

VISUAL PHOTONICS EPITAXY CO., LTD.
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT
DECEMBER 31, 2021 AND 2020

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

INDEPENDENT AUDITORS' REPORT TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of VISUAL PHOTONICS EPITAXY CO., LTD.

Opinion

We have audited the accompanying balance sheets of Visual Photonics Epitaxy Co., Ltd. as at December 31, 2021 and 2020, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Visual Photonics Epitaxy Co., Ltd. as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparations of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for Visual Photonics Epitaxy Co., Ltd.'s financial statements of the current period are stated as follows:

Appropriateness of cut-off of warehouse operating revenue

Description

For accounting policy of revenue recognition, please refer to Note 4(21).

The types of sale is separated into direct delivery from factory and warehouse operating revenue. The warehouse operating revenue involves shipping the goods to the warehouse in the USA or others first, then customer pick-up the goods. When the control of goods are transferred, revenue is recognized. Visual Photonics Epitaxy Co., Ltd.'s revenue is recognized in accordance with statements provided by sales customers or online shipping system information.

Due to the multi-location of the warehouses and the different frequency of each custodian providing their statements, the revenue recognition procedure is complex and involves reconciliation of mutual payments. Visual Photonics Epitaxy Co., Ltd.'s daily transaction quantity is voluminous and the transaction amount around the balance sheet date is significant to the financial statements, therefore, we determined that the appropriateness of cut-off of warehouse operating revenue as one of the key audit matters for this fiscal year.

How our audit addressed the matter

Our key audit procedures performed in respect to the above matter included:

1. Obtained an understanding and tested the timing of sales revenue recognition procedures between Visual Photonics Epitaxy Co., Ltd. and the customers to verify the effectiveness of the internal control for warehouse operating revenue recognition.
2. Performed cut-off test on the transactions of warehouse operating revenue around the period of balance sheet date, including verifying the supporting documents of warehouse custodian, the movement of accounted inventory, and related records of cost of goods sold generated to evaluate the timing appropriateness of warehouse operating revenue recognition.
3. Performed confirmation or physical inventory count observation to confirm the inventory quantities and agreed the results to accounting records. In addition, inspected the reason for the difference between the confirmation replies or physical inventory count observation and accounting records and tested the reconciling items made by management in order to confirm whether the significant differences have been adjusted.

Valuation of inventory

Description

For description of accounting policy on inventory valuation, please refer to Note 4(9). For accounting estimates and assumption uncertainty in relation to inventory valuation, please refer to Note 5(2). For description of allowance for inventory valuation losses, please refer to Note 6(3).

As of December 31, 2021, Visual Photonics Epitaxy Co., Ltd.'s inventories and allowance for inventory valuation losses amounted to NT \$471,405 thousand and NT \$55,936 thousand, respectively.

Visual Photonics Epitaxy Co., Ltd.'s inventories are mainly optoelectronics semiconductor Epi wafer products. Since the industry involves rapidly changing technology and are affected by the communications industry, there is higher risk of incurring inventory valuation losses. Visual Photonics Epitaxy Co., Ltd.'s inventories are measured at the lower of cost and net realisable value, if the price change does not have the expected net realizable value, it may affect the net realizable value estimation result of the inventory evaluation.

Visual Photonics Epitaxy Co., Ltd.'s determination of net realisable value for obsolete or slow-moving inventories involves subjective judgement resulting in a high degree of estimation uncertainty. Considering the inventories and the allowance for inventory valuation losses are material to its financial statements, we determined that the estimates of the allowance for inventory valuation losses as one of the key audit matters for this fiscal year.

How our audit addressed the matter

Our key audit procedures performed in respect to the above matter included:

1. Assessed the reasonableness and the consistency of provision policies on allowance for inventory valuation losses and procedures based on our understanding of Visual Photonics Epitaxy Co., Ltd.'s operation and industry, including the classification of inventory for determining net realizable value.
2. Obtained an understanding of the Visual Photonics Epitaxy Co., Ltd.'s warehousing control procedures. Reviewed annual physical inventory count plan and participated in the annual inventory count event in order to assess the classification of obsolete inventory and effectiveness of obsolete inventory internal control.
3. Selected samples to check the inventory clearance and historical data of inventory discount in order to evaluate the reasonableness of allowance of inventory valuation losses.

4. Tested the appropriateness of the estimated basis that Visual Photonics Epitaxy Co., Ltd. adopted to evaluate net realizable value, selected a sample of individual inventory data like inventory selling and accuracy of purchase price, and recalculate and evaluate the reasonableness of allowance for inventory valuation losses which were determined by management.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparations of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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 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.

Chou, Hsiao-Tzu

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan

March 10, 2022

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and independent auditors' report are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(Expressed in thousands of New Taiwan dollars)

Assets			December 31, 2021		December 31, 2020	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 1,210,205	25	\$ 1,066,356	25
1150	Notes receivable, net	6(2)	416	-	432	-
1170	Accounts receivable, net	6(2)	584,451	12	463,482	11
1200	Other receivables		637	-	2,695	-
130X	Inventories	6(3)	415,469	8	372,296	9
1410	Prepayments		91,055	2	67,047	1
11XX	Current Assets		2,302,233	47	1,972,308	46
Non-current assets						
1600	Property, plant and equipment	6(4) and 8	2,405,171	50	2,318,762	54
1755	Right-of-use assets	6(5)	535	-	937	-
1780	Intangible assets		5,327	-	4,110	
1840	Deferred income tax assets	6(18)	8,533	-	13,931	-
1915	Prepayments for business facilities	6(4)	127,942	3	7,732	-
1920	Guarantee deposits paid		67	-	67	-
1975	Net defined benefit asset, non-current	6(9)	777	-	753	-
15XX	Non-current assets		2,548,352	53	2,346,292	54
1XXX	Total assets		\$ 4,850,585	100	\$ 4,318,600	100

(Continued)

VISUAL PHOTONICS EPITAXY CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2021		December 31, 2020	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(6) and 8	\$ 480,000	10	\$ 380,000	9
2130	Current contract liabilities	6(13)	18,416	-	17,359	1
2170	Accounts payable		372,493	8	317,432	7
2200	Other payables	6(7)	356,083	7	221,472	5
2230	Current income tax liabilities	6(18)	139,530	3	74,096	2
2280	Current lease liabilities	6(5)	378	-	886	-
2300	Other current liabilities		5,447	-	5,425	-
21XX	Current Liabilities		1,372,347	28	1,016,670	24
Non-current liabilities						
2540	Long-term borrowings	6(8) and 8	200,000	4	400,000	9
2570	Deferred income tax liabilities	6(18)	164	-	150	-
2580	Non-current lease liabilities	6(5)	160	-	61	-
25XX	Non-current liabilities		200,324	4	400,211	9
2XXX	Total Liabilities		1,572,671	32	1,416,881	33
Equity attributable to owners of parent						
	Share capital	6(10)				
3110	Ordinary shares		1,849,059	38	1,849,059	43
	Capital surplus	6(11)				
3200	Capital surplus		16,736	-	16,736	-
	Retained earnings	6(12)				
3310	Legal reserve		555,416	12	502,110	12
3350	Unappropriated retained earnings		856,703	18	533,814	12
3500	Treasury stocks	6(10)	-	-	-	-
3XXX	Total equity		3,277,914	68	2,901,719	67
Significant commitments and contingent liabilities						
Significant events after the balance sheet date		11				
3X2X	Total liabilities and equity		\$ 4,850,585	100	\$ 4,318,600	100

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

			Year ended December 31			
			2021		2020	
	Items	Notes	AMOUNT	%	AMOUNT	%
4000	Sales revenue	6(13)	\$ 3,608,521	100	\$ 2,645,003	100
5000	Operating costs	6(3)(16)(17)	(2,088,808)	(58)	(1,530,599)	(58)
5900	Net operating margin		<u>1,519,713</u>	<u>42</u>	<u>1,114,404</u>	<u>42</u>
	Operating expenses	6(16)(17)				
6100	Selling expenses		(19,552)	(1)	(11,883)	(1)
6200	General and administrative expenses		(161,981)	(4)	(114,052)	(4)
6300	Research and development expenses		(281,661)	(8)	(299,346)	(11)
6450	Impairment loss determined in accordance with IFRS 9	12(2)	<u>-</u>	<u>-</u>	<u>(1,608)</u>	<u>-</u>
6000	Total operating expenses		<u>(463,194)</u>	<u>(13)</u>	<u>(426,889)</u>	<u>(16)</u>
6900	Operating profit		<u>1,056,519</u>	<u>29</u>	<u>687,515</u>	<u>26</u>
	Non-operating income and expenses					
7100	Interest income		1,572	-	3,049	-
7010	Other income		4,930	-	1,541	-
7020	Other gains and losses	6(14)	(3,667)	-	(37,315)	(2)
7050	Finance costs	6(15)	<u>(6,677)</u>	<u>-</u>	<u>(7,487)</u>	<u>-</u>
7000	Total non-operating income and expenses		<u>(3,842)</u>	<u>-</u>	<u>(40,212)</u>	<u>(2)</u>
7900	Profit before income tax		1,052,677	29	647,303	24
7950	Income tax expense	6(18)	<u>(197,596)</u>	<u>(5)</u>	<u>(114,715)</u>	<u>(4)</u>
8200	Profit for the year		<u>\$ 855,081</u>	<u>24</u>	<u>\$ 532,588</u>	<u>20</u>
8311	Gains on remeasurements of defined benefit plans	6(9)	\$ 26	-	\$ 589	-
8349	Income tax related to components of other comprehensive loss that will not be reclassified to profit or loss	6(18)	<u>(6)</u>	<u>-</u>	<u>(118)</u>	<u>-</u>
8310	Components of other comprehensive income that will not be reclassified to profit or loss		<u>20</u>	<u>-</u>	<u>471</u>	<u>-</u>
8300	Total other comprehensive income for the year		<u>\$ 20</u>	<u>-</u>	<u>\$ 471</u>	<u>-</u>
8500	Total comprehensive income for the year		<u>\$ 855,101</u>	<u>24</u>	<u>\$ 533,059</u>	<u>20</u>
9750	Total basic earnings per share	6(19)	<u>\$ 4.62</u>		<u>\$ 2.88</u>	
9850	Total diluted earnings per share	6(19)	<u>\$ 4.60</u>		<u>\$ 2.86</u>	

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Expressed in thousands of New Taiwan dollars)

	Notes	Share capital - common stock	Capital Surplus		Retained Earnings		Treasury stocks	Total equity
			Additional paid-in capital	Treasury stock transactions	Legal reserve	Unappropriated retained earnings		
<u>2020</u>								
Balance at January 1, 2020		\$ 1,849,059	\$ 10,229	\$ 6,462	\$ 450,724	\$ 514,405	\$ -	\$ 2,830,879
Profit for the year		-	-	-	-	532,588	-	532,588
Other comprehensive income		-	-	-	-	471	-	471
Total comprehensive income		-	-	-	-	533,059	-	533,059
Appropriation and distribution of retained earnings								
Legal reserve	6(12)	-	-	-	51,386	(51,386)	-	-
Cash dividends	6(12)	-	-	-	-	(462,264)	-	(462,264)
Purchase of treasury shares	6(10)	-	-	-	-	-	(126)	(126)
Treasury shares reissued to employees	6(10)	-	-	45	-	-	126	171
Balance at December 31, 2020		<u>\$ 1,849,059</u>	<u>\$ 10,229</u>	<u>\$ 6,507</u>	<u>\$ 502,110</u>	<u>\$ 533,814</u>	<u>\$ -</u>	<u>\$ 2,901,719</u>
<u>2021</u>								
Balance at January 1, 2021		\$ 1,849,059	\$ 10,229	\$ 6,507	\$ 502,110	\$ 533,814	\$ -	\$ 2,901,719
Profit for the year		-	-	-	-	855,081	-	855,081
Other comprehensive income		-	-	-	-	20	-	20
Total comprehensive income		-	-	-	-	855,101	-	855,101
Appropriation and distribution of retained earnings								
Legal reserve	6(12)	-	-	-	53,306	(53,306)	-	-
Cash dividends	6(12)	-	-	-	-	(478,906)	-	(478,906)
Balance at December 31, 2021		<u>\$ 1,849,059</u>	<u>\$ 10,229</u>	<u>\$ 6,507</u>	<u>\$ 555,416</u>	<u>\$ 856,703</u>	<u>\$ -</u>	<u>\$ 3,277,914</u>

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(Expressed in thousands of New Taiwan dollars)

		Year ended December 31	
	Notes	2021	2020
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 1,052,677	\$ 647,303
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense (including right-of-use assets)	6(4)(5)(16)	270,977	284,482
Amortization expense	6(16)	1,340	810
Expected credit loss	12(2)	-	1,608
Interest expense	6(15)	6,677	7,487
Interest income	(	1,572)	(3,049)
Unrealized foreign exchange (profit) loss	(	15,735)	8,192
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		16	-
Accounts receivable	(	120,969)	48,509
Other receivables		2,058	(1,560)
Inventories	(	43,173)	(42,143)
Prepayments	(	24,008)	(1,752)
Other non-current liabilities		2	(3)
Changes in operating liabilities			
Current contract liabilities		1,057	10,423
Accounts payable		55,061	13,827
Other payables		125,956	2,553
Other current liabilities		22	159
Cash inflow generated from operations		1,310,386	976,846
Interest received		1,572	3,049
Interest paid	(	6,677)	(7,487)
Income taxes paid	(	126,756)	(121,182)
Net cash flows from operating activities		1,178,525	851,226
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(20)	(346,894)	(86,194)
Acquisition of intangible assets		(2,557)	(2,112)
Increase in prepayments for business facilities		(120,410)	(8,928)
Net cash flows used in investing activities		(469,861)	(97,234)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings	6(21)	100,000	-
Decrease in short-term borrowings	6(21)	-	(90,000)
Proceeds from long-term debt	6(21)	1,280,000	1,500,000
Repayments of long-term debt	6(21)	(1,480,000)	(1,500,000)
Payments of lease liabilities	6(21)	(1,644)	(1,774)
Cash dividends paid	6(12)(21)	(478,906)	(462,264)
Purchase of treasury shares	6(10)	-	(126)
Treasury shares reissued to employees	6(10)	-	171
Net cash flows used in financing activities		(580,550)	(553,993)
Effect of exchange rate changes on cash and cash equivalents		15,735	(8,192)
Net increase in cash and cash equivalents		143,849	191,807
Cash and cash equivalents at beginning of year	6(1)	1,066,356	874,549
Cash and cash equivalents at end of year	6(1)	\$ 1,210,205	\$ 1,066,356

The accompanying notes are an integral part of these financial statements.

VISUAL PHOTONICS EPITAXY CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. History and Organization

Visual Photonics Epitaxy Co., Ltd. (the “Company”) was incorporated in November 1996. The Company is primarily engaged in research & development, manufacturing and sales of optoelectronic semi-conductors epitaxy, optoelectronic components products and etc. On January 24, 2002, the Company’s common stock was officially listed on the Taiwan Stock Exchange Corporation.

2. The Date of Authorisation for Issuance of the Financial Statements and Procedures for Authorisation

These financial statements were authorized for issuance by the Board of Directors on March 10, 2022.

3. Application of New Standards, Amendments and Interpretations

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

New standards, interpretations and amendments endorsed by FSC effective from 2021 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 4, ‘Extension of the temporary exemption from applying IFRS 9’	January 1, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, ‘Interest Rate Benchmark Reform— Phase 2’	January 1, 2021
Amendment to IFRS 16, ‘Covid-19-related rent concessions beyond 30 June 2021’	April 1, 2021(Note)

Note : Earlier application from January 1, 2021 is allowed by FSC.

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

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

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

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

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2023
Amendments to IFRS 17, 'Insurance contracts'	January 1, 2023
Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9 – comparative information'	January 1, 2023
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2023
Amendments to IAS 1, 'Disclosure of accounting policies'	January 1, 2023
Amendments to IAS 8, 'Definition of accounting estimates'	January 1, 2023
Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction'	January 1, 2023

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

4. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC

Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

- A. Except for defined benefit assets and liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, the financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

Foreign currency transactions and balances

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- D. All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) Accounts and notes receivable

- A. Accounts receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(7) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Company recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognises the impairment provision for lifetime ECLs.

(8) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(9) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(10) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	50 ~ 60 years
Machinery and equipment	3 ~ 15 years
Office equipment	4 years
Other equipment	3 ~ 15 years

(11) Leasing arrangements (lessee) - right-of-use assets / lease liabilities

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:

- (a) Fixed payments, less any lease incentives receivable;
- (b) Variable lease payments that depend on an index or a rate;
- (c) Amounts expected to be payable by the lessee under residual value guarantees;
- (d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Company subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

- (a) The amount of the initial measurement of lease liability;
- (b) Any lease payments made at or before the commencement date;
- (c) Any initial direct costs incurred by the lessee; and
- (d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

D. For lease modifications that decrease the scope of the lease, the lessee shall decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize the difference between remeasured lease liability in profit or loss.

(12) Intangible assets

Intangible assets, mainly patent and computer software, are recognised at cost and amortised on a straight-line basis over their estimated useful lives of 1 ~ 7 years.

(13) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons

for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(14) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(15) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(16) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(17) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of

government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognised immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(18) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(19) Share capital

- A. Ordinary shares are classified as equity.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(20) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(21) Revenue recognition

Sales of goods

- A. The Company manufactures and sells optoelectronic semi-conductors epitaxy, component and etc. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.
- B. Sales revenue is recognised based on the price specified in the contract, net of the business tax, sales return and discounts. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. No element of financing is deemed present as the sales are made with a credit term of 30 to

90 days after control of goods are transferred, which is consistent with market practice.

- C. A receivable is recognised when the control of goods are transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(22) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company's chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. Critical Accounting Judgements, Estimates and Key Sources of Assumption Uncertainty

The preparation of these financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Company's accounting policies

Lease period

In determining the lease term, the Company takes into consideration all facts and circumstances that create an economic incentive to exercise an option (or not to exercise an option), including expected changes of all facts and situations happens from the beginning of lease date to the exercise date of option. The main consideration including the contract terms and conditions in the period of options, significant lease rights improvement in the contract period and the significance of target assets to the leasee. When significant events or significant changes happen in the control range of the Company, the lease period will be revalued.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2021, the carrying amount of inventories was \$415,469.

6. Details of Significant Accounts

(1) Cash and cash equivalents

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Cash on hand and revolving funds	\$ 335	\$ 335
Checking accounts and demand deposits	1,034,510	702,181
Time deposits	175,360	363,840
	<u>\$ 1,210,205</u>	<u>\$ 1,066,356</u>

A. The Company 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.

B. The Company has no cash and cash equivalents pledged to others.

(2) Notes and accounts receivable

<u>Items</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Notes receivable	<u>\$ 416</u>	<u>\$ 432</u>
Accounts receivable	\$ 585,031	\$ 464,062
Less: Allowance for uncollectible accounts	(580)	(580)
	<u>\$ 584,451</u>	<u>\$ 463,482</u>

A. The ageing analysis of accounts receivable and notes receivable are as follows:

<u>Accounts receivable</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Not past due	\$ 461,999	\$ 431,304
Up to 60 days	115,508	30,463
61 to 90 days	4,134	2,107
91 to 180 days	3,390	-
Over 181 days	-	188
	<u>\$ 585,031</u>	<u>\$ 464,062</u>
<u>Notes receivable</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Not past due	<u>\$ 416</u>	<u>\$ 432</u>

The above ageing analysis was based on past due date.

B. The Company does not hold any collateral as security.

C. As of December 31, 2021 and 2020, accounts receivable and notes receivable were all from contracts with customers. And as of January 1, 2020, the balance of receivables from contracts with customers amounted to \$514,611.

D. Information relating to credit risk is provided in Note 12(2).

(3) Inventories

December 31, 2021			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 235,344	(\$ 4,728)	\$ 230,616
Work in progress	43,267	(430)	42,837
Finished goods	192,794	(50,778)	142,016
Total	<u>\$ 471,405</u>	<u>(\$ 55,936)</u>	<u>\$ 415,469</u>

December 31, 2020			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 161,212	(\$ 4,728)	\$ 156,484
Work in progress	50,465	(430)	50,035
Finished goods	210,799	(45,022)	165,777
Total	<u>\$ 422,476</u>	<u>(\$ 50,180)</u>	<u>\$ 372,296</u>

The cost of inventories recognised as expense for the period:

	For the years ended December 31,	
	2021	2020
Cost of goods sold	\$ 2,083,129	\$ 1,530,718
Loss on market value decline of inventories	5,756	-
Revenue from scraps	(77)	(119)
	<u>\$ 2,088,808</u>	<u>\$ 1,530,599</u>

(4) Property, plant and equipment

	2021						
	Land	Buildings and structures	Machinery and equipment	Office equipment	Other equipment	Construction in progress and equipment under acceptance	Total
<u>At January 1</u>							
Cost	\$ 141,004	\$ 1,240,634	\$ 3,755,471	\$ 21,564	\$ 233,702	\$ 40,454	\$ 5,432,829
Accumulated depreciation	-	(687,562)	(2,241,359)	(21,096)	(164,050)	-	(3,114,067)
	<u>\$ 141,004</u>	<u>\$ 553,072</u>	<u>\$ 1,514,112</u>	<u>\$ 468</u>	<u>\$ 69,652</u>	<u>\$ 40,454</u>	<u>\$ 2,318,762</u>
Opening net book amount	\$ 141,004	\$ 553,072	\$ 1,514,112	\$ 468	\$ 69,652	\$ 40,454	\$ 2,318,762
Additions	-	10,467	43,243	2,882	10,247	289,945	356,784
Reclassifications	-	33,523	1,770	-	4,124	(40,454)	(1,037)
Depreciation charge	-	(63,556)	(191,772)	(367)	(13,643)	-	(269,338)
Closing net book amount	<u>\$ 141,004</u>	<u>\$ 533,506</u>	<u>\$ 1,367,353</u>	<u>\$ 2,983</u>	<u>\$ 70,380</u>	<u>\$ 289,945</u>	<u>\$ 2,405,171</u>
<u>At December 31</u>							
Cost	\$ 141,004	\$ 1,284,624	\$ 3,800,484	\$ 23,725	\$ 248,073	\$ 289,945	\$ 5,787,855
Accumulated depreciation	-	(751,118)	(2,433,131)	(20,742)	(177,693)	-	(3,382,684)
	<u>\$ 141,004</u>	<u>\$ 533,506</u>	<u>\$ 1,367,353</u>	<u>\$ 2,983</u>	<u>\$ 70,380</u>	<u>\$ 289,945</u>	<u>\$ 2,405,171</u>

	2020						
	Land	Buildings and structures	Machinery and equipment	Office equipment	Other equipment	Construction in progress and equipment under acceptance	Total
<u>At January 1</u>							
Cost	\$ 141,004	\$ 1,229,493	\$ 3,718,928	\$ 21,201	\$ 222,770	\$ 27,498	\$ 5,360,894
Accumulated depreciation	- (627,402)	(2,031,453)	(20,812)	(151,687)	-	(2,831,354)	
	<u>\$ 141,004</u>	<u>\$ 602,091</u>	<u>\$ 1,687,475</u>	<u>\$ 389</u>	<u>\$ 71,083</u>	<u>\$ 27,498</u>	<u>\$ 2,529,540</u>
Opening net book amount	\$ 141,004	\$ 602,091	\$ 1,687,475	\$ 389	\$ 71,083	\$ 27,498	\$ 2,529,540
Additions	-	10,589	26,192	363	7,271	15,021	59,436
Reclassifications	-	552	10,351	-	3,661	(2,065)	12,499
Depreciation charge	- (60,160)	(209,906)	(284)	(12,363)	-	(282,713)	
Closing net book amount	<u>\$ 141,004</u>	<u>\$ 553,072</u>	<u>\$ 1,514,112</u>	<u>\$ 468</u>	<u>\$ 69,652</u>	<u>\$ 40,454</u>	<u>\$ 2,318,762</u>
<u>At December 31</u>							
Cost	\$ 141,004	\$ 1,240,634	\$ 3,755,471	\$ 21,564	\$ 233,702	\$ 40,454	\$ 5,432,829
Accumulated depreciation	- (687,562)	(2,241,359)	(21,096)	(164,050)	-	(3,114,067)	
	<u>\$ 141,004</u>	<u>\$ 553,072</u>	<u>\$ 1,514,112</u>	<u>\$ 468</u>	<u>\$ 69,652</u>	<u>\$ 40,454</u>	<u>\$ 2,318,762</u>

- A. The significant components of buildings include main plants, which are depreciated over 50 and 60 years.
- B. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.
- C. For the requirement of production and operation, the Company has successively entered into equipment purchase contracts. As of December 31, 2021 and 2020, the amounts of partial payment for undelivered equipment were \$127,942 and \$7,732 (shown as ‘prepayments for business facilities’), respectively.

(5) Leasing arrangements — lessee

- A. The Company leases various assets including business vehicles. Rental contracts are typically made for periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.
- B. Short-term leases with a lease term of 12 months or less comprise business vehicles and printers. On December 31, 2021 and 2020, payments of lease commitments for short-term leases amounted to \$646 and \$570, respectively.
- C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	December 31, 2021	December 31, 2020
	Carrying amount	Carrying amount
Transportation equipment (Business vehicles)	\$ 535	\$ 937
	For the years ended December 31,	
	2021	2020
	Depreciation charge	Depreciation charge
Transportation equipment (Business vehicles)	\$ 1,639	\$ 1,769

D. For the years ended December 31, 2021 and 2020, the additions to right-of-use assets were \$1,235 and \$0, respectively.

E. The information on profit and loss accounts relating to lease contracts is as follows:

	For the years ended December 31,	
	2021	2020
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 11	\$ 21
Expense on short-term lease contracts	646	570

F. For the years ended December 31, 2021 and 2020, the Company's total cash outflow for leases were \$2,301 and \$2,365, respectively.

(6) Short-term borrowings

Type of borrowings	December 31, 2021	December 31, 2020
Bank unsecured borrowings	\$ 480,000	\$ 380,000
Interest rate range	0.7%~0.725%	0.745%~0.75%

The Company did not provide any collateral for the abovementioned borrowings.

(7) Other payables

	December 31, 2021	December 31, 2020
Wages, salaries and bonus payable	\$ 326,257	\$ 202,318
Payable on equipment	13,594	3,704
Others	16,232	15,450
	<u>\$ 356,083</u>	<u>\$ 221,472</u>

(8) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2021
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	0.9680%	Property, plant and equipment	\$ 200,000
Less: Current portion				-
				<u>\$ 200,000</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2020
Long-term bank borrowings				
Secured borrowings	Borrowing period is from June 21, 2018 to June 21, 2023 ; interest is repayable monthly.	0.9680%	Property, plant and equipment	\$ 400,000
Less: Current portion				-
				<u>\$ 400,000</u>

(9) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Present value of defined benefit obligations	(\$ 174)	(\$ 141)
Fair value of plan assets	<u>951</u>	<u>894</u>
Net defined benefit liability	<u>\$ 777</u>	<u>\$ 753</u>

(c) Movements in net defined benefit liabilities are as follows:

	2021		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
At January 1	(\$ 141)	\$ 894	\$ 753
Current service cost	(47)	-	(47)
Interest (expense) income	(1)	4	3
	(189)	898	709
Remeasurements:			
Change in financial assumptions	33	11	44
Experience adjustments	(18)	-	(18)
	15	11	26
Pension fund contribution	-	42	42
At December 31	(\$ 174)	\$ 951	\$ 777
	2020		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
At January 1	(\$ 658)	\$ 819	\$ 161
Current service cost	(41)	-	(41)
Interest (expense) income	(6)	8	2
	(705)	827	122
Remeasurements:			
Change in financial assumptions	(16)	-	(16)
Experience adjustments	580	25	605
	564	25	589
Pension fund contribution	-	42	42
At December 31	(\$ 141)	\$ 894	\$ 753

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time

deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company and domestic subsidiaries have no right to participate in managing and operating that fund and hence the Company and domestic subsidiaries are unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2021 and 2020 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2021	2020
Discount rate	1.1%	0.5%
Future salary increases	2.75%	2.75%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2021				
Effect on present value of defined benefit obligation	(\$ 12)	\$ 13	\$ 12	(\$ 12)
December 31, 2020				
Effect on present value of defined benefit obligation	(\$ 10)	\$ 11	\$ 10	(\$ 10)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2022 amount to \$42.

- (g) As of December 31, 2021, the weighted average duration of the retirement plan is 29 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	-
1-2 year(s)		-
2-5 years		-
Over 5 years		240
	\$	<u>240</u>

- B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2021 and 2020, were \$9,119 and \$8,715, respectively.

(10) Share capital/Treasury shares

- A. As of December 31, 2021, the Company’s authorised capital was \$2,600,000, consisting of 260,000 thousand shares of ordinary stock (including 15,000 thousand shares reserved for employee stock options), and the paid-in capital was \$1,849,059 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected. Movements in the number of the company’s ordinary thousand shares outstanding are as follows:

	2021	2020
At January 1	184,906	184,906
Treasury shares reissued to employees	-	2
Shares reacquisition (treasury shares)	-	(2)
At December 31	<u>184,906</u>	<u>184,906</u>

B. Treasury shares

- (a) 2 thousand shares of treasury stock totaling \$126 was reacquired on March 23, 2020 at \$63.24 (in dollars) per share reissued to employees, as resolved by the Board of Directors on July 16, 2020. The reissue was completed on December 31, 2020.
- (b) Reason for share reacquisition and movements in the number of the Company’s treasury shares are as follows:
No such transaction was recorded as at December, 31 2021 and 2020.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company’s issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.

- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (e) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within five years from the reacquisition date and shares not reissued within the five-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.

(11) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(12) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve unless existing legal reserve exceeds or is equal to issued share capital. Special reserve is set aside or reversed in accordance with related laws or regulations.
- B. The Company's dividend policy is summarised below: as the Company operates in a growth stage and future expansion plans are expected in the future years, the earnings dividend policy considers fostering of competitiveness, capital needs in future years and expansion of share capital. For stable growth of earnings per share, dividends are adjusted based on performance, and cash dividends shall account for at least 10% of the total dividends distributed. The Board of Directors shall propose for dividend distribution based on capital structure and budget, and the proposals shall be resolved in shareholders' meetings.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

- E. The distribution of 2020 and 2019 earnings had been resolved at the stockholders' meeting on July 29, 2021 and June 12, 2020, respectively, as follows:

	2020		2019	
	Amount	Dividends per share (in dollar)	Amount	Dividends per share (in dollar)
Legal reserve	\$ 53,306		\$ 51,386	
Cash dividends	478,906	\$ 2.59	462,264	\$ 2.50

Information about the distribution of retained earnings of the Company as proposed by the Board of Directors and resolved at the meeting of shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

- F. On March 10, 2022, the Board of Directors proposed and approved the appropriation of 2021 retained earnings in cash with \$4 per share, total dividend was \$739,624. As of March 10, 2022, abovementioned appropriation of 2021 retained earnings has not been resolved by the shareholders in the meeting.

(13) Operating revenue

- A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services over time and at a point in time in the following geographical regions:

For the year ended December 31, 2021	Taiwan	US	All other segments	Total
Revenue from external customer contracts	<u>\$ 1,618,762</u>	<u>\$ 1,496,590</u>	<u>\$ 493,169</u>	<u>\$ 3,608,521</u>
For the year ended December 31, 2020	Taiwan	US	All other segments	Total
Revenue from external customer contracts	<u>\$ 1,252,596</u>	<u>\$ 1,074,362</u>	<u>\$ 318,045</u>	<u>\$ 2,645,003</u>

- B. Contract assets and liabilities

The Company has recognised the following revenue-related contract liabilities:

	December 31, 2021	December 31, 2020	January 1, 2020
Advance sales receipts	<u>\$ 18,416</u>	<u>\$ 17,359</u>	<u>\$ 6,936</u>

Revenue recognised that was included in the contract liability balance at the beginning of the period:

	For the years ended December 31,	
	2021	2020
Advance sales receipts	<u>\$ 16,136</u>	<u>\$ 4,744</u>

(14) Other gains and losses

	For the years ended December 31,	
	2021	2020
Net foreign exchange losses	(\$ 3,424)	(\$ 37,022)
Other losses	(243)	(293)
	<u>(\$ 3,667)</u>	<u>(\$ 37,315)</u>

(15) Finance costs

	For the years ended December 31,	
	2021	2020
Interest expense		
- Bank loan	\$ 6,666	\$ 7,466
- Lease contract	11	21
	<u>\$ 6,677</u>	<u>\$ 7,487</u>

(16) Expenses by nature

	For the years ended December 31,			
	2021		2020	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Change in inventory of finished goods and work in progress	\$ 25,203	\$ -	(\$ 44,060)	\$ -
Raw materials and supplies used	1,431,901	-	1,065,290	-
Employee benefit expense	272,958	195,010	211,205	120,099
Depreciation charges on property, plant and equipment	168,927	100,411	141,627	141,086
Depreciation charges on right-of-use assets	-	1,639	-	1,769
Amortisation charges on intangible assets	-	1,340	-	810
Other expenses	189,819	164,794	156,537	163,125
Operating costs and expenses	<u>\$ 2,088,808</u>	<u>\$ 463,194</u>	<u>\$ 1,530,599</u>	<u>\$ 426,889</u>

(17) Employee benefit expense

	For the years ended December 31,			
	2021		2020	
	Operating costs	Operating expenses	Operating costs	Operating expenses
Wages and salaries	\$ 235,781	\$ 182,304	\$ 179,732	\$ 108,476
Labour and health insurance fees	14,387	6,078	12,890	5,477
Pension costs	6,627	2,536	6,293	2,461
Other personnel expenses	16,163	4,092	12,290	3,685
	<u>\$ 272,958</u>	<u>\$ 195,010</u>	<u>\$ 211,205</u>	<u>\$ 120,099</u>

A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees’

compensation and directors' and supervisors' remuneration. The ratio shall be at least 5 ~ 15% for employees' compensation and shall not be higher than 3% for directors' remuneration.

- B. For the years ended December 31, 2021 and 2020, employees' compensation was accrued at \$148,613 and \$58,185, respectively; directors' remuneration was accrued at \$37,153 and \$21,819, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation were estimated and accrued based on 12% and 8%; the directors' remuneration were estimated and accrued based on 3%, respectively of distributable profit of current year for the years ended December 31, 2021 and 2020.

Employees' compensation and directors' remuneration of 2020 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2020 financial statements.

Information about employees' compensation and directors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(18) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the years ended December 31,	
	2021	2020
Current tax:		
Current tax on profits for the year	\$ 207,673	\$ 136,678
Tax on undistributed surplus earnings	42	10
Prior year income tax overestimation	(15,525)	(15,883)
Total current tax	<u>192,190</u>	<u>120,805</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>5,406</u>	(<u>6,090</u>)
Income tax expense	<u>\$ 197,596</u>	<u>\$ 114,715</u>

- (b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	For the years ended December 31,	
	2021	2020
Remeasurement of defined benefit obligations	<u>\$ 6</u>	<u>\$ 118</u>

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2021	2020
	\$ 210,535	\$ 129,461
Change in assessment of realisation of deferred tax assets	756	240
Expenses disallowed by tax regulation	879	787
Temporary differences not recognised as deferred tax assets	909	100
Prior year income tax overestimation	(15,525)	(15,883)
Tax on undistributed surplus earnings	42	10
Income tax expense	<u>\$ 197,596</u>	<u>\$ 114,715</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

Year ended December 31, 2021				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
—Deferred tax assets:				
Inventory at hub				
recognised as gross profit	\$ 9,908	(\$ 1,949)	\$ -	\$ 7,959
Others	4,023	(3,449)	-	574
Subtotal	<u>\$ 13,931</u>	<u>(\$ 5,398)</u>	<u>\$ -</u>	<u>\$ 8,533</u>
—Deferred tax liabilities:				
Book-Tax difference of pension	(\$ 150)	(\$ 8)	(\$ 6)	(\$ 164)
	<u>\$ 13,781</u>	<u>(\$ 5,406)</u>	<u>(\$ 6)</u>	<u>\$ 8,369</u>
Year ended December 31, 2020				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
—Deferred tax assets:				
Inventory at hub				
recognised as gross profit	\$ 4,534	\$ 5,374	\$ -	\$ 9,908
Others	3,307	716	-	4,023
Subtotal	<u>\$ 7,841</u>	<u>\$ 6,090</u>	<u>\$ -</u>	<u>\$ 13,931</u>
—Deferred tax liabilities:				
Book-Tax difference of pension	(\$ 32)	\$ -	(\$ 118)	(\$ 150)
	<u>\$ 7,809</u>	<u>\$ 6,090</u>	<u>(\$ 118)</u>	<u>\$ 13,781</u>

D. The amounts of deductible temporary difference that are not recognised as deferred tax assets are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Deductible temporary differences	<u>\$ 64,052</u>	<u>\$ 59,506</u>

E. The Company's income tax returns through 2018 have been assessed and approved by the Tax Authority.

(19) Earnings per share

	<u>For the year ended December 31, 2021</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	<u>\$ 855,081</u>	<u>184,905</u>	<u>\$ 4.62</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 855,081	184,905	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>968</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 855,081</u>	<u>185,873</u>	<u>\$ 4.60</u>

For the year ended December 31, 2020			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 532,588	184,905	\$ 2.88
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 532,588	184,905	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,245	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 532,588	186,150	\$ 2.86

(20) Supplemental cash flow information

A. Investing activities with partial cash payments

For the years ended December 31,		
	2021	2020
Purchase of property, plant and equipment	\$ 356,784	\$ 59,436
Add: Opening balance of payable on equipment	3,704	30,462
Less: Ending balance of payable on equipment	(13,594)	(3,704)
Cash paid during the period	\$ 346,894	\$ 86,194

B. Investing activities with no cash flow effects

For the years ended December 31,		
	2021	2020
Prepayments for business facilities transferred to property, plant and equipment	\$ 200	\$ 12,499
Property, plant and equipment transferred to other receivables	(1,237)	-
	(\$ 1,037)	\$ 12,499

(21) Changes in liabilities from financing activities

	2021				
	Short-term borrowings	Long-term borrowings	Lease liabilities	Dividend payable	Liabilities from financing activities-gross
At January 1	\$ 380,000	\$ 400,000	\$ 947	\$ -	\$ 780,947
Changes in cash flow from financing activities	100,000	(200,000)	(1,644)	(478,906)	(580,550)
Changes in other non-cash items	-	-	1,235	478,906	480,141
At December 31	<u>\$ 480,000</u>	<u>\$ 200,000</u>	<u>\$ 538</u>	<u>\$ -</u>	<u>\$ 680,538</u>
	2020				
	Short-term borrowings	Long-term borrowings	Lease liabilities	Dividend payable	Liabilities from financing activities-gross
At January 1	\$ 470,000	\$ 400,000	\$ 2,721	\$ -	\$ 872,721
Changes in cash flow from financing activities	(90,000)	-	(1,774)	(462,264)	(554,038)
Changes in other non-cash items	-	-	-	462,264	462,264
At December 31	<u>\$ 380,000</u>	<u>\$ 400,000</u>	<u>\$ 947</u>	<u>\$ -</u>	<u>\$ 780,947</u>

7. Related Party Transactions

(1) Parent and ultimate controlling party

None.

(2) Names of related parties and relationship

None.

(3) Key management compensation

	For the years ended December 31,	
	2021	2020
Salaries and other short-term employee benefits	\$ 97,275	\$ 71,041
Post-employment benefits	592	645
Total	<u>\$ 97,867</u>	<u>\$ 71,686</u>

8. Pledged Assets

The Company's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2021	December 31, 2020	
Property, plant and equipment	<u>\$ 1,051,314</u>	<u>\$ 1,042,081</u>	For guarantee of borrowings facilities

9. Significant Contingent Liabilities and Unrecognized Contract Commitments

(1) Contingencies

None.

(2) Commitments

A. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Property, plant and equipment	<u>\$ 406,731</u>	<u>\$ 57,428</u>

B. Guarantee for customs duties

The Company's guarantee for customs duties is as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	<u>\$ 10,000</u>	<u>\$ 10,000</u>

10. Significant Disaster Loss

None.

11. Significant Events after the Balance Sheet Date

On March 10, 2022, the Board of Directors proposed the appropriation of 2021 earnings. For details of the appropriation, please refer to Note 6(12).

12. Others

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet). Total capital is calculated as 'equity' as shown in the balance sheet.

The gearing ratios at December 31, 2021 and 2020 were as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Total borrowings	<u>\$ 680,000</u>	<u>\$ 780,000</u>
Total equity	<u>\$ 3,277,914</u>	<u>\$ 2,901,719</u>
Gearing ratio	21%	27%

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
<u>Financial assets</u>		
Financial assets at amortised cost		
Cash and cash equivalents	\$ 1,210,205	\$ 1,066,356
Notes receivable	416	432
Accounts receivable	584,451	463,482
Other receivables	637	2,695
Guarantee deposits paid	67	67
	<u>\$ 1,795,776</u>	<u>\$ 1,533,032</u>
	<u>December 31, 2021</u>	<u>December 31, 2020</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 480,000	\$ 380,000
Accounts payable	372,493	317,432
Other accounts payable	356,083	221,472
Long-term borrowings (including current portion)	200,000	400,000
	<u>\$ 1,408,576</u>	<u>\$ 1,318,904</u>
Lease liability	<u>\$ 538</u>	<u>\$ 947</u>

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.
- (b) Risk management is carried out by Company treasury department under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company's businesses involve some non-functional currency operations (the Company's functional currency is NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2021			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 37,388	27.68	\$ 1,034,900
EUR:NTD	6,237	31.32	195,343
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 10,401	27.68	\$ 287,900
December 31, 2020			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 37,490	28.48	\$ 1,067,715
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 8,839	28.48	\$ 251,735

- ii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

December 31, 2021			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 10,349	\$ -
EUR:NTD	1%	1,953	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 2,879	\$ -
December 31, 2020			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 10,677	\$ -
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 2,517	\$ -

- iii. Total exchange loss, including realized and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2021 and 2020, amounted to \$3,424 and \$37,022, respectively.

Price risk

Not applicable.

Cash flow and fair value Interest rate risk

- The Company's main interest rate risk arises from long-term borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. For the years ended December 31, 2021 and 2020, the Company's borrowings at variable rate were mainly denominated in New Taiwan dollars.
- If the borrowing interest rate of New Taiwan dollars had increased/decreased by 1% with all other variables held constant, profit, net of tax for the years ended December 31, 2021 and 2020 would have increased/decreased by \$1,600 and \$3,200, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. According to the historical transaction experience of the Company, the default occurs when the contract payments are past due over 180 days.
- iv. The Company adopts following assumptions under IFRS 9 to assess when the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The Company classifies customers' accounts receivable in accordance with customer types. The Company applies the modified approach to estimate expected credit loss under the provision matrix basis.
- vi. The Company used the forecast ability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2021 and 2020, the provision matrix is as follows:

	Without past due	Up to 60 days	Up to 90 days	Up to 180 days	Over 181 days	Total
<u>At December 31, 2021</u>						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	\$ 461,999	\$ 115,508	\$ 4,134	\$ 3,390	\$ -	\$ 585,031
Loss allowance	\$ 139	\$ 81	\$ 8	\$ 352	\$ -	\$ 580
	Without past due	Up to 60 days	Up to 90 days	Up to 180 days	Over 181 days	Total
<u>At December 31, 2020</u>						
Expected loss rate	0.03%	0.07%	0.20%	15.00%	100.00%	
Total book value	\$ 431,304	\$ 30,463	\$ 2,107	\$ -	\$ 188	\$ 464,062
Loss allowance	\$ 129	\$ 21	\$ 242	\$ -	\$ 188	\$ 580

- vii. Movements in relation to the Company applying the modified approach to provide loss allowance for accounts receivable is as follows:

	2021	2020
At January 1	\$ 580	\$ 580
Provision for impairment	-	1,608
Write-offs	-	(1,608)
At December 31	<u>\$ 580</u>	<u>\$ 580</u>

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating units of the Company and aggregated by the Company's treasury department. The Company's treasury department monitors rolling forecast of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The treasury department invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The table below analyses the Company's non-derivate financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities

	Less than 1 year	Over 1 year
December 31, 2021		
Short-term borrowings	\$ 480,134	\$ -
Accounts payable	372,493	-
Other payables	356,083	-
Other current liability	5,447	-
Lease liability	381	160
Long-term borrowings (including current portion)	1,936	202,848

Non-derivative financial liabilities

	Less than 1 year	Over 1 year
December 31, 2020		
Short-term borrowings	\$ 380,135	\$ -
Accounts payable	317,432	-
Other payables	221,472	-
Other current liability	5,425	-
Lease liability	891	61
Long-term borrowings (including current portion)	3,872	405,697

- iv. The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Level 3: Unobservable inputs for the asset or liability.

B. The carrying amounts of the financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, short-term borrowings, accounts payable, other payables, lease liabilities, long-term borrowings) are approximate to their fair values.

C. The balance of financial instruments measured at fair value on December 31, 2021 and 2020 is \$0, so there is no disclosure of relevant fair value information.

D. For the years ended December 31, 2021 and 2020, there was no transfer between Level 1 and Level 2.

E. For the years ended December 31, 2021 and 2020, there was no transfer in and out from level 3.

(4) Other matter

Due to the Covid-19 pandemic and the government's epidemic prevention measures, the market demand for the Company's product has increased. So far, the production of the Company operates normally, and the employees work off-site by groups. In terms of the supply chain, the Company maintains partnerships with suppliers to ensure that the supply proceeds as usual. In the post-epidemic era, with the growth of 5G communication equipment and new projects in relation to mobile phones, the Company assists customers to conduct the product development. Overall, the Covid-19 pandemic did not have a significant negative impact on the Company's operations.

13. Supplementary Disclosures

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of securities at the end of the period (not including subsidiaries, associates and joint ventures): None.

- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of the Company's paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of the Company's paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of the Company's paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of the Company's paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: None.

(2) Information on investees

None.

(3) Information on investments in Mainland China

None.

(4) Major shareholders information

There was no shareholder holding more than 5% of the Company's shares.

14. Segment Information

(1) General information

The Company operates business only in a single industry. The Board of Directors who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

(2) Information about segment profit or loss, assets and liabilities

The Company's segment information, including segment income or loss, assets and liabilities, is consistent with that in the financial statements.

(3) Reconciliation for segment income (loss)

The Company operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment, therefore, no reconciliation was needed.

(4) Information on products and services

The Company is primarily engaged in manufacturing and sales of optoelectronic semi-conductors epitaxy and optoelectronic components products. Currently, the Company has no other significant products or services provided.

(5) Geographical information

Geographical information for the years ended December 31, 2021 and 2020 is as follows:

	Year ended December 31, 2021		Year ended December 31, 2020	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 1,618,762	\$ 2,538,975	\$ 1,252,596	\$ 2,331,541
US	1,496,590	-	1,074,362	-
Others	493,169	-	318,045	-
	<u>\$ 3,608,521</u>	<u>\$ 2,538,975</u>	<u>\$ 2,645,003</u>	<u>\$ 2,331,541</u>

(6) Major customer information

Major customer information of the Company for the years ended December 31, 2021 and 2020 is as follows:

Year ended December 31, 2021			Year ended December 31, 2020		
Customer	Net Sales	%	Customer	Net Sales	%
Customer C	\$ 911,171	25	Customer A	\$ 783,232	30
Customer A	750,941	21	Customer C	530,363	20
Customer D	624,700	17	Customer B	366,051	14
Customer B	427,660	12	Customer D	289,381	11

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2021

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

Details table 1

Item	Summary			Amount	Note
Cash on hand and revolving funds				\$ 335	
Demand deposits and checking accounts					
TWD deposits				358,591	
Foreign currency deposits	USD	16,610	thousand dollars	459,771	Exchange rate 27.68
	JPY	3	thousand dollars	1	Exchange rate 0.240
	HKD	178	thousand dollars	632	Exchange rate 3.550
	EUR	6,237	thousand dollars	215,515	Exchange rate 31.32
Time deposits					
TWD deposits				120,000	
Foreign currency deposits	USD	2,000	thousand dollars	55,360	Exchange rate 27.68
				<u>\$ 1,210,205</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2021

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

Details table 2

Customer	Amount	Note
Third parties:		
L-021	\$ 175,955	
O-022	90,480	
O-224	81,775	
L-007	60,056	
O-114	55,522	
Others	121,243	Each item does not exceed 5% of account balance
	<u>585,031</u>	
Less: allowance for bad debts	(580)	
	<u>\$ 584,451</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF INVENTORIES
DECEMBER 31, 2021

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

Details table 3

<u>Item</u>	<u>Cost</u>	<u>Market Value</u>	<u>Note</u>
Raw materials	\$ 235,344	\$ 239,159	Replacement cost as net realizable value
Work in process	43,267	49,626	Net realizable value as market price
Finished goods	<u>192,794</u>	<u>261,658</u>	Net realizable value as market price
	471,405	<u>\$ 550,443</u>	
Less: Provision for decline in market value	(<u>55,936</u>)		
	<u>\$ 415,469</u>		

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF PROPERTY, PLANT AND EQUIPMENT
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Details table 4

Item	Opening net book amount as at January 1, 2021			Addition	Deductions	Transfer	Closing net book amount as at December 31, 2021	Collateral	
Cost									
Land	\$	141,004	\$	-	\$	-	\$	141,004	Partial guarantee for long-term loans
Bulidings and structures		1,240,634		10,467		-	33,523	1,284,624	"
Machinery and equipment		3,755,471		43,243		-	1,770	3,800,484	"
Office equipment		21,564		2,882	(	721)	-	23,725	None
Unfinished construction and equipment under acceptance		40,454		289,945		-	(40,454)	289,945	"
Other		233,702		10,247		-	4,124	248,073	"
		<u>5,432,829</u>		<u>\$ 356,784</u>		<u>(\$ 721)</u>	<u>(\$ 1,037)</u>	<u>5,787,855</u>	
Accumulated depreciation									
Bulidings and structures	(\$	687,562)	(\$	63,556)	\$	-	\$	-	(\$ 751,118)
Machinery and equipment	(	2,241,359)	(	191,772)		-	-	(	2,433,131)
Office equipment	(	21,096)	(	367)		721	-	(	20,742)
Other	(	164,050)	(	13,643)		-	-	(	177,693)
	(	<u>3,114,067)</u>	(\$	<u>269,338)</u>		<u>\$ 721</u>	<u>\$ -</u>	(	<u>3,382,684)</u>
	\$	2,318,762					\$	2,405,171	

VISUAL PHOTONICS EPITAXY CO., LTD.

DETAILS OF SHORT-TERM LOANS

DECEMBER 31, 2021

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

Details table 5

<u>Type of borrowings</u>	<u>Notes</u>	<u>Balance at December 31, 2021</u>	<u>Contract Period</u>	<u>Interest rate range</u>	<u>Financing line</u>	<u>Collateral</u>
Letter of credit borrowings	Financial institutions	\$ 150,000	2021.12.22~2022.01.21	0.725%	\$ 300,000	None
"	"	30,000	2021.12.20~2022.03.18	0.700%	1,000,000	"
"	"	100,000	2021.12.08~2022.01.04	"	200,000	"
"	"	100,000	"	"	200,000	"
"	"	100,000	2021.10.08~2022.01.06	0.720%	200,000	"
		<u>\$ 480,000</u>				

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ACCOUNTS PAYABLE
DECEMBER 31, 2021

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

Details table 6

Suppliers	Amount	Note
PW001	\$ 183,381	
PW004	72,141	
PG004	42,023	
PW005	19,144	
Others	55,804	Each item does not exceed 5% of account balance
	<u>\$ 372,493</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.

DETAILS OF LONG-TERM LOANS

DECEMBER 31, 2021

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

Details table 7

<u>Creditor</u>	<u>Description</u>	<u>Amount</u>	<u>Term of Contract</u>	<u>Rat(%)</u>	<u>Collateral</u>	<u>Note</u>
Bank of Taiwan	Guaranteed loan	\$ 80,000	2018.06.21~2023.06.21	0.9680%	Property, plant and equipment	
"	"	60,000	"	"	"	
"	"	60,000	"	"	"	
		<u>\$ 200,000</u>				

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Details table 8

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>	<u>Note</u>
Operating revenue			
Compound semiconductor wafer			
product and other items	515,104 (pcs)	\$ 3,610,812	
Less: Sales returns		(791)	
Less: Sales discounts		(1,500)	
		<u>\$ 3,608,521</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF OPERATING COST
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Details table 9

Items	Amount	Note
Opening raw materials	\$ 161,212	
Add: Current purchases	1,611,093	
Less: Closing raw materials	(235,344)	
Cost of sales of raw materials	(1,655)	
Transfer expenses	(103,404)	
Current used raw materials	1,431,902	
Direct labour	25,394	
Production overheads	604,251	
Production costs	2,061,547	
Add: Opening work in progress	50,465	
Less: Closing work in progress	(43,267)	
Cost of finished goods	2,068,745	
Add: Opening finished goods	210,799	
Less: Closing finished goods	(192,794)	
Transfer expenses	(5,276)	
Current cost of manufacture and sales	2,081,474	
Add: Cost of sales of raw materials	1,655	
Revenue from scraps	(77)	
Cost of goods sold	2,083,052	
Loss on market value decline of inventories	5,756	
Current operating costs	<u>\$ 2,088,808</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF MANUFACTURING OVERHEAD
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Details table 10

Item	Summary	Amount	Note
Wages and salaries		\$ 235,781	
Depreciation expense		168,927	
Repair and maintenance expense		59,535	
Utility fee		55,812	
Other expenses		84,196	Each item does not exceed 5% of account balance
		<u>\$ 604,251</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF SELLING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Details table 11

Item	Summary	Amount	Note
Import/export expense		\$ 12,960	
Wages and salaries		4,600	
Other expenses		1,992	Each item does not exceed 5% of account balance
		<u>\$ 19,552</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Details table 12

Item	Summary	Amount	Note
Wages and salaries		\$ 126,753	
Utilities		6,271	
Other expenses		28,957	Each item does not exceed 5% of account balance
		<u>\$ 161,981</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
DETAILS OF RESEARCH AND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Details table 13

Item	Summary	Amount	Note
Depreciation expense		\$ 99,928	
R&D materials		92,067	
Wage and salaries		50,951	
Utilities		11,410	
Other expenses		27,305	Each item does not exceed 5% of account balance
		<u>\$ 281,661</u>	

VISUAL PHOTONICS EPITAXY CO., LTD.
CURRENT EMPLOYEE BENEFITS, DEPRECIATION, AND AMORTISATION EXPENSES SUMMARIZED BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Detail table 14

By nature \ By function	Year ended December 31, 2021			Year ended December 31, 2020		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee Benefit Expense						
Wages and salaries	\$ 235,781	\$ 140,045	\$ 375,826	\$ 179,732	\$ 81,899	\$ 261,631
Labour and health insurance fees	14,387	6,078	20,465	12,890	5,477	18,367
Pension expense	6,627	2,536	9,163	6,293	2,461	8,754
Directors' remuneration	-	42,259	42,259	-	26,577	26,577
Other employee benefit expense	16,163	4,092	20,255	12,290	3,685	15,975
Depreciation charges on property, plant and equipment	\$ 168,927	\$ 100,411	\$ 269,338	\$ 141,627	\$ 141,086	\$ 282,713
Amortisation	\$ -	\$ 1,340	\$ 1,340	\$ -	\$ 810	\$ 810
Depreciation charges on right-of-use assets	\$ -	\$ 1,639	\$ 1,639	\$ -	\$ 1,769	\$ 1,769

VISUAL PHOTONICS EPITAXY CO., LTD.
CURRENT EMPLOYEE BENEFITS, DEPRECIATION, AND AMORTISATION EXPENSES SUMMARIZED BY FUNCTION (Cont.)
FOR THE YEAR ENDED DECEMBER 31, 2021
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Detail table 14

Note:

1. As at December 31, 2021 and 2020, the Company had 264 and 257 employees, including 9 and 8 non-employee directors, respectively.
2. A company whose stock is listed for trading on the stock exchange or over-the-counter securities exchange shall additionally disclose the following information :
 - (1) Average employee benefit expense in current year of \$1,669.
Average employee benefit expense in previous year of \$1,224.
 - (2) Average employees salaries in current year of \$1,474.
Average employees salaries in previous year of \$1,051.
 - (3) Adjustments of average employees salaries of 40.25%
 - (4) The Company established an audit committee, therefore there was no remuneration paid to supervisors.
 - (5) The Company has policies, such as 'Regulation of employees' performance assessment' and 'Salary, proceeds waiting for deduction, working process of salary' as the compliance basis of reasonable salary and remuneration policy, to implement certain and effective awards and penalties. The significant salary and remuneration policies are reviewed by the salary and remuneration committee which is composed of independent directors. Employees' performance is combined with the corporate social responsibility policy through the performance assessment process which is participated in by everyone in the Company and the employees' performance assessment rating which is performed every half year. The Company's Articles of Incorporation also requires that 5%~15% of the current year's profit will be for employees' bonus and compensation and 3% will be for directors' employees' remuneration.