,613	22	388,759	22		<b>Total Non-current liabilities</b>	295,307	17	284,862	16
1760	Investment property, net (notes 6(i) and 8)	95,571	6	95,984	6		<b>Total liabilities</b>	927,311	53	932,970	53
1780	Intangible assets	20,239	1	22,472	1		<b>Equity(note 6(q)):</b>				
1900	Other non-current assets (notes 6(v), 7 and 8)	59,690	3	55,845	3	3110	Ordinary share	668,000	38	668,000	38
	<b>Total non-current assets</b>	885,986	50	915,730	52	3200	Total capital surplus	331,289	19	331,289	19
						3300	Total retained earnings	(173,227)	(10)	(190,247)	(10)
						3410	Total exchange differences on translation of foreign financial statements	5,691	-	5,709	-
							<b>Total equity attributable to owners of parent:</b>	831,753	47	814,751	47
						36XX	Non-controlling interests	132	-	159	-
							<b>Total equity</b>	831,885	47	814,910	47
<b>Total assets</b>		<b>\$ 1,759,196</b>	<b>100</b>	<b>1,747,880</b>	<b>100</b>		<b>Total liabilities and equity</b>	<b>\$ 1,759,196</b>	<b>100</b>	<b>1,747,880</b>	<b>100</b>

See accompanying notes to consolidated financial statements.



(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2023 and 2022**

**(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)**

		<b>2023</b>		<b>2022</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
4000	<b>Operating revenue, net (note 6(s))</b>	\$ 1,178,163	100	1,241,073	100
5000	<b>Operating costs (notes 6(f) and 7)</b>	<u>488,069</u>	<u>42</u>	<u>662,984</u>	<u>53</u>
5900	<b>Gross profit from operations</b>	690,094	58	578,089	47
<b>Operating expenses (notes 6(d)(e)(g)(h)(i)(m)(o)(t) and 7):</b>					
6100	Selling expenses	577,098	49	595,296	48
6200	Administrative expenses	95,545	8	102,270	8
6300	Research and development expenses	13,690	1	11,346	1
6450	Reversal of impairment loss determindes in accordance with IFRS 9	<u>-</u>	<u>-</u>	<u>(499)</u>	<u>-</u>
6000	<b>Total operating expenses</b>	<u>686,333</u>	<u>58</u>	<u>708,413</u>	<u>57</u>
6900	<b>Net operating income (loss)</b>	<u>3,761</u>	<u>-</u>	<u>(130,324)</u>	<u>(10)</u>
<b>Non-operating income and expenses (notes 6(b)(j)(m)(u)(v) and 7):</b>					
7100	Interest income	4,132	-	2,092	-
7010	Other income	12,843	1	13,913	1
7020	Other gains and losses, net	1,825	-	(15,183)	(1)
7050	Finance costs, net	(6,047)	-	(6,052)	(1)
7060	Share of profit (loss) of associates accounted for using equity method, net	<u>497</u>	<u>-</u>	<u>273</u>	<u>-</u>
7000	<b>Total non-operating income and expenses</b>	<u>13,250</u>	<u>1</u>	<u>(4,957)</u>	<u>(1)</u>
7900	<b>Profit (loss) from continuing operations before tax</b>	17,011	1	(135,281)	(11)
7950	Less: Income tax expenses (note 6(p))	<u>-</u>	<u>-</u>	<u>75,351</u>	<u>6</u>
	<b>Profit (loss)</b>	<u>17,011</u>	<u>1</u>	<u>(210,632)</u>	<u>(17)</u>
8300	<b>Other comprehensive income:</b>				
8360	<b>Items that may be reclassified subsequently to profit or loss</b>				
8361	Exchange differences on translation of foreign financial statements	(18)	-	7,262	1
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(18)</u>	<u>-</u>	<u>7,262</u>	<u>1</u>
8300	<b>Other comprehensive income</b>	<u>(18)</u>	<u>-</u>	<u>7,262</u>	<u>1</u>
8500	<b>Total comprehensive income</b>	<u>\$ 16,993</u>	<u>1</u>	<u>(203,370)</u>	<u>(16)</u>
<b>Profit (loss) attributable to:</b>					
8610	Owners of parent	\$ 17,020	1	(210,618)	(17)
8620	Comprehensive income anon-controlling interests	<u>(9)</u>	<u>-</u>	<u>(14)</u>	<u>-</u>
		<u>\$ 17,011</u>	<u>1</u>	<u>(210,632)</u>	<u>(17)</u>
<b>Comprehensive income attributable to:</b>					
8710	Owners of parent	\$ 17,002	1	(203,356)	(16)
8720	Comprehensive income (loss)	<u>(9)</u>	<u>-</u>	<u>(14)</u>	<u>-</u>
		<u>\$ 16,993</u>	<u>1</u>	<u>(203,370)</u>	<u>(16)</u>
<b>Earnings (loss) per share (Note 6(r))</b>					
9750	<b>Basic earnings (loss) per share (in dollars)</b>	<u>\$ 0.25</u>		<u>(3.15)</u>	
9850	<b>Diluted earnings (loss) per share (in dollars)</b>	<u>\$ 0.25</u>		<u>(3.15)</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2023 and 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

**Equity attributable to owners of parent**

	Equity attributable to owners of parent						Total other equity interest			
	Retained earnings						Exchange differences on translation of foreign financial statements	Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Accumulated deficit	Total retained earnings				
Balance at January 1, 2022	\$ 668,000	331,289	252,097	668	(232,394)	20,371	(1,553)	1,018,107	173	1,018,280
Loss	-	-	-	-	(210,618)	(210,618)	-	(210,618)	(14)	(210,632)
Other comprehensive income	-	-	-	-	-	-	7,262	7,262	-	7,262
Total comprehensive income	-	-	-	-	(210,618)	(210,618)	7,262	(203,356)	(14)	(203,370)
Appropriation and distribution of retained earnings:										
Legal reserve used to offset accumulated deficits	-	-	(231,726)	-	231,726	-	-	-	-	-
Special reserve used to offset accumulated deficits	-	-	-	(668)	668	-	-	-	-	-
Balance at December 31, 2022	668,000	331,289	20,371	-	(210,618)	(190,247)	5,709	814,751	159	814,910
Profit	-	-	-	-	17,020	17,020	-	17,020	(9)	17,011
Other comprehensive income	-	-	-	-	-	-	(18)	(18)	-	(18)
Total comprehensive income	-	-	-	-	17,020	17,020	(18)	17,002	(9)	16,993
Appropriation and distribution of retained earnings:										
Legal reserve used to offset accumulated deficits	-	-	(20,371)	-	20,371	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(18)	(18)
Balance at December 31, 2023	\$ 668,000	331,289	-	-	(173,227)	(173,227)	5,691	831,753	132	831,885

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2023 and 2022**  
**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2023</u>	<u>2022</u>
<b>Cash flows from (used in) operating activities:</b>		
Profit (loss) before tax	\$ 17,011	(135,281)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	189,713	195,892
Amortization expense	4,117	4,239
Expected credit gain	-	(499)
Net (gain) loss on financial assets or liabilities at fair value through profit or loss	(4,115)	9,573
Interest expense	6,047	6,052
Interest income	(4,132)	(2,092)
Dividend income	(544)	(775)
Share of loss (profit) of associates accounted for using equity method	(497)	(273)
Loss on disposal of property, plant and equipment	1,203	3,175
Loss (gain) on lease modification	242	(57)
Total adjustments to reconcile profit (loss)	<u>192,034</u>	<u>215,235</u>
<b>Changes in operating assets and liabilities:</b>		
Financial assets at fair value through profit or loss	3,968	704
Notes receivable	(446)	-
Accounts receivable	1,660	21,860
Other receivable	(144)	1,274
Inventories	114,015	(7,234)
Prepayments	7,273	(4,453)
Contract liabilities	16,744	8,640
Notes payable	-	(4)
Accounts payable	(22,467)	(11,059)
Accounts payable to related parties	960	3,722
Other payable	(11,589)	1,717
Other payable to related parties	1,251	(184)
Other current liabilities	173	(1,392)
Total adjustments	<u>303,432</u>	<u>228,826</u>
Cash inflow generated from operations	320,443	93,545
Interest received	4,044	2,089
Interest paid	(6,047)	(6,052)
Income taxes paid	(36)	(306)
Net cash flows from operating activities	<u>318,404</u>	<u>89,276</u>
<b>Cash flows from (used in) investing activities:</b>		
(Increase) decrease financial assets at amortised cost	(39,570)	23,590
Acquisition of property, plant and equipment	(9,161)	(17,210)
Increase in refundable deposits	(319)	(5)
Acquisition of intangible assets	(1,884)	(1,583)
Prepayments for investments	(3,526)	-
Decrease in other non-current assets	-	95
Dividends received	542	747
Changes in non-controlling interests	(18)	-
Net cash flows (used in) from investing activities	<u>(53,936)</u>	<u>5,634</u>
<b>Cash flows from (used in) financing activities:</b>		
(Decrease) increase in guarantee deposits received	(54)	1,744
Payment of lease liabilities	(140,819)	(143,273)
Decrease in other non-current liabilities	(2)	(407)
Net cash flows used in financing activities	<u>(140,875)</u>	<u>(141,936)</u>
Effect of exchange rate changes on cash and cash equivalents	(18)	7,262
Net increase (decrease) in cash and cash equivalents	123,575	(39,764)
Cash and cash equivalents at beginning of period	<u>162,553</u>	<u>202,317</u>
Cash and cash equivalents at end of period	<u>\$ 286,128</u>	<u>162,553</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2023 and 2022**

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

**(1) Company history**

- (a) SHUI-MU International Co., Ltd. (the “Company”) was incorporated on August 25, 2003 and registered with the Ministry of Economic Affairs, ROC. The address of the Company’s registered office is 6 F, No. 168, Songjiang Rd., Zhongshan Dist., Taipei City. The major business activities of the Company is wholesale and retail of shoes and bags.
- (b) The Company's stocks were approved for trading on Taipei Exchange's emerging stock board on September 3, 2012. The Company was approved for listing by Taiwan Stock Exchange in June 2014 and was officially listed in September 2014.

**(2) Approval date and procedures of the consolidated financial statements:**

These consolidated financial statements were authorized for issue by the Board of Directors on March 12, 2024.

**(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. 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”

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) The impact of IFRS 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 IFRS issued by IASB but not yet endorsed by the FSC

The Group does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its 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 IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IAS21 “Lack of Exchangeability”

**(4) Summary of material accounting policies:**

The material accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(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 (hereinafter referred to as “the Regulations” ) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis.

(Continued)

## SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar (NTD), which is the Company's functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

(ii) List of subsidiaries in the consolidated financial statements

List of the subsidiaries included in the consolidated financial statements:

Name investor	Name of investee	Principal activity	Shareholding		Description
			December 31, 2023	December 31, 2022	
SHUI-MU International Co., Ltd.	A.S.O. International Co., Ltd.	Investment holding	100.00 %	100.00 %	
SHUI-MU International Co., Ltd.	Lovelly International Co., Ltd.	Sale of shoes, bags, and stationery	- %	97.50 %	Note 1
SHUI-MU International Co., Ltd.	Comphy International Company Limited	Sale of shoes, bags, and socks	95.00 %	95.00 %	
SHUI-MU International Co., Ltd.	BESO International Co., Ltd.	Sale of shoes, bags, and daily necessities	- %	98.00 %	Note 2
A.S.O. International Co., Ltd.	A.S.O. International Holdings Co., Limited	Investment holding	- %	100.00 %	Note 3

Note 1: The liquidation process of Lovely International Co., Ltd. had been completed in July 2023.

Note 2: The liquidation process of BESO International Co., Ltd. had been completed in April 2023.

Note 3: A.S.O. International Holdings Co., Ltd. was dissolved and liquidated in November 2023.

(iii) Subsidiaries excluded from the consolidated financial statements: None.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) an investment in equity securities designated as at fair value through other comprehensive income;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent that the hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(g) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(Continued)



**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. Trade receivables that the Group intends to sell immediately or in the near term are measured at FVTPL; however, they are included in the ‘trade receivables’ line item. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

3) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, trade receivables and notes receivable, other receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI and contract assets.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECL are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

4) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

2) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Group, from the date on which significant influence commences until the date on which significant influence ceases. The Group recognizes any changes of its proportionate share in the investee within capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual proportionate share.

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

When the Group's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

1) buildings	55 years
2) transportation equipment	3 years
3) office equipment	3~5 years
4) leasehold improvement	1~10 years
5) other equipment	10 years

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(k) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) As a lessor

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

(l) Intangible assets

(i) Recognition and measurement

Other intangible assets, including trademarks and computer software that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

1) Trademarks	10 years
2) Computer software	3 ~ 10 years

Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(m) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(n) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Revenue from contracts with customers

(i) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

1) Sale of goods

The Group sells shoes and leather products. The Group recognizes revenue when a customer takes possession of the product. Payment of the transaction price is due immediately when the customer purchases the product. The Group sells gift certificates that are non-refundable and have no expiry date. When gift certificates are redeemed and the obligation to supply goods is fulfilled, revenue is recognized based on the amount of gift certificates redeemed relative to the total amount expected to be redeemed.

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Customer loyalty program

The Group operates a customer loyalty program to its retail customers. Retail customers obtain points for purchases made, which entitle them to discount on future purchases. The Group considers that the points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. The stand-alone selling price of the product sold is estimated on the basis of the retail price. The Group has recognized contract liability at the time of sale on the basis of the principle mentioned above. Revenue from the award points is recognized when the points are redeemed or when they expire.

3) Service revenue

The Group provides shoes repair services to customers. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The proportion of services provided is determined based on the work performed to date as a proportion of the total work expected to be performed.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

4) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(q) Government grants

The Group recognizes an unconditional government grant in profit or loss as other income when the grant becomes receivable. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(s) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

(Continued)

## SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- 1) the same taxable entity; or
- 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

- (t) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds and employee compensation.

- (u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

#### **(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:**

In preparing these consolidated financial statements, management has made 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 management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

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Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows. Those assumptions and estimation have been updated to reflect the impact of COVID-19 pandemic:

(a) Valuation of inventory:

Inventories are stated at the lower of cost or net realizable value. The Group estimates the net realizable value of inventory for normal waste, obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is determined mainly based on assumptions of future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to note 6(f) for further description of the valuation of inventory.

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Cash	\$ 3,801	3,960
Checking accounts	302	1,607
Demand deposits	220,579	149,086
Time deposits	<u>61,446</u>	<u>7,900</u>
	<b><u>\$ 286,128</u></b>	<b><u>162,553</u></b>

- (i) The Group transacts with a variety of financial institutions, all with high credit quality, to disperse credit risk, so it expects that the probability of counterparty default is remote.
- (ii) Please refer to note 6(w) for the exchange rate risk, interest rate risk, and sensitivity analysis of the financial assets and liabilities of the Company.

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

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets		
Fund beneficiary certificates	\$ 18,688	15,979
Stock listed on domestic markets	<u>12,285</u>	<u>14,847</u>
	<b><u>\$ 30,973</u></b>	<b><u>30,826</u></b>

- (i) For the years ended December 31, 2023 and 2022, net gains (losses) on financial assets at fair value through profit or loss were \$4,115 thousand and \$(9,573) thousand, respectively. Please refer to note 6(u).

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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- (ii) As of December 31, 2023 and 2022, none of the financial assets at fair value through profit or loss had not been pledged as collateral.
- (iii) Please refer to note 6(v) for market risk information in relation to financial assets at fair value through profit or loss.
- (c) Financial assets measured at amortized cost

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current:		
Time deposits with maturity over 3 months	\$ <b>48,670</b>	<b>39,880</b>

- (i) None of the financial assets measured at amortized costs held by the Group were pledged or collateralized as of December 31, 2023 and 2022.
- (ii) Please refer to note 6(v) for credit risk information in relation to financial assets measured at amortized costs.

- (d) Accounts receivable and notes receivable

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Notes receivable	\$ 446	-
Accounts receivable	25,311	26,971
Less: loss allowance	(899)	(899)
	<b>\$ 24,858</b>	<b>26,072</b>

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, accounts receivable 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 provision was determined as follows:

	<b>December 31, 2023</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 24,738	0%~0.03%	-
Past due within 90 days	75	0%~0.03%	-
Past due over 91 days	944	95.23%	899
	<b>\$ 25,757</b>		<b>899</b>

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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	<b>December 31, 2022</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 25,759	0%~0.03%	-
Past due within 90 days	265	0%~0.03%	-
Past due over 91 days	947	94.93%	899
	<u><b>\$ 26,971</b></u>		<u><b>899</b></u>

The movement in the allowance for accounts receivable was as follows:

	<b>For the years ended December 31</b>	
	<b>2023</b>	<b>2022</b>
Balance on January 1	\$ 899	899
Impairment losses recognized	-	1
Amounts written off	-	(1)
Balance on December 31	<u><b>\$ 899</b></u>	<u><b>899</b></u>

None of the accounts receivable held by the Group were pledged or collateralized as of December 31, 2023 and 2022.

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

(e) Other receivables

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Other receivables	\$ 947	456
Less: loss allowance	(217)	(217)
	<u><b>\$ 730</b></u>	<u><b>239</b></u>

The movement in the allowance for other receivables was as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Balance on January 1	\$ 217	717
Impairment losses reversed	-	(500)
	<u><b>\$ 217</b></u>	<u><b>217</b></u>

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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(f) Inventories

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Merchandise	\$ 591,053	721,877
Less: Loss allowances	(134,240)	(151,049)
	<b><u>\$ 456,813</u></b>	<b><u>570,828</u></b>

The details of the cost of sales were as follows:

	<b>For the years ended December 31</b>	
	<b>2023</b>	<b>2022</b>
Inventory that has been sold	\$ 461,749	615,677
Write-down and write-off of inventories	17,102	39,140
Repair costs	6,446	6,012
Service costs	2,772	2,155
	<b><u>\$ 488,069</u></b>	<b><u>662,984</u></b>

None of inventories held by the Group were pledged as collateral as of December 31, 2023 and 2022.

(g) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2023 and 2022, were as follows:

	<b>Land</b>	<b>Buildings</b>	<b>Transportati on equipment</b>	<b>Office equipment</b>	<b>Leasehold improvements</b>	<b>Other equipment</b>	<b>Total</b>
Cost :							
Balance at January 1, 2023	\$ 80,599	44,387	1,230	36,609	452,576	61,639	677,040
Additions	-	-	-	2,845	4,214	3,013	10,072
Disposal	-	-	-	(1,663)	(3,924)	(439)	(6,026)
Balance at December 31, 2023	<b><u>\$ 80,599</u></b>	<b><u>44,387</u></b>	<b><u>1,230</u></b>	<b><u>37,791</u></b>	<b><u>452,866</u></b>	<b><u>64,213</u></b>	<b><u>681,086</u></b>
Balance at January 1, 2022	\$ 161,199	67,463	1,230	37,636	449,021	60,259	776,808
Additions	-	-	-	1,731	13,824	1,655	17,210
Disposal	-	-	-	(663)	(10,269)	(275)	(11,207)
Classification to investment property	(80,600)	(23,076)	-	-	-	-	(103,676)
Reclassification	-	-	-	(2,095)	-	-	(2,095)
Balance at December 31, 2022	<b><u>\$ 80,599</u></b>	<b><u>44,387</u></b>	<b><u>1,230</u></b>	<b><u>36,609</u></b>	<b><u>452,576</u></b>	<b><u>61,639</u></b>	<b><u>677,040</u></b>

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	<u>Land</u>	<u>Buildings</u>	<u>Transportati on equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Other equipment</u>	<u>Total</u>
Depreciation:							
Balance at January 1, 2023	\$ -	14,796	1,230	27,434	232,482	49,031	324,973
Depreciation	-	792	-	4,119	35,242	5,010	45,163
Disposal	-	-	-	(1,663)	(2,721)	(439)	(4,823)
Balance at December 31, 2023	<u>\$ -</u>	<u>15,588</u>	<u>1,230</u>	<u>29,890</u>	<u>265,003</u>	<u>53,602</u>	<u>365,313</u>
Balance at January 1, 2022	\$ -	21,283	1,230	23,920	202,640	42,946	292,019
Depreciation	-	999	-	4,886	36,982	6,333	49,200
Classification to investment property	-	(7,486)	-	-	-	-	(7,486)
Disposal	-	-	-	(644)	(7,140)	(248)	(8,032)
Reclassification	-	-	-	(728)	-	-	(728)
Balance at December 31, 2022	<u>\$ -</u>	<u>14,796</u>	<u>1,230</u>	<u>27,434</u>	<u>232,482</u>	<u>49,031</u>	<u>324,973</u>
Carrying amounts:							
Balance at December 31, 2023	<u>\$ 80,599</u>	<u>28,799</u>	<u>-</u>	<u>7,901</u>	<u>187,863</u>	<u>10,611</u>	<u>315,773</u>
Balance at January 1, 2022	<u>\$ 161,199</u>	<u>46,180</u>	<u>-</u>	<u>13,716</u>	<u>246,381</u>	<u>17,313</u>	<u>484,789</u>
Balance at December 31, 2022	<u>\$ 80,599</u>	<u>29,591</u>	<u>-</u>	<u>9,175</u>	<u>220,094</u>	<u>12,608</u>	<u>352,067</u>

(i) As of December 31, 2023 and 2022, the property, plant and equipment of the Group had been pledged as collateral for issuance of gift certificates to financial institutions; please refer to note 8.

(ii) Reclassification to investment property

The Group leased its owned property to a third party since June 29, 2022. The property was reclassified to investment property at its carrying amount when the use of the property changed. Please refer to note 6(i).

(h) Right-of-use assets

The cost and depreciation of leased building and other equipment of the Group were as follows:

	<u>Buildings</u>	<u>Other equipment</u>	<u>Total</u>
Cost: :			
Balance at January 1, 2023	\$ 784,470	4,907	789,377
Additions	153,238	49	153,287
Reductions	(161,443)	-	(161,443)
Balance at December 31, 2023	<u>\$ 776,265</u>	<u>4,956</u>	<u>781,221</u>
Balance at January 1, 2022	\$ 770,540	4,810	775,350
Additions	116,442	97	116,539
Reductions	(102,512)	-	(102,512)
Balance at December 31, 2022	<u>\$ 784,470</u>	<u>4,907</u>	<u>789,377</u>

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	<u>Buildings</u>	<u>Other equipment</u>	<u>Total</u>
Depreciation:			
Balance at January 1, 2023	\$ 395,938	4,680	400,618
Depreciation	144,034	103	144,137
Reductions	<u>(157,147)</u>	<u>-</u>	<u>(157,147)</u>
Balance at December 31, 2023	<u>\$ 382,825</u>	<u>4,783</u>	<u>387,608</u>
Balance at January 1, 2022	\$ 350,018	4,339	354,357
Depreciation	146,145	341	146,486
Reductions	<u>(100,225)</u>	<u>-</u>	<u>(100,225)</u>
Balance at December 31, 2022	<u>\$ 395,938</u>	<u>4,680</u>	<u>400,618</u>
Carrying amount:			
Balance at December 31, 2023	<u>\$ 393,440</u>	<u>173</u>	<u>393,613</u>
Balance at January 1, 2022	<u>\$ 420,522</u>	<u>471</u>	<u>420,993</u>
Balance at December 31, 2022	<u>\$ 388,532</u>	<u>227</u>	<u>388,759</u>

(i) Investment property

Investment property comprises office buildings that are owned by the Group and leased to third parties under operating leases. The leases of investment properties contain an initial non-cancellable lease term of 10 years. The lease provide the lessee with options to extend at the end of the term.

The movements of investment property of the Group for the years ended December 31, 2023 and 2022, were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
Balance at January 1, 2023	\$ <u>80,600</u>	<u>23,076</u>	<u>103,676</u>
Balance at December 31, 2023	<u>\$ 80,600</u>	<u>23,076</u>	<u>103,676</u>
Balance at January 1, 2022	\$ -	-	-
Reclassification from property, plant and equipment	<u>80,600</u>	<u>23,076</u>	<u>103,676</u>
Balance at December 31, 2022	<u>\$ 80,600</u>	<u>23,076</u>	<u>103,676</u>
Depreciation:			
Balance at January 1, 2023	\$ -	7,692	7,692
Depreciation	<u>-</u>	<u>413</u>	<u>413</u>
Balance at December 31, 2023	<u>\$ -</u>	<u>8,105</u>	<u>8,105</u>

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2022	\$ -	-	-
Reclassification from property, plant and equipment	-	7,486	7,486
Depreciation	<u>-</u>	<u>206</u>	<u>206</u>
Balance at December 31, 2022	<u>\$ -</u>	<u>7,692</u>	<u>7,692</u>
Carrying amount:			
Balance at December 31, 2023	<u>\$ 80,600</u>	<u>14,971</u>	<u>95,571</u>
Balance at January 1, 2022	<u>\$ -</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2022	<u>\$ 80,600</u>	<u>15,384</u>	<u>95,984</u>
Fair value:			
Balance at December 31, 2023			<u>\$ 265,810</u>
Balance at December 31, 2022			<u>\$ 265,930</u>

The fair value of investment properties was based on a valuation by a qualified independent appraiser who has recent valuation experience in the location and category of the investment property being valued. The inputs of levels of fair value hierarchy in determining the fair value is classified to Level 3.

Fair value was measured using the market approach and income approach. The yield method under the income approach would have been used if there was no active market for the investment properties. The valuation model considers the present value of net cash flows to be generated from the property, and the expected net cash flows are discounted using risk-adjusted discount rates. For the years ended December 31, 2023 and 2022, the rates of return are all 2.72%.

As of December 31, 2023 and 2022, the investment property of the Group had been pledged as collateral for issuance of gift certificates and loans facility to financial institutions; please refer to note 8.

(j) Operating lease

The Group leased out its investment property. The Group classified these leases as operating leases because it did not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Less than one year	\$ 7,387	7,387
One to five years	29,547	29,547
More than five years	27,701	35,087
	<b>\$ 64,635</b>	<b>72,021</b>

For the years ended December 31, 2023 and 2022, rental income from investment properties was \$7,298 thousand and \$1,824 thousand, respectively.

(k) Short-term borrowing

The details of short-term borrowings were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Secured bank loans	\$ -	-
Unused facilities	<b>\$ 350,000</b>	<b>350,000</b>
Range of interest rates	-	-

(l) Other payable

The details of other payables were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Salaries payable	\$ 26,631	31,992
Payables on equipment	5,198	13,194
Other accrued expenses and others	41,987	40,219
	<b>\$ 73,816</b>	<b>85,405</b>

(m) Lease liabilities

The carrying values of the lease liabilities were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current	<b>\$ 126,604</b>	<b>128,292</b>
Non-current	<b>\$ 284,887</b>	<b>274,342</b>

For the maturity analysis, please refer to note 6(v).

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The amounts recognized in profit or loss were as follows:

	<b>2023</b>	<b>2022</b>
Interest on lease liabilities	\$ <u>6,014</u>	<u>6,034</u>
Expenses relating to short-term leases	\$ <u>16,797</u>	<u>20,461</u>

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

	<b>2023</b>	<b>2022</b>
Total cash outflow for leases	\$ <u>163,630</u>	<u>169,768</u>

(i) Real estate leases

The Group leases building for its warehouses and retail stores. The leases of warehouses typically run for a period of 5 years, and of retail stores for 3 to 5 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 equipment with lease terms of three years. The Group will acquire all the equipment at the end of the lease term.

(n) Provisions

The details of decommissioning liabilities were as follows:

	<b>2023</b>	<b>2022</b>
Balance at January 1	\$ 7,542	7,649
Provisions recognized (reversed) during the year	468	(107)
Balance at December 31	\$ <u>8,010</u>	<u>7,542</u>

The carrying amount of provisions were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Current	\$ <u>2,351</u>	<u>1,839</u>
Non-current	\$ <u>5,659</u>	<u>5,703</u>

According to applicable agreements, The Group bears dismantling, removing the asset and restoring the site obligations for certain stores in the future. A provision is recognized for the present value of costs to be incurred for dismantling, removing the asset and restoring the site.

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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(o) Employee benefits

Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contribution to the Bureau of the Labor Insurance amounted to \$11,972 thousand and \$12,870 thousand in 2023 and 2022.

(p) Income taxes

(i) Income tax expenses

1) The components of income tax were as follows:

	<b>For the years ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Current tax expense	\$ -	302
Deferred tax expense	-	75,049
Income tax expense	<u>\$ -</u>	<u>75,351</u>

2) There was no income tax recognized directly in equity for 2023 and 2022.

Reconciliation of income tax and income before tax in 2023 and 2022, was as follows:

	<b>2023</b>	<b>2022</b>
Profit (loss) excluding income tax	\$ 17,011	(135,281)
Income tax using the Company domestic tax rate	3,402	(27,056)
Tax-exempt income	(106)	-
Changes in unrecognized temporary differences	(3,236)	100,211
Underestimated income tax in prior periods	-	264
Others	(60)	1,932
Income tax expense	<u>\$ -</u>	<u>75,351</u>

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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(ii) Deferred tax assets and liabilities

1) Unrecognized Deferred Tax Liabilities

Deferred tax assets have not been recognized in respect of the following items:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
The carryforward of unused tax losses	<b>\$ 154,296</b>	<b>154,027</b>

The R.O.C Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

2) Recognized deferred tax assets

Changes in the amount of deferred tax assets follows:

	<b>Inventory provision</b>	<b>Unused tax losses and others</b>	<b>Total</b>
January 1, 2023	\$ -	-	-
December 31, 2023	\$ -		
January 1, 2022	\$ 20,118	54,931	75,049
Recognized in profit or loss	(20,118)	(54,931)	(75,049)
December 31, 2022	\$ -	-	-

3) Assessment of tax

The Company's tax returns for the years through 2021 were assessed by the Taipei National Tax Administration.

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
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(q) Capital of ordinary shares

(i) Issuance of ordinary shares

As of December 31, 2023 and 2022, the number of authorized ordinary shares were both 80,000 thousand shares, amounting to \$800,000 thousand with par value of \$10 per share, and \$66,800 thousand of ordinary shares were issued. All issued shares were paid up upon issuance.

(ii) Capital surplus

The components of capital surplus were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Surplus arising from bond conversion option	\$ 330,033	330,033
Capital surplus — premium from combination	1,256	1,256
	<b>\$ 331,289</b>	<b>331,289</b>

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed at the close of each quarter, according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

Before the distribution of dividends, the Company shall first take into consideration its operating programs and estimated future cash flows in determining the stock or cash dividends to be paid, and profits may be distributed by cash dividends or stock dividends. The cash dividends shall not be lower than 10% of total dividends. The aforementioned percentage of earnings distribution is subject to resolution by the shareholders' meeting for adjustments depending on current year's profit and capital position.

In accordance with the Article 240, paragraph 5 of the Company Act, the Company authorizes the Board of Directors, with the presence of more than two-thirds of the directors and the approval of a majority of the directors, to distribute the dividends and bonus or legal reserves and capital surpluses, entirely or partially, as cash dividends, and report to the shareholders' meeting.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

1) Legal reserve

When the 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.

2) Special reserve

In accordance with the requirements issued by the FSC, a portion of current period earnings and undistributed prior period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to 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 appropriation and distribution

A resolution was passed during the general meeting of shareholders held on June 19, 2023 to offset the accumulated deficit with legal reserve of \$20,371 thousand.

A resolution was passed during the general meeting of shareholders held on June 14, 2022 to offset the accumulated deficit with legal reserve of \$231,726 thousand and special reserve of \$668 thousand, respectively.

(iv) Other equity (net of tax)

	<b>Exchange differences on translation foreign financial statments</b>
Balance at January 1, 2023	\$ 5,709
Exchange differences on foreign operations	(18)
Balance at December 31, 2023	<u><u>\$ 5,691</u></u>
Balance at January 1, 2022	\$ (1,553)
Exchange differences on foreign operations	7,262
Balance at December 31, 2022	<u><u>\$ 5,709</u></u>

(Continued)



**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(r) Earnings (loss) per share

The details on the calculation of basic loss per share as of December 31, 2023 and 2022 was based on the profit (loss) attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, as follows:

(i) Loss attributable to ordinary shareholders of the Company

	<u>2023</u>	<u>2022</u>
Profit (loss) attributable to ordinary shareholders of the Company	\$ <u>17,020</u>	<u>(210,618)</u>

(ii) Weighted average number of ordinary share

	<u>2023</u>	<u>2022</u>
Weighted average number of ordinary shares (in thousand share)	<u>66,800</u>	<u>66,800</u>

The Company has no potential dilutive ordinary shares for the years ended December 31, 2023 and 2022.

(s) Revenue from contracts with customers

(i) Details of revenue

	<u>2023</u>	<u>2022</u>
Primary geographical markets:		
Taiwan	\$ <u>1,178,163</u>	<u>1,241,073</u>

Revenue of the Group is from selling products including shoes and bags and its repair business. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The geographical market is in Taiwan.

(ii) Contract balances

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>January 1, 2022</u>
Notes receivable	\$ 446	-	-
Trade receivables	25,311	26,971	48,832
Less: allowance for impairment	(899)	(899)	(899)
	<u>\$ 24,858</u>	<u>26,072</u>	<u>47,933</u>

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>January 1, 2022</u>
Contract liabilities:			
Unearned revenue from gift certificates	\$ 359,393	342,564	336,191
Customer loyalty programs	<u>13,385</u>	<u>13,470</u>	<u>11,203</u>
	<u>\$ 372,778</u>	<u>356,034</u>	<u>347,394</u>

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

The amount of revenue recognized for the years ended December 31, 2023 and 2022 that was included in the contract liability balance at the beginning of the period were \$46,157 thousand and \$54,068 thousand, respectively.

For gift certificates that the Group issued with no expiry date, the Group recognizes revenue when customers redeem the gift certificates.

The change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

(t) Employee compensation and directors remuneration

In accordance with the articles of incorporation, the Company should contribute 1% to 10% of the profit as employee compensation and less than 2% 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.

Due to accumulated deficit in 2023 and 2022, there were no estimated amounts of employee compensation and directors' remuneration. Related information would be available at the Market Observation Post System website.

(u) Non-operating income and expenses

(i) Interest income

The details of interest income were as follows:

	<u>2023</u>	<u>2022</u>
Interest income from bank deposits	<u>\$ 4,132</u>	<u>2,092</u>

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Other income

The details of other income were as follows:

	<u>2023</u>	<u>2022</u>
Rental income	\$ 11,786	7,625
Dividend income	544	775
Government grants and others	<u>513</u>	<u>5,513</u>
	<u><u>\$ 12,843</u></u>	<u><u>13,913</u></u>

(iii) Other gains and losses

The details of other gain and losses were as follows:

	<u>2023</u>	<u>2022</u>
Gains (losses) on financial assets at fair value through profit or loss	\$ 4,115	(9,573)
Foreign exchange gains	2	(894)
Losses on disposals of investment property	(1,203)	(3,175)
(Losses) gains on lease modifications	(242)	57
Others	<u>(847)</u>	<u>(1,598)</u>
	<u><u>\$ 1,825</u></u>	<u><u>(15,183)</u></u>

(iv) Finance costs

The details of finance costs were as follows:

	<u>2023</u>	<u>2022</u>
Interest expense – borrowing from related parties	\$ -	10
Interest expense – lease	6,014	6,034
Interest expense – others	<u>33</u>	<u>8</u>
	<u><u>\$ 6,047</u></u>	<u><u>6,052</u></u>

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(v) Financial instruments

(i) Types of financial instruments

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Financial assets mandatorily massured at fair value through or profit or loss:		
Financial assets measured at amortized cost	\$ 30,973	30,826
Cash and cash equivalents	286,128	162,553
Financial assets measured at amortized cost - current	48,670	9,100
Notes receivable, net	446	-
Accounts receivable, net	24,412	26,072
Other receivables	730	496
Other non-current assets - refundable deposits	56,164	55,845
Subtotal	<u>416,550</u>	<u>254,066</u>
	<b>\$ 447,523</b>	<b>284,892</b>
	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Financial liabilities measured at amortized cost:		
Accounts payable	\$ 44,097	66,564
Accounts payable to related parties	7,849	6,889
Other payables	73,816	85,405
Other payables to related parties	1,462	211
Current lease liabilities	126,604	128,292
Non-current lease liabilities	284,887	274,342
Other non-current liabilities - guarantee deposits received	4,761	4,815
	<b>\$ 543,476</b>	<b>566,518</b>

(ii) Credit risk

1) Credit risk exposure

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

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Concentration of credit risk

The Group believes that there is no significant concentration of credit risk due to the Group's large number of customers and their wide geographic spread. In order to reduce credit risk, the Group evaluate the financial status of customers regularly without requiring its customers to provide collateral.

(iii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
<b>December 31, 2023</b>						
Non-derivative financial liabilities:						
Accounts payable (including related parties)	\$ 51,946	51,946	51,946	-	-	-
Other payables (including related parties)	75,278	75,278	75,278	-	-	-
Lease liabilities	<u>411,491</u>	<u>426,844</u>	<u>132,822</u>	<u>101,233</u>	<u>177,033</u>	<u>15,756</u>
	<u><b>\$ 538,715</b></u>	<u><b>554,068</b></u>	<u><b>260,046</b></u>	<u><b>101,233</b></u>	<u><b>177,033</b></u>	<u><b>15,756</b></u>
<b>December 31, 2022</b>						
Non-derivative financial liabilities:						
Accounts payable (including related parties)	\$ 73,453	73,453	73,453	-	-	-
Other payables (including related parties)	85,616	85,616	85,616	-	-	-
Lease liabilities	<u>402,634</u>	<u>414,430</u>	<u>133,166</u>	<u>98,866</u>	<u>152,044</u>	<u>30,354</u>
	<u><b>\$ 561,703</b></u>	<u><b>573,499</b></u>	<u><b>292,235</b></u>	<u><b>98,866</b></u>	<u><b>152,044</b></u>	<u><b>30,354</b></u>

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

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iv) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2023			December 31, 2022			
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	
Financial assets							
Monetary items							
(Foreign currency functionate currency)							
USD : TWD	\$	138	30,750	4,237	143	30,710	4,392

2) Sensitivity analysis

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. For the years ended December 31, 2023 and 2022, the sensitivity analysis for the changes in the foreign currency exchange rates were as follows:

	2023		
	Sensitivity analysis		
	Increasing/ Decreasing	Net income	Other comprehensive income
<u>Financial asset:</u>			
<u>Monetary items</u>			
USD : TWD	1%	\$ 42	-
	2022		
	Sensitivity analysis		
	Increasing/ Decreasing	Net income	Other comprehensive income
<u>Financial asset:</u>			
<u>Monetary items</u>			
USD : TWD	1%	\$ 44	-

3) Foreign exchange gain and loss on monetary items

Since the Group has many kinds of functional currency, the information on foreign exchange gains (losses) on monetary items is disclosed by total amount. For years 2023 and 2022, foreign exchange gains (losses) (including realized and unrealized portions) amounted to \$2 thousand and \$(894) thousand, respectively.

(v) Price risk

- 1) The Group is exposed to equity price risk due to the investments in equity securities, accounted for financial assets at fair value through profit or loss. In order to manage price risk of equity investment, the Group sets a limit to invest in a diversified portfolio.

(Continued)

# SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- 2) The Group primarily invests in domestic equity instruments, and the prices of these equity instruments may be affected by uncertainty of the future values. If the interest rate increases/decreases by 1%, the Group's loss before tax will decrease/increase by \$310 thousand and \$308 thousand for the years ended December 31, 2023 and 2022, respectively, with all other variable factors that remain constant.

### (vi) Fair value of financial instruments

#### 1) Fair value hierarchy

The fair value of financial assets 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 (excluding the disclosure of financial assets and liabilities for which the book value is close to this fair value, and lease liabilities):

		December 31, 2023			
		Fair value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:					
Financial assets accusatorily measured at fair value through profit or loss	\$ <u>30,973</u>	<u>30,973</u>	<u>-</u>	<u>-</u>	<u>30,973</u>
		December 31, 2022			
		Fair value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:					
Financial assets accusatorily measured at fair value through profit or loss	\$ <u>30,826</u>	<u>30,826</u>	<u>-</u>	<u>-</u>	<u>30,826</u>

#### 2) Valuation techniques for financial instruments measured at fair value

##### A. Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

##### B. Transfers between Level 1 and Level 2

There were no transfers in either direction for the years ended December 31, 2023 and 2022.

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**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(w) Financial risk management

(i) Overview

The Group has exposures to the following risks from its financial instruments:

- 1) credit risk
- 2) liquidity risk
- 3) market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying consolidated financial statements.

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Board of Directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

1) Trade and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and, in some cases, bank references. Purchase limits are established for each customer and are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

(Continued)



**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Investments

The Group holds its bank deposits in different financial institutions to manage the exposure to credit risk of each institution to prevent concentration risk.

3) Guarantees

As of December 31, 2023 and 2022, the Group has not provided any guarantees to companies outside the group.

(iv) Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures compliance with the terms of loan agreements.

Loans and borrowings from the bank form an important source of liquidity for the Group. As of December 31, 2023 and 2022, the Group's unused credit line were both amounted to \$350,000 thousand.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Exchange rate risk

The Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities. The currencies used in these transactions are the NTD, USD, and CNY.

2) Interest rate risk

The Group does not have any significant liability with a floating interest rate, and changes in market interest rate do not have any significant impact on the future cash flow of the Group.

(x) Capital management

The Group's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group's debt-to-equity ratios at the end of the reporting periods were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Total liabilities	\$ 927,311	932,970
Less: cash and cash equivalents	(286,128)	(162,553)
Net debt	<u>\$ 641,183</u>	<u>770,417</u>
Total equity	<u>\$ 831,885</u>	<u>814,910</u>
Debt-to-equity ratio	<u>77.08%</u>	<u>94.54%</u>

There were no changes in the Group's approach to capital management as of December 31, 2023.

(y) Financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2023 and 2022 were acquisition of right-of-use assets by leasing. Please refer to notes 6(h) and 6(m).

**(7) Related-party transactions**

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
All directors, general manager and deputy general managers, etc.	Key management personnel
Shuang Yueh Footwear Ltd.	An entity controlled by key management personnel
Yueh Ya Chuan Co., Ltd.	An entity controlled by key management personnel
Learn Jet International Ltd.	An associate

(b) Significant transactions with related parties

(i) Purchases

1) Operating costs

The amounts of significant sales by the Group to related parties were as follows:

	<b>2023</b>	<b>2022</b>
Purchases:		
An entity controlled by key management personnel	\$ 68,100	16,653
An associate	23,620	21,418
	<u>\$ 91,720</u>	<u>38,071</u>

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The terms and pricing of purchase transactions with related parties were not significantly different from those offered by other vendors.

2) Accounts payable to related parties

The payables to related parties were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
An entity controlled by key management personnel	\$ 5,794	4,153
An associate	2,055	2,736
Total	<u><u>\$ 7,849</u></u>	<u><u>6,889</u></u>

3) Prepayment to related parties

The prepayments to related parties were as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
An associate	<u><u>\$ 56</u></u>	<u><u>3,280</u></u>

(ii) Other transactions

1) Operating costs-repairs

The amounts of repairing costs by the Group from related parties were as follows:

	<b>2023</b>	<b>2022</b>
An entity controlled by key management	<u><u>\$ 988</u></u>	<u><u>969</u></u>

2) Operating expense

The amounts of cleaning fee, telephones fee, building management fee, utility fee, service expense, postage expense, and rental expense were as follows:

	<b>2023</b>	<b>2022</b>
An entity controlled by key management		
Shuang Yueh Footwear Ltd.	\$ 3,055	2,541
Yueh Ya Chuan Co., Ltd.	220	44
An associate	741	169
Total	<u><u>\$ 4,016</u></u>	<u><u>2,754</u></u>

3) Rental income

	<b>2023</b>	<b>2022</b>
An associate	<u><u>\$ -</u></u>	<u><u>14</u></u>

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

4) Property transactions

The purchase price of real property, plant and equipment acquired by the Group from related parties is as follows:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
An associate	<u>\$ 450</u>	<u>-</u>

5) Other payables to related parties

The details of other payables incurred by the Group due to the above-mentioned related party transactions are as follows:

	<b>2023</b>	<b>2023</b>
An entity controlled by key management personnel	\$ 211	211
An associate	<u>1,251</u>	<u>-</u>
Total	<u>\$ 1,462</u>	<u>211</u>

6) Prepayments for investments (included in other non-current assets)

A resolution was passed during the board's meeting in 2023 to acquire 100% equity interest of Shuang Yueh Footwear Ltd. from the key management personnel of the Company with the purchase price of \$3,526 thousand. As of December 31, 2023, the ownership transfer process has yet to be completed, so it is included in other non-current assets.

(iii) Borrowings from Related Parties (included in non-current other liabilities)

In order to meet the working capital need, the Group borrowed from key management personnel with an interest rate of 2.48%. On December 31, 2023 and 2022, the Group's borrowing balances from related parties were both \$0 thousand. For the years ended December 31, 2023 and 2022, the interest expenses were \$0 thousand and \$10 thousand, respectively, recorded in finance costs.

(c) Key management personnel compensation

Key management personnel compensation comprised:

	<b>2023</b>	<b>2022</b>
Short-term employee benefits	\$ 12,675	15,277
Post-employment benefits	<u>305</u>	<u>321</u>
	<u>\$ 12,980</u>	<u>15,598</u>

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(8) Pledged assets:**

The carrying values of pledged assets were as follows:

<b>Pledged assets</b>	<b>Object</b>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Land and buildings	Issuance of gift certificates and loans facility	\$ 109,398	110,190
Investment property	Issuance of gift certificates and loans facility	95,571	95,984
Refundable deposits (included in other non-current assets)	Lease deposits and tenders	56,164	55,845
		<u><u>\$ 261,133</u></u>	<u><u>262,019</u></u>

**(9) Commitments and contingencies:None**

**(10) Losses Due to Major Disasters:None**

**(11) Subsequent Events:None**

**(12) Other:**

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

	<b>For the years ended December 31</b>					
	<b>2023</b>			<b>2022</b>		
	<b>Cost of Sale</b>	<b>Operating Expense</b>	<b>Total</b>	<b>Cost of Sale</b>	<b>Operating Expense</b>	<b>Total</b>
<b>By item</b>						
Employee benefits						
Salary	-	246,160	246,160	-	249,924	249,924
Labor and health insurance	-	25,637	25,637	-	26,686	26,686
Pension	-	11,972	11,972	-	12,870	12,870
Remuneration of directors	-	3,675	3,675	-	3,948	3,948
Others	-	15,074	15,074	-	15,569	15,569
Depreciation	-	189,713	189,713	-	195,892	195,892
Amortization	-	4,117	4,117	-	4,239	4,239

(Continued)

## SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (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:

##### (i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	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	Transaction amount for business between two parties	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
0	SHUI-MU International Co., Ltd.	Comphy International Company Limited	Other receivables	Yes	4,000	4,000	-	1.5%	Note 3	-	Operating capital	-	None	-	166,351	332,701

Note 1: The numbers are as follows:

- a. The Company is numbered “0”.
- b. The investees are sequentially numbered from “1”.

Note 2: Highest balance of financing to other parties during the year.

Note 3: Entities with short-term financing needs.

- Note 4: (1) The ceiling on total loans granted by the Company shall not exceed 40% of the net worth of its audited or reviewed financial statements.
- (2) For entities that the Company has business with, the ceiling on total loans granted by the Company shall not exceed 20% of the Company’s net worth; the ceiling on loans granted to each entity shall not exceed the transaction amount within a year. The transaction amount is the higher amount of purchases or sales.
- (3) For entities with short-term financing needs, the ceiling on total loans granted by the Company shall not exceed 20% of the Company’s net worth; the ceiling on loans granted to each entity shall not exceed 20% of the Company’s net worth.
- (4) For loans granted mutually between overseas subsidiaries of which the Company directly or indirectly holds 100% of their voting shares, the ceiling on total loans granted shall not exceed 100% of the Company’s net worth; the ceiling on loans granted to each entity shall not exceed 60% of the Company’s net worth.

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

##### (iii) Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
SHUI-MU International Co., Ltd.	Beneficiary certificates-Neuberger Berman Bond-Plus Income and Growth Multi-Asset Class Fund N(TWD)	None	Current financial assets at fair value through profit or loss	1,494,080	9,816	-	9,816	
"	Beneficiary certificates-PineBridge Global Emerging Market High Yield Bond Fund N(TWD)	"	"	562,936	3,022	-	3,022	

(Continued)

## SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
"	Beneficiary certificates-TCB Environmental & Socially Responsible Multi-Asset Fund A(TWD)	"	"	300,000	2,838	-	2,838	
"	Beneficiary certificates-Neuberger Berman U.S. Short-Term Non-Investment Grade Bond Fund T-Month Allocation (TWD)	"	"	303,644	3,012	-	3,012	
"	Stock listed on domestic market-Information Technology Total Services Co., Ltd.	"	"	5,000	248	- %	248	
"	Stock listed on domestic market -Taiwan Semiconductor Manufacturing Company Limited	"	"	10,000	5,930	- %	5,930	
"	Stock listed on domestic market -ASUSTeK Computer Inc.	"	"	3,000	1,468	- %	1,468	
"	Stock listed on domestic market -Feng Tay Enterprises Co., Ltd.	"	"	672	118	- %	118	
"	Stock listed on domestic market -CHLITINA Holding Limited	"	"	2,000	391	- %	391	
"	Stock listed on domestic market -Macronix International Co., Ltd.	"	"	10,000	314	- %	314	
"	Stock listed on domestic market -Walsin Technology Corp.	"	"	2,000	246	- %	246	
"	Stock listed on domestic market-Tainan Spinning Co., Ltd.	"	"	5,000	79	- %	79	
"	Stock listed on domestic market -China Steel Corporation	"	"	2,000	54	- %	54	
"	Stock listed on domestic market -Wan Hai Lines, Ltd.	"	"	7,590	417	- %	417	
"	Stock listed on domestic market-Yang Ming Marine Transport Corp.	"	"	6,000	308	- %	308	
"	Stock listed on domestic market-YAGEO Corporation	"	"	4,327	2,583	- %	2,583	
"	Stock listed on domestic market-Eastern Media International Corporation	"	"	5,676	129	- %	129	

(Continued)

## SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
  - (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
  - (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
  - (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock: None.
  - (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
  - (ix) Trading in derivative instruments: None.
  - (x) Business relationships and significant intercompany transactions: None.
- (b) Information on investees:

The following is the information on investees for the years ended December 31, 2023 (excluding information on investees in Mainland China):

Unit: thousand shares

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2023			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2023	December 31, 2022	Shares (thousands)	Percentage of ownership	Carrying value				
SHUI-MU International Co., Ltd.	A.S.O. International Co., Ltd.	Samoa	Investment holding	142,385	142,385	900	100.00 %	27,533	100.00 %	977	977	
"	Lovelly International Co., Ltd.	Taiwan	Sale of shoes, bags, and stationery	-	11,700	-	- %	-	97.50 %	-	-	Note 2
"	Comphy International Company Limited	Taiwan	Sale of shoes, bags, and socks	9,500	9,500	950	95.00 %	2,510	95.00 %	(197)	(188)	
"	BESO International Co., Ltd.	Taiwan	Sale of shoes, bags, and daily necessities	-	29,400	-	- %	-	98.00 %	-	-	Note 3
"	Learn Jet International Ltd.	Taiwan	Sale of clothing, shoes, hat	700	700	-	34.00 %	1,100	34.00 %	1,489	497	
A.S.O. International Co., Ltd.	A.S.O. International Holdings Co., Ltd.	Hong Kong	Investment holding	-	57,427	-	- %	-	100.00 %	(302)	(302)	Notes 1 and 4

Note 1: Investment income (losses) were recognized by investees of the Company.

Note 2: The liquidation process of Lovelly International Co., Ltd. had been completed in July 2023.

Note 3: The liquidation process of BESO International Co., Ltd. had been completed in April 2023.

Note 4: A.S.O. International Holdings Co., Ltd was dissolved and liquidated in November 2023.

(Continued)



## SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information: None.

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2023 (Note 2) (Note 3)	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 1)
214,233	214,233	499,051

Note 1: Upper limit is 60% of the Company's net worth according to the regulation.

Note 2: A.S.O Shanghai Trading Co., Ltd. was dissolved and liquidated in 2020, and its residual capital amounting to \$406 thousand was remitted back to Taiwan. The remittance to Mainland China amounting to \$178,424 thousand was included in the accumulated investment amounts.

Note 3: A.S.O Nanjing Trading Co., Ltd. was dissolved and liquidated in 2022, and its residual capital amounting to \$24,255 thousand was remitted back to Taiwan. The remittance to Mainland China amounting to \$35,809 thousand was included in the accumulated investment amounts.

(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
Shareholder's Name	Shareholding	Shares	Percentage
Jung-Yueh Lo		7,392,500	11.06 %
Yueh-Chiao Lin		6,498,560	9.72 %
Yueh Ya Chuan Co., Ltd.		6,410,452	9.59 %
Yeh-O Lo		4,803,202	7.19 %
Lo Mommy A-Dou Charitable Trust Fund		3,442,338	5.15 %

(Continued)

**SHUI-MU INTERNATIONAL CO., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(14) Segment information**

The Group operates business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable segment. This segment is mainly involved in wholesale and retail of shoes and bags.

**(a) Product and services information**

Revenue from the external customers of the Group was as follows:

<u>Product and services</u>	<u>2023</u>	<u>2022</u>
Sales	\$ 1,170,011	1,232,536
Repair services	6,706	6,840
Other	<u>1,446</u>	<u>1,697</u>
Total	<u>\$ 1,178,163</u>	<u>1,241,073</u>

**(b) Geographic information**

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

<u>Geographic information</u>	<u>2023</u>	<u>2022</u>
Revenue from external customers:		
Taiwan	\$ <u>1,178,163</u>	<u>1,241,073</u>
Non-current assets:		
Taiwan	\$ <u>825,196</u>	<u>859,282</u>

**(c) Major customers**

For the years ended December 31, 2023 and 2022, there were no customers that individually exceeded 10% of the operating revenue of the consolidated statements of comprehensive income.