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Visual Photonics Epitaxy Co., Ltd.

2021

Annual Report

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V. Overseas Securities Exchange Where Securities are Listed and Method of Inquiry:

Not applicable

VI. Company website : <http://www.vpec.com.tw>

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Chapter I. Letter to Shareholders

I. Business Results 2021

The Company's net operating revenue was NT\$3.609 billion, an increase by 36.43% from the previous year. The net income was NT\$855 million, an increase by 60.55% from the previous year.

The comparison of operating results 2021 and 2020:

Unit: NTD thousand

	2021	2020	Increase (decrease)	Increase (decrease) by %
Operating revenue	3,608,521	2,645,003	963,518	36.43%
Operating costs	2,088,808	1,530,599	558,209	36.47%
Gross profit	1,519,713	1,114,404	405,309	36.37%
Operating expenses	463,194	426,889	36,305	8.50%
Operating income	1,056,519	687,515	369,004	53.67%
Non-operating income and expenses	(3,842)	(40,212)	36,370	90.45%
Net income	855,081	532,588	322,493	60.55%

According to the IDC report, the smart phone shipment was 1.352 million pcs in 2021, growing by 5.7% from 2020. The Company's operating revenue growth is better than that of the smart phone market, primarily due to the growing market share of smart phone customers and successive release and shipment of Wifi and other new photoelectronic products. Looking forward to 2022, the Company's operations will be benefited by the industrial trends, such as a growing penetration rate of 5G smart phones, Wifi6/Wifi6e becoming the mainstream Wifi technology specifications and the continuing implementation of photoelectronics into the consumption-type and automotive sensor programs.

II. Outline of the business plan

1. Marketing plan

- (1) Improve the strength of the Company's products in technology, quality and mass production; increase the existing customers' procurement from the Company and develop potential high-growth markets and customers at the same time; raise the Company's market share and publicity in the industry by thinking about the market trend, satisfying customers' needs and helping customers with differentiation to improve their competitiveness.
- (2) Participate in the Design-in at the beginning of new product R&D at the customer end pro-actively to become the specifications maker and expand the gap with competitors, strengthen the competitiveness of products with leading technology and

thus deepen the relationship with customers.

- (3) Deepen the relationship with customers with technical services; adopt the product differentiated orientation policy based on the customers' need for design and process; help customers improve the product differentiation and process stability to form the sound partnership with the customer end.

2. Production and operating plan

(1) Cost reduction

Execute the plan to reduce the procurement cost subject to the suppliers' characteristics; implement the concept about Lean Production to eliminate the waste potentially arising in the procedure; adjust the optimal production scheduling in response to changes in the order placed by customers; continue to analyze various costs, train colleagues to think about how to create the maximum output with limited resources in the routine operating activities to keep improving the work literacy; adjust the factory premises to be the most competitive cost structure transcending competitors, as the threshold that competitors are unlikely to reach.

(2) Quality improvement

Intensify colleagues' awareness toward quality by virtue of continuing education and training; keep improving the quality level, in order to practice the strategy to develop customers thoroughly with stable quality and build the competitive strengths of products by cutting the costs to be incurred by defective quality.

3. R&D plan

- (1) Microelectronic products: GaAs HBT/InP HBT/GaAs PHEMT/GaN on SiC/GaN on Si/GaN on Sapphire applied to PA, Switch and LNA of 5G mobile phones, Wifi and Infrastructure (Base Station and Small Cell).

- (2) Photoelectronic products:

- A. PD: 25G APD、50G PD、1.9-2.6 μ m long wavelength PD.

- B. LD: Application of GaAs and InP FP/DFB LD for High Power, High Speed and LiDAR.

- C. VCSEL: iTOF/dTOF, Multi-Junction VCSEL, long-wavelength VCSEL.

4. Financial Plan

Continue to improve the cost structure and increase the gross margin; cut various operating expenses; assess the foreign exchange risk; increase the turnover of various assets; strictly assess the effect of fund utilization and control cash outflows; accelerate the cash inflows accumulated from operating activities; improve the cash holdings and efficiency of asset utilization; insofar as the Company's normal operation and stable profit policy remain unaffected, cover the capital requirement with the cash inflow from operating activities as much as possible, in order to cut the funding cost and improve the profitability; make good use of the low-interest financial trend; borrow loans adequately;

review the adequacy of capital scale; increase the ROE. Strive for the feasibility of various R&D credits pro-actively to increase EPS.

III. Future development strategies

The competition is fierce in each industry. Taking the wireless communication industry where the Company's microelectronic products are located as an example, whenever any flagship model is launched, it is the time to restart the competition trend in this industry. Therefore, the Company has to join the technology R&D of the next generation product specifications together with customers at the very beginning of the R&D, in order to strive for the chance to be the winner of the terminal product specifications and ensure that the Company's epi wafer products can be applied to each best-selling mobile phone, tablet and wearable device series and various innovative devices and infrastructure. Improving the characteristics of materials and yield rate, ensuring the product quality and keeping cutting costs down would be the key to maintain the long-term competitiveness in the industry. Based on the partnership in R&D, the Company helps customers shorten the time spent in R&D and strive for the opportunity to have the customers' products get the Design-Win from mobile phone manufacturers. Only if the Company becomes the first largest supplier, the Company may disperse the operating risk effectively and stand in the invincible position. In the era of 5G, IoT and Vehicle-to-Everything (V2X), the Company will introduce resources, work with customers to layout for the 5G mobile phones, base stations, small cells and Wifi6/Wifi6e-related new products and structures.

The Company will expand the width of optical communication customers, accelerate R&D of the new light sensor products and customers' certification, as the development strategy for photoelectronic products. The Company will also increase the photoelectronic products and customer portfolio to drive the growth of operating revenue and profit, cause the product portfolio and customer structure to develop toward a stabler orientation and thus create more diversified business opportunities. Meanwhile, the Company takes the chance to develop its business when the penetration rate of sensing elements in electronic consumables and LiDAR is increasing significantly, accelerate the R&D of application, certification and mass production of InP, GaAs and GaN, improve the yield rate, and expand the productivity to raise the market share in a timely manner to block the competitors.

The digital transformation is happening. Various forward-looking technologies are emerging and complementing each other. The new high-tech product innovation speed is beyond the ordinary people's imagination. At this moment, many industrial giants and venture capitalists are focusing on the creation of new products which most of people have not yet found are needed by them. In consideration of the excellent characteristics of compound semiconductors, it will inevitably be applied by specific new high-tech products. The Company, as a compound semiconductor epitaxy fab, will act open-mindedly and introduce resources in a timely manner and closely work with the existing and potential customers for

early layout arrangement. Meanwhile, the Company will make good use of its 20 years of experience in the R&D of various microelectronic and photoelectronic products for two decades, control the characteristics of compound semiconductor materials, 6-inch epitaxy mass production capacity, and also ensure the quality to be outstanding and everlasting and have cost awareness to build a threshold that competitors are not likely to reach.

IV. Effect of external competition, laws and regulations and overall business environment

Following the integration of RF modules and photoelectronic components industries, the merger and acquisition movement at the customer end will reform the industrial competition pattern. The approach which the Company may take to deal with it is to strengthen its basic strengths. The Company will continue improving its strengths in quality, cost, delivery period and product R&D and develop the relationship with customers more extensively, upgrade the customers' strength in product characteristics with its R&D strength, become the best partner working with the customer end to develop the next generation products and serve as the major customers' largest supplier. Then, the Company may disperse the operating risk caused by changes in a single customer and also increase the market share steadily amid the changes in the industrial competition trend.

The global supply chain and production layout were changed due to the impact posed by COVID-19 and the China-US trade. The delayed supply and interrupted logistic system might result in duplicate order. As an upstream position in the supply chain, the Company will continue to judge whether or not a bullwhip effect arises in the supply chain in order to adjust the Company's internal production and marketing strategies resiliently to deal with the changes in the demand. The changes in production layout also drive the booming local manufacturing in Taiwan. Industrial parks and science parks have successively suffered the problem about labor shortage. The Company insists on training talents as the first priority and utilizes the diversified recruitment channels including campus recruitment and cooperation plans pro-actively to mitigate the difficulty in talent recruitment that might affect the Company's development and operations.

Given that the road safety requirements are getting much stricter in various countries and the increasing penetration rate and level of the ADAS drive the increase in quantity of sensing elements and the need for upgrading the technology level, various sensor programs have their strength and weakness at the same time. Generally, it is advised that various sensing technologies shall be applied alternatively. In addition to the traditional European, US-based and Japan-based car suppliers, the Mainland China-based car suppliers act more positively toward the ADAS. The samples of LiDAR which the Company has researched and developed permanently were also submitted to customers. The Company expects to be a part of the car makers' supply chain at the beginning of significant growth of the ADAS industry. So far, the Company's epi foundry product has successfully played a part of the mass production design.

According to the "Global Risk Report 2020" released by the World Economic Forum,

the environmental risk has become a difficult issue to be dealt with by the world. Lots of world-renowned brands have started to demand that their supply chains shall plan carbon reduction and show some physical achievements for it. Taiwan Government also values TWSE/TPEX-listed companies' ESG operations increasingly. For example, the Financial Supervisory Commission (FSC) expands the qualifications of TWSE/TPEX-listed companies required to practice ESG. As the upstream dealer in the world-renowned brand suppliers, the Company already has the regulations related to ESG in place. So far, the Company has started to boost the implementation of ESG.

The bottleneck of supply chain and increasing energy and chemical fertilizer price and wage cost drove the global inflation in 2021. The inflation caused increases in the cost of materials. The Company will continue to bargain with vendors and introduce alternative materials and also adjust the pricing strategy toward customers in a timely manner. Generally, the global governments and academic sector believe that the inflation will remain but will not worsen in 2022. The Fed starts to consider dealing with the situation by virtue of the interest rate rising and QE tapering. Considering that the other countries might take the same movement, the easy money policy might be mitigated accordingly. The Company's Financial Dept. will evaluate the necessary response policy when the interest rate rising cycle begins in Taiwan. The inflation and funding crunch are considered as disadvantages to the consumers' disposable income. The Company will keep a close watch on the overall economic indicators and plan the future stable growth with care.

Chapter II. Company Profile

I. Date of Incorporation: November 26, 1996.

II. Company History

Year	Company History	
1996	November	Approved to be incorporated, with the registered capital of NT\$360,000,000. The first paid-in capital was NT\$230,000,000
	November	Purchased production and measurement machinery after completion of the evaluation and analysis.
	December	Purchased the plant and the office of the Longtan Plant.
1997	February	Moved into the factory and the office of the Longtan Plant.
	June	The first epitaxy growth system was delivered to the Company from Germany.
	September	Approved as an important technology business by the Industrial Development Bureau (IDB), Ministry of Economic Affairs (MOEA).
	October	Completed the acceptance of the first epitaxy growth system and began to grow microelectronic epi-wafer.
	October	Grew the first heterojunction bipolar transistor (HBT) epi-wafer.
1998	January	LED epi-wafers reached a high brightness level.
	February	Successfully developed microelectronic HBT epi-wafers and sent samples to clients for use.
	March	Successfully developed LED epi-wafers and sent samples to clients for use.
	July	Conducted capital increase in cash by issuing 13,000,000 shares with the issue price at NT\$10 per share. The paid-in capital after the capital increase was NT\$360,000,000.
1999	February	The leading new product development program of "indium gallium phosphide/gallium arsenide HBT epi-wafer" was approved as in the IDB's approval letter Gong-(88)-II No. 007130.
	March	Conducted capital increase in cash by issuing 14,400,000 shares with the issue price at NT\$20 per share. The paid-in capital after the capital increase was NT\$504,000,000.
	July	Passed ISO9001 certification.
2000	January	The industry development program of "850nm AlGaAs surface light-emitting laser epitaxy technology development" was approved as in the IDB's approval letter Jing-(89) No. 8927704.
	March	Conducted capital increase in cash by issuing 19,600,000 shares with the issue price at NT\$40 per share. The paid-in capital after the capital increase was NT\$700,000,000.
	May	Completed the construction of the new plant in Pingzhen.
	June	HBT was officially certified by the world's largest client.
	October	Mass-produced high-power LD epi-wafers officially.
2001	February	The IDB reviewed and approved the Company's application for public listing as a technology stock, and issued a written opinion that our products have been successfully developed and were marketable.
	April	Conducted capitalization of earnings, capital surplus, and employee bonus by issuing 7,900,000 shares. The paid-in capital after the capitalization was NT\$779,000,000.

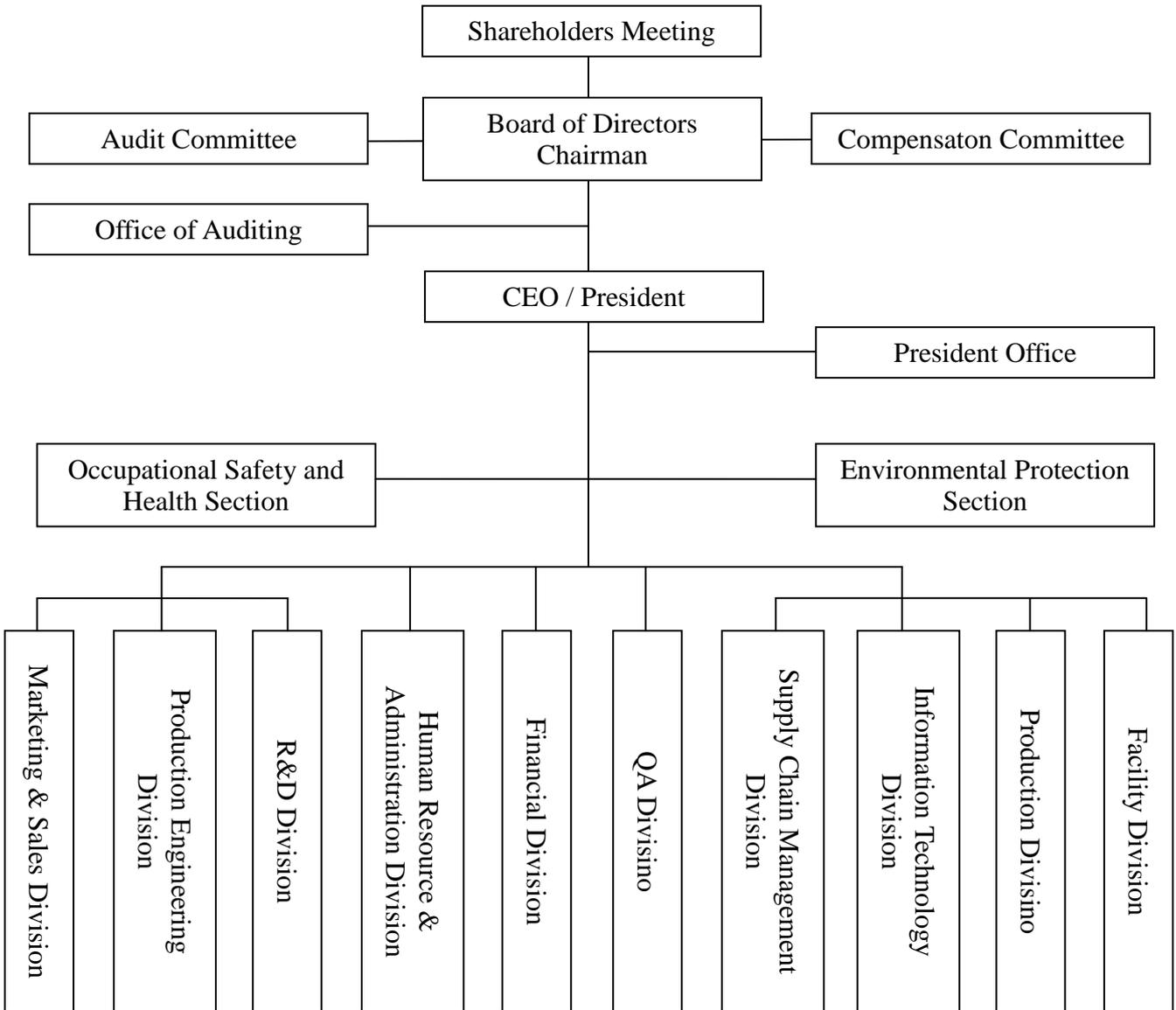
Year		Company History
2001	May	Obtained a Hazardous Workplace Permit as the first compound semiconductor company in Taiwan to have obtained such a permit.
2002	January	The stock was approved for public listing and was officially listed for trading on January 24.
	October	InP HBT was certified by clients.
	November	Passed ISO 14000 certification.
2003	April	Established strategic alliances with major clients.
	October	Mass-produced and shipped WB LED officially.
2004	September	Conducted private placement by issuing 3,400,000 shares. The paid-in capital after the capital increase was NT\$813,000,000.
2005	March	Conducted private placement by issuing 8,250,000 shares. The paid-in capital after the capital increase was NT\$895,500,000.
	July	Conducted private placement by issuing 8,350,000 shares. The paid-in capital after the capital increase was NT\$979,000,000.
2006	November	Issued the first domestic secured convertible corporate bond in the amount of NT\$300 million.
2007	February	"High-efficiency concentrated multi-junction solar cell epi-wafers" was approved by the IDB for its leading new product development and counseling program.
	June	Obtained the US patent "HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE."
	October	Conducted capital increase in cash by issuing 8,000,000 shares with the issue price at NT\$60.40 per share. The paid-in capital after the capital increase was NT\$1,107,110,000.
	November	Obtained the US invention patent "HIGH-BRIGHTNESS LIGHT EMITTING DIODE HAVING REFLECTIVE LAYER."
2008	May	Won the bid for the "Multi-junction solar cell" project launched by the Institute of Nuclear Energy Research, Atomic Energy Council, Executive Yuan.
	September	Passed TS16949 certification.
	September	Conducted capitalization of capital surplus by issuing 11,413,000 shares. The paid-in capital after the capital increase was NT\$1,266,402,000.
2009	January	Sold part of our LED process facilities and patents, with a strategic focus on microelectronics and solar energy products.
	August	Named the 2008 Best Supplier by our largest U.S. client.
	August	Passed and obtained the certification of the occupational safety and health management systems (OHSAS and TOSHS).
	November	Awarded the "Safety and Health Role Model" by the IDB.
	December	Conducted capital increase in cash by issuing 10,000,000 shares with the issue price at NT\$58.00 per share. The paid-in capital after the capital increase was NT\$1,376,763,000.
2010	September	Won the "2010 Technology Innovation Award" from the Department of Technology, MOEA.
	September	Conducted capitalization of earnings and capital surplus by issuing 34,935,000 shares. The paid-in capital after the capital increase was NT\$1,750,937,000.
2011	March	Obtained the three-year recognition of our performance in the Taiwan Occupational Safety and Health Management System (TOSHMS).
	August	Conducted capitalization of earnings and capital surplus by issuing 44,519,000 shares. The paid-in capital after the capital increase was NT\$2,225,946,000.

Year		Company History
2012	August	Conducted capitalization of capital surplus by issuing 22,343,000 shares. The paid-in capital after the capital increase was NT\$2,457,692,000.
2013	February	Subscribed for 667,000 shares of employee stock options. The paid-in capital after the capital increase was NT\$2,465,412,000.
	November	Conducted the greenhouse gas inventory and obtained the ISO-14064-1 verification statement.
	December	Completed the construction of Pingzhen Plant II.
2014	October	Obtained the five-year recognition of our performance in the Taiwan Occupational Safety and Health Management System (TOSHMS).
2015	March	Obtained the U.S. patent "BIHEMT DEVICE HAVING A STACKED SEPERATING LAYER."
	June	Obtained the Taiwan patent " BIPOLAR HIGH ELECTRON MOBILITY TRANSISTOR ."
	September	Obtained the U.S. patent "HIGH ELECTRON MOBILITY BIPOLAR TRANSISTOR."
2016	October	Conducted the capital reduction in cash by cancelling 61,635,000 shares, and the paid-in capital after the capital reduction was NT\$ 1,849,059,000.
	October	Obtained the Taiwan patent "HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE WITH BARRIER LAYER."
	December	Obtained the Taiwan patent "HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE OF ORIENTED EPITAXY."
2017	December	Obtained the U.S. patent "DIRECTED EPITAXIAL HETEROJUNCTION BIPOLAR TRANSISTOR."
2018	May	Obtained the China patent "HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE OF ORIENTED EPITAXY."
	December	Obtained the Taiwan patent "HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE WITH A BANDGAP GRADED HOLE BARRIER LAYER."
2020	April	Obtained the Taiwan patent "HIGH RUGGEDNESS HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE."
	October	Obtained the U.S. patent "HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE WITH A BANDGAP GRADED HOLE BARRIER LAYER."
2021	May	Obtained the Taiwan patent "HIGH RUGGEDNESS HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE."
	June	Obtained the U.S. patent "HIGH RUGGEDNESS HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE."
	July	Obtained the Taiwan patent "MEASUREMENT METHOD OF REFLECTION SPECTRUM OF VERTICAL CAVITY SURFACE EMITTING LASER DIODE (VCSEL) AND EPITAXIAL."
	September	Obtained the Taiwan patent "VERTICAL CAVITY SURFACE EMITTING LASER DIODE (VCSEL) WITH MULTIPLE CURRENT CONFINEMENT LAYERS."
	September	Obtained the U.S. patent "HIGH RUGGEDNESS HETEROJUNCTION BIPOLAR TRANSISTOR STRUCTURE."
	October	Obtained the Taiwan patent "SEMICONDUCTOR LASER DIODE."
	November	Obtained the Taiwan patent "HETEROJUNCTION BIPOLAR TRANSISTOR."
	December	Obtained the U.S. patent "LASER DIODE WITH DEFECT BLOCKING LAYER."

Chapter III. Corporate Governance Report

I. Organizational System

(I) Organizational Structure



(2)Tasks of each major department

Department	Main duties
Office of Auditing	<ol style="list-style-type: none"> 1.Propose and implement the annual audit plan. 2.Provide an audit report and carry out improvement follow-up. 3.Lead revision of internal control and internal audit. 4.Annual self-evaluation. 5.Various filing operations in accordance with the laws. 6.Carry out project audits assigned by the Board of Directors
President's Office	<ol style="list-style-type: none"> 1.Business strategy management. 2.Public relations: media and investor relations, building of corporate image. 3.Promotion of matters assigned by the President and results follow-up. 4.Legal affairs.
Occupational Safety and Health Section	<ol style="list-style-type: none"> 1.Planning, execution and management of occupational safety and health operations. 2.Occupational management system (ISO-45001) operations and maintenance. 3.Corporate business continuity and risk management operations.
Environmental Protection Section	<ol style="list-style-type: none"> 1.Planning, execution and management of environmental protection, energy-saving and carbon reduction operations. 2.Environmental management system (ISO-14001/14064) operations and maintenance. 3.Corporate risk management-related operations.
Facility Division	<ol style="list-style-type: none"> 1.Evaluation and planning of plant facilities and production equipment. 2.Regular inspection of plant facilities and production equipment. 3.Maintenance and management of plant facilities and production equipment. 4.Spare parts management of plant facilities and production equipment. 5.Planning and implementation of expansion of plants and construction of new plants. 6.Energy-saving planning and implementation of plant facilities.
Production Division	<ol style="list-style-type: none"> 1.Product production, testing and verification management. 2.Production capacity planning and improvement. 3.Planning and management of operational processes. 4.Production efficiency and yield improvement. 5.Training and assessment of operators. 6.Management of semi-finished products, materials and tools of production line. 7.Periodic inspection of production equipment 8.Maintenance of site neatness.
Information Technology Division	<ol style="list-style-type: none"> 1.Maintenance of computer systems inside the plant (including network, servers, personal computers and peripherals) to ensure their functionality. 2.Planning and performing update and expansion of in-plant computer systems (including network, servers, personal computers and peripherals). 3.Application system development and management. 4.Planning and execution of backups, redundancies and offsite backups. 5.User authority and account management. 6.Information security maintenance and management. 7.Management of computer assets (including hardware, software and consumables).
Supply Chain Management Division	<ol style="list-style-type: none"> 1.Production and sales coordination. 2.Production planning and control. 3.Shipping arrangement and management. 4.Procurement strategies for key materials.

Department	Main duties
	<ol style="list-style-type: none"> 5.Raw materials control, procurement, negotiation and delivery confirmation. 6.Other procurement (e.g., equipment, systems of plant affairs) negotiation and delivery confirmation. 7.Supplier assessment and management. 8.Warehousing management for raw materials. 9.Import and export management.
QA Division	<ol style="list-style-type: none"> 1. Quality system maintenance and management. 2. Calibration system maintenance and management. 3. Control of documents, charts, technical data and form records. 4. Customer after-sales service. 5. Process quality control. 6. Finished-product quality control. 7. Quality control of outputs.
Financial Division	<ol style="list-style-type: none"> 1.Budget creating, planning, implementing and control. 2.Accounting and cashiering, report preparation, cost analysis and taxation operations. 3.Cashiering, fund coordination and fundraising operations. 4.Management of foreign exchange, interest rates and risks. 5.Evaluation, planning and implementation of financing and investing activities. 6.Stock operations and operations of Board of Directors and Shareholders' meetings. 7.Implementation of corporate governance-related affairs.
Human Resource & Administration Division	<ol style="list-style-type: none"> 1.Compensation Committee operations. 2.Recruitment and appointment management. 3.Education and training management. 4.Management of wages and remuneration operations. 5.Performance assessment management. 6.Transaction operations management. 7.Administrative affairs management. 8.Outsourced vendor (security, catering, cleaning, etc.) management.
R&D Division	<ol style="list-style-type: none"> 1.New product and new process development management. 2.Patent research management. 3.R&D of mass production technology. 4.Provide customers with technical services and support. 5.Knowledge management.
Production Engineering Division	<ol style="list-style-type: none"> 1.Adjustment of mass production parameters for production machines. 2.R&D and improvement of mass production technology. 3.Provide customers with technical support. 4.Production process improvement. 5.Analysis and improvement of defect rate of products. 6.Knowledge management of mass production technology.
Marketing & Sales Division	<ol style="list-style-type: none"> 1.Proposals, coordination and implementation of sales plans. 2.Customer credit and payment collection. 3.Market survey and analysis. 4.Development of new customers and new markets. 5.Customer services (handling of customer complaints/handling of quality anomalies/other support).

II. Information on the Company's Directors, President, Vice Presidents, Associate Managers and the Heads of All the Company's Divisions and Branch Units:

(1) Information on Directors

April 10, 2022

Title	Nationality or place of registration	Name	Gender Age	Date of election (appointment)	Term of office	Date of first election	Shareholding at the time of election		Current shareholding		Current shareholdings by spouse and minor children		Shareholdings under the name of others		Principal work experience (academic qualifications)	Position(s) concurrently held in this and/or other companies	The person is the spouse of or related within the second degree of kinship to another manager, director, or supervisor			Remark
							No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio			Title	Name	Relationship	
Chairman	Taiwan	Chen Chien-Liang	Male 41-50	2020/6/12	3 years	2011/6/10	2,098,112	1.13%	2,098,112	1.13%	7,268	0.00%	0	0.00%	M.B.A., National Chengchi University	Director, Tainery Tech. Co., Ltd.	Director	Chen Mao-Chang	Father and son	Chairman
Director	Taiwan	Chen Mao-Chang	Male 71-80	2020/6/12	3 years	1996/11/07	2,164,216	1.17%	2,066,216	1.12%	4,120	0.00%	0	0.00%	Mechanical Engineering, National Hualien Senior High School	Chairman of Strongway United Co., Ltd.	Director	Chen Chien-Liang	Father and son	
Director	Taiwan	Ren Tai Investment Co., Ltd.	Not applicable	2020/6/12	3 years	2017/6/8	2,663,000	1.44%	3,113,000	1.68%	0	0.00%	0	0.00%	Not applicable	None	None	None	None	
Director Representative	Taiwan	Yeh Sheng-Mao	Male 71-80	2020/6/12	3 years	2020/6/12	0	0.00%	10,000	0.01%	0	0.00%	0	0.00%	National Taiwan Ocean University, Graduate Institute of the Law of the Sea; Director-General, Investigation Bureau, Ministry of Justice	Note 1	None	None	None	
Director	Taiwan	Huang Chao-Hsing	Male 50-60	2020/6/12	3 years	2008/6/19	1,426,090	0.77%	1,406,090	0.76%	0	0.00%	0	0.00%	Doctor in Electrical Engineering, National Taiwan University	President of the Company	None	None	None	President
Director	Taiwan	Lai-Yu Hsiu-Min	Female 71-80	2020/6/12	3 years	2005/6/10	1,947,000	1.05%	1,750,000	0.95%	0	0.00%	0	0.00%	EMBA, Swiss Business School Department of Accounting, Chinese Culture University CFO, Mender International Co., Ltd.	Note 2	None	None	None	
Director	Taiwan	Shang-Jin Investment Co., Ltd.	Not applicable	2020/6/12	3 years	2014/6/12	70,000	0.04%	800,000	0.43%	0	0.00%	0	0.00%	A supervisor of the Company's 7th term of supervisors	None	None	None	None	

Title	Nationality or place of registration	Name	Gender Age	Date of election (appointment)	Term of office	Date of first election	Shareholding at the time of election		Current shareholding		Current shareholdings by spouse and minor children		Shareholdings under the name of others		Principal work experience (academic qualifications)	Position(s) concurrently held in this and/or other companies	The person is the spouse of or related within the second degree of kinship to another manager, director, or supervisor			Remark
							No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio			Title	Name	Relationship	
Director Representative	Taiwan	Chang Cheng-Liang	Male 40-50	2020/6/12	3 years	2014/6/12	3,587	0.00%	3,587	0.00%	4,600	0.00%	0	0.00%	University of Northumbria Master of International Trade	Note 3	None	None	None	
Director	Taiwan	Ren Tai Investment Co., Ltd.	Not applicable	2020/6/12	3 years	2017/6/8	2,663,000	1.44%	3,113,000	1.68%	0	0.00%	0	0.00%	Not applicable	None	None	None	None	
Director Representative	Taiwan	Wu Chun-Yi	Male 30-40	2020/6/12	3 years	2019/8/1	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Master of Electrical Engineering, National Taiwan University	Chairman and President, MiiCs and Partners	None	None	None	
Director	Taiwan	Ren Tai Investment Co., Ltd.	Not applicable	2020/6/12	3 years	2017/6/8	2,663,000	1.44%	3,113,000	1.68%	0	0.00%	0	0.00%	Not applicable	None	None	None	None	
Director Representative	Taiwan	Shih Chih-Hsun	Male 61-70	2020/6/12	3 years	2005/6/10	351,151	0.19%	236,151	0.13%	29,941	0.02%	0	0.00%	Department of Electrical Engineering, Lunghwa University of Science and Technology A supervisor of the Company's 4th-7th terms of supervisors	Director, Control Optics Taiwan Inc.; Supervisor, Sysnix Co., Ltd.	None	None	None	
Independent Director	Taiwan	Huang Man-Sheng	Male 71-80	2020/6/12	3 years	2017/6/8	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Department of Business Administration, Soochow University, President, Bank of Kaohsiung	Independent Director, Taiwan Wax Company Ltd.	None	None	None	

Title	Nationality or place of registration	Name	Gender Age	Date of election (appointment)	Term of office	Date of first election	Shareholding at the time of election		Current shareholding		Current shareholdings by spouse and minor children		Shareholdings under the name of others		Principal work experience (academic qualifications)	Position(s) concurrently held in this and/or other companies	The person is the spouse of or related within the second degree of kinship to another manager, director, or supervisor			Remark
							No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio			Title	Name	Relationship	
Independent Director	Taiwan	Lin Hao-Hsiung	Male 61-70	2020/6/12	3 years	2017/6/8	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Professor, Graduate Institute of Electronics Engineering, Graduate Institute of Photonics and Optoelectronics. National Taiwan University, College of Electrical Engineering and Information Technology and Department of Electrical Engineering, National Taiwan University	None	None	None	None	
Independent Director	Taiwan	Wang Chia-Hsiang	Male 41-50	2020/6/12	3 years	2019/6/12	0	0.00%	0	0.00%	0	0.00%	0	0.00%	EMBA of National Chengchi University, Associate of Crowe LLP	Note 4	None	None	None	

Note 1: Advisor of Chih-Li Investment Co., Ltd., Director of Laurel Cosmos Corporation, Director of Civic and Law-Related Education Foundation

Note 2: Director of Sunsino Development Associate Inc., Director of Mender International Co., Ltd., Supervisor of Hwa Mei Food Co., Ltd.

Note 3: Chairman of Shang-Jin Investment Co., Ltd., Director of Plenty Profit Global Asset Management Co., Ltd., Director of San-Jin Investment Co., Ltd., Director of Qian-Jin Investment Co., Ltd., corporate director representative of Remotek Corporation, corporate director representative of GAMONSTERINC Corporation, corporate director representative of KYLINK Communications Corp, corporate director representative of New Line Tek Co., Ltd., corporate director representative of Gemintek Corp.

Note 4: Independent director of Tainergy Tech. Co., Ltd., representative of chairman of Pan-China International Financial Advisory Co., Ltd., corporate director representative of ZAGG Taiwan Co., Ltd.

Major shareholders of corporate shareholders

April 10, 2022

Name of corporate shareholder	Major shareholders of corporate shareholders	Percentage (%)
Ren Tai Investment Co., Ltd.	Chu Yi-Wen	50%
	Cheng Yu-Che	50%
Shang-Jin Investment Co., Ltd.	Chang Cheng-Liang	30%
	Chang Jung-Chia	30%
	Chang Chuan-Fu	30%

If the major shareholder of a corporate shareholder is an entity, its major shareholder:

April 10, 2022

Name of corporate shareholder	Major shareholders of corporate shareholders	Percentage (%)
No		

●Information disclosure of professional qualifications and independence of independent directors:

Name	Criteria	Independence	Number of other public companies in which the individual is concurrently serving as an independent director
	Professional qualifications and experience		
Chen Chien-Liang	M.B.A., National Chengchi University. Mr. Chen is the son of the founder of the Company who served as a director from 2011. In 2020, he became the chairman and has corporate governance, business, marketing and industry technology capabilities. Current Director of Tainergy Tech. Co., Ltd. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	Not a director or supervisor of the company or its affiliates. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not a director, supervisor or employee of that other company if a majority of the company's director's seats or voting shares and those of any other company are controlled by the same person.	None
Huang Chao-Hsing	Doctor in Electrical Engineering, National Taiwan University. Mr. Huang became the Company's president from 2004. He specializes in the semiconductor and optoelectronics industries and has over 20 years of experience in corporate governance, business, marketing and industrial technology. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	Not a director, supervisor or employee of another company or institution in which the chairman, president or personnel with equivalent position are the same person or have spouse relationship. Not a director, supervisor, manager or shareholder holding more than 5% of the shares of a specific company or institution in a business or financial relationship with the Company. A professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the most recent two fiscal years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act. Not elected as a government, legal person or its representative in accordance with Article 27 of the Company Act.	None

Name	Criteria	Professional qualifications and experience	Independence	
Chen Mao-Chang	Mr. Chen is the Company's founder. He has been focusing on business and strategic management in the industry for over 40 years and has business, marketing and industrial technology capabilities. Current Chairman of Strongway United Co., Ltd. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	Not an employee of the company or its affiliates. Not a director or supervisor of the company or its affiliates. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not a director, supervisor or employee of that other company if a majority of the company's director's seats or voting shares and those of any other company are controlled by the same person.	None	Number of other public companies in which the individual is concurrently serving as an independent director
Lai-Yu Hsiu-Min	EMBA, Swiss Business School. Ms. Lai-Yu previously served as the CFO of Mender International Co., Ltd. She specializes in finance and accounting for over 40 years and is equipped with extensive experience. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	Not a director, supervisor or employee of another company or institution in which the chairman, president or personnel with equivalent position are the same person or have spouse relationship. Not a director, supervisor, manager or shareholder holding more than 5% of the shares of a specific company or institution in a business or financial relationship with the Company. A professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the most recent two fiscal years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act. Not elected as a government, legal person or its representative in accordance with Article 27 of the Company Act.	None	

Criteria Name	Professional qualifications and experience	Independence	Number of other public companies in which the individual is concurrently serving as an independent director
Representative of Shang-Jin Investment Co., Ltd.: Chang Cheng-Liang	Mr. Chang is a supervisor of the Company's 7th term of supervisors, who previously served as a director in a number of companies. He is equipped with corporate governance, business, marketing and industrial technology capabilities. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	Not an employee of the company or its affiliates. Not a director or supervisor of the company or its affiliates. Not a director, supervisor or employee of that other company if a majority of the company's director's seats or voting shares and those of any other company are controlled by the same person. Not a director, supervisor or employee of another company or institution in which the chairman, president or personnel with equivalent position are the same person or have spouse relationship. Not a director, supervisor, manager or shareholder holding more than 5% of the shares of a specific company or institution in a business or financial relationship with the Company. A professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the most recent two fiscal years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided. Not a spouse of, or related within the second degree of kinship to another director. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	None
Representative of Ren Tai Investment Co., Ltd.: Yeh Sheng-Mao	National Taiwan Ocean University, Graduate Institute of the Law of the Sea. Former Director-General of Investigation Bureau, Ministry of Justice Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	The Company has three independent directors and none of them serves as a director, supervisor or employee of the Company or its affiliates nor do their spouses and relatives to the second degree of kinship. The independent director himself/herself, their spouses or relatives of second degree of kinship (or under the name of others) do not hold company shares. Does not serve as a director, supervisor or employee of a company with which the Company has a specific relationship with. Amount of remuneration received for commercial, legal, financial and accounting services provided by the Company or its affiliates in the past two years is zero.	None
Representative of Ren Tai Investment Co., Ltd.: Wu Chun-Yi	Master of Electrical Engineering, National Taiwan University. Current Chairman and President of MiiCs and Partners and specializes in the semiconductor industry. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	The Company has three independent directors and none of them serves as a director, supervisor or employee of the Company or its affiliates nor do their spouses and relatives to the second degree of kinship. The independent director himself/herself, their spouses or relatives of second degree of kinship (or under the name of others) do not hold company shares. Does not serve as a director, supervisor or employee of a company with which the Company has a specific relationship with. Amount of remuneration received for commercial, legal, financial and accounting services provided by the Company or its affiliates in the past two years is zero.	None
Representative of Ren Tai Investment Co., Ltd.: Shih Chih-Hsun	Mr. Shih is a supervisor of the Company's 4th to 7th terms of supervisors. He is equipped with corporate governance, business, marketing and industrial technology capabilities. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	The Company has three independent directors and none of them serves as a director, supervisor or employee of the Company or its affiliates nor do their spouses and relatives to the second degree of kinship. The independent director himself/herself, their spouses or relatives of second degree of kinship (or under the name of others) do not hold company shares. Does not serve as a director, supervisor or employee of a company with which the Company has a specific relationship with. Amount of remuneration received for commercial, legal, financial and accounting services provided by the Company or its affiliates in the past two years is zero.	None
Huang Man-Sheng	Department of Business Administration, Soochow University. Mr. Huang previously served as the President, Bank of Kaohsiung and manager of the Finance Department and Specialized Member and Director of the Regional Center of Land Bank of Taiwan. Mr. Huang has over 30 years of professional and practical experience in finance and accounting. He possesses extensive experience in management practices. With his capabilities, the corporate governance management quality of the Board of Directors and supervision function of the Audit Committee will be enhanced. Independent Director, Taiwan Wax Company Ltd.. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	The Company has three independent directors and none of them serves as a director, supervisor or employee of the Company or its affiliates nor do their spouses and relatives to the second degree of kinship. The independent director himself/herself, their spouses or relatives of second degree of kinship (or under the name of others) do not hold company shares. Does not serve as a director, supervisor or employee of a company with which the Company has a specific relationship with. Amount of remuneration received for commercial, legal, financial and accounting services provided by the Company or its affiliates in the past two years is zero.	1

<p>Lin Hao-Hsiung</p>	<p>Doctor in Electrical Engineering, National Taiwan University. Current Professor of Graduate Institute of Electronics Engineering, Graduate Institute of Photonics and Optoelectronics. National Taiwan University, College of Electrical Engineering and Information Technology and Department of Electrical Engineering, National Taiwan University. Mr. Lin has over 30 years of industrial technology skills. With his capabilities, the corporate governance management quality of the Board of Directors and supervision function of the Audit Committee will be enhanced. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.</p>		<p>None</p>
<p>Wang Chia-Hsiang</p>	<p>EMBA of National Chengchi University. Associate of Crowe LLP Mr. Wang has professional and practical experience in finance and accounting. He possesses extensive experience in management practices. With his capabilities, the corporate governance management quality of the Board of Directors and supervision function of the Audit Committee will be enhanced. Independent Director of Tainergy Tech. Co., Ltd. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.</p>		<p>1</p>

●Board diversity and independence:

1. Board diversity: Please see details on page 31 of this Annual Report.
2. Board independence: The Company has 11 directors, among them 3 are independent directors, accounting for 27.27% of total directors. We have established an Audit Committee to replace supervisors. Amongst the directors, Chairman Chen Chien-Liang and Director Chen Mao-Chang are relatives of second degree of kinship; no more than half of the directors are spouses or relatives to the second degree of kinship.

(2) Information on the Company's President, Vice Presidents, Associate Managers and the Heads of All the Company's Divisions and Branch Units:

April 10, 2022

Title	Nationality	Name	Gender	Date of election (appointment)	the time of election		Shareholding of spouses and minor children		Shareholdings the time of election		Principal work experience (academic qualifications)	Any position(s) concurrently held in other companies	A spouse or relative within second degree of kinship of a manager			Remark
					No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio			Title	Name	Relationship	
President	Taiwan	Huang Chao-Hsing	Male	2004.09	1,406,090	0.76%	0	0.00%	0	0.00%	Doctorate from the Graduate Institute of Electrical Engineering, National Taiwan University	None	None	None	None	
Senior Vice President	Taiwan	Chen Hsien-Chung	Male	2004.09	154,187	0.08%	0	0.00%	0	0.00%	1. Plant Director of Rising-Sun Technology Co., Ltd. 2. Director of Coretronic Corporation 3. Plant Director of MAG Mexico	None	None	None	None	
Senior Vice President	Taiwan	Chin Yu-Chung	Male	2014.01	86,500	0.05%	125	0.00%	0	0.00%	Doctor in Graduate Institute of Electronics, National Taiwan University	None	None	None	None	
Senior Vice President	Taiwan	Hsieh Chin-Lung	Male	2014.01	66,500	0.04%	0	0.00%	0	0.00%	National Taiwan Ocean University, Department of Electrical Engineering Chung Yuan Christian University, College of Business Administration	None	None	None	None	
Vice President	Taiwan	Wu Chang-Ming	Male	2014.01	90,505	0.05%	885	0.00%	0	0.00%	Director of Facility Division of the Company	None	None	None	None	
Vice President	Taiwan	Chung Chin-Ling	Female	2018.02	0	0.00%	0	0.00%	0	0.00%	Chung Yuan Christian University, College of Business	None	None	None	None	
Financial Accounting Manager	Taiwan	Chiang Chih-Ching	Male	2020.07	72,000	0.04%	0	0.00%	0	0.00%	Chung Yuan Christian University, College of Business	None	None	None	None	

III. Remuneration Paid During the Most Recent Fiscal Year to Directors, President and Vice Presidents

(1) Remuneration to general directors and independent directors

December 31, 2021 Unit: NT\$1,000; thousand shares

Title	Name	Remuneration to directors								The sum of A, B, C and D as a percentage of net income (Note 10)		Remuneration as company employee								The sum of A, B, C, D, E, F and G as a percentage of net income (Note 10)		Remuneration from investees other than subsidiaries (Note 11)
		Remuneration (A) (Note 2)		Pension (B)		Remuneration to directors (C) (Note 3)		Fees for services rendered (D) (Note 4)				Salaries, bonuses and special allowances (E) (Note 5)		Pension (F)		Remuneration to employees (G) (Note 6)						
		The Company	All companies included in the financial report (Note 7)	The Company	All companies included in the financial report (Note 7)	The Company	All companies included in the financial report (Note 7)	The Company	All companies included in the financial report (Note 7)	The Company	All companies included in the financial report (Note 7)	The Company	All companies included in the financial report (Note 7)	The Company		All companies included in the financial report (Note 7)		The Company	All companies included in the financial report (Note 7)			
Chairman	Chen Chien-Liang																					
Director	Chen Mao-Chang																					
Director	Representative of Ren Tai Investment Co., Ltd. Yeh Sheng-Mao																					
Director	Huang Chao-Hsing																					
Director	Lai-Yu Hsiu-Min																					
Director	Representative of Shang-Jin Investment Co., Ltd. Chang Cheng-Liang	2,880	Not applicable	0	Not applicable	37,153	Not applicable	72	Not applicable	4.69%	Not applicable	13,339	Not applicable	108	Not applicable	17,600	0	Not applicable	Not applicable	8.32%	Not applicable	None
Director	Representative of Ren Tai Investment Co., Ltd. Wu Chun-Yi																					
Director	Representative of Ren Tai Investment Co., Ltd. Shih Chih-Hsun																					
Independent director	Huang Man-Sheng																					
Independent director	Lin Hao-Hsiung	2,100	Not applicable	0	Not applicable	0	Not applicable	60	Not applicable	0.25%	Not applicable	0	Not applicable	0	Not applicable	0	0	Not applicable	Not applicable	0.25%	Not applicable	None
Independent director	Wang Chia-Hsiang																					

1. Please provide in detail the policy, system, standards and structure of remuneration to independent directors and describe the relevance to the amount of compensation according to the responsibilities, risks, time invested and other factors: In accordance with the Company's "Regulations for Remuneration to Directors" - each independent director receives a fixed fee of NT\$50,000 each month and does not participate in remuneration distribution; another NT\$5,000 per month is added where an independent director is a member of a functional committee; and an independent director receives NT\$2,000 for transportation per each trip.

2. In addition to what is disclosed in the above table, the remuneration to the Company's directors for providing services (such as assuming a non-employee advising post for the parent company/all the companies included) in the financial statement in the most recent year: None.

Description:

1. Pension is provision of expenses.
2. The Company's net profit after tax for 2021 was NT\$885,081 thousand.

Range of Remuneration

Range of remuneration to each director	Name of director			
	Total remuneration (A + B + C + D)		Total remuneration (A + B + C + D + E + F + G)	
	The Company (Note 8)	All companies included in the financial report (Note 9) H	The Company (Note 8)	All companies included in the financial report (Note 9) I
Below NT\$1,000,000	Huang Man-Sheng, Lin Hao-Hsiung, Wang Chia-Hsiang	Not applicable	Huang Man-Sheng, Lin Hao-Hsiung, Wang Chia-Hsiang	Not applicable
NT\$1,000,000 (inclusive) - NT\$2,000,000 (exclusive)				
NT\$2,000,000 (inclusive) - NT\$3,500,000 (exclusive)				
NT\$3,500,000 (inclusive) - NT\$5,000,000 (exclusive)	Representative of Ren Tai Investment Co., Ltd.: Yeh Sheng-Mao, Representative of Shang-Jin Investment Co., Ltd.: Chang Cheng-Liang, Representative of Ren Tai Investment Co., Ltd.: Wu Chun-Yi, Representative of Ren Tai Investment Co., Ltd.: Shih Chih-Hsun,		Representative of Ren Tai Investment Co., Ltd.: Yeh Sheng-Mao, Representative of Shang-Jin Investment Co., Ltd.: Chang Cheng-Liang, Representative of Ren Tai Investment Co., Ltd.: Wu Chun-Yi, Representative of Ren Tai Investment Co., Ltd.: Shih Chih-Hsun,	
NT\$5,000,000 (inclusive) - NT\$10,000,000 (exclusive)	Chen Chien-Liang, Chen Mao-Chang, Huang Chao-Hsing, Lai-Yu Hsiu-Min,		Chen Mao-Chang, Lai-Yu Hsiu-Min	
NT\$10,000,000 (inclusive) - NT\$15,000,000 (exclusive)			Chen Chien-Liang	
NT\$15,000,000 (inclusive) - NT\$30,000,000 (exclusive)				
NT\$30,000,000 (inclusive) - NT\$50,000,000 (exclusive)			Huang Chao-Hsing	
NT\$50,000,000 (inclusive) - NT\$100,000,000 (exclusive)				
Over NT\$100,000,000				
Total	11 persons	Not applicable	11 persons	Not applicable

Note 1: Name of directors are presented separately (for corporate shareholders, the names of the corporate shareholders and their representatives are stated separately) and the general directors and independent directors shall be presented separately in aggregate sums. If a director is also a president or vice president, this table or the following table (3-1) or the following table (3-2-1)

and (3-2-2) shall be filled in.

- Note 2: Refers to remuneration to directors in the last year (including salaries, allowances, severance pay, various bonuses and incentives, etc.)
- Note 3: Refers to the amount of directors' remuneration that the Board has proposed as part of the latest earnings appropriation.
- Note 4: Refers to remuneration to directors for services rendered (including travel, special allowances, various subsidies, accommodation, corporate vehicle and other in-kind benefits). Where housing, cars, vehicles or personal allowances were granted, the nature and cost of assets, the rental rates (calculated based on actual or fair value), cost of petrol and other subsidies are also disclosed. Where personal drivers were allocated, please make a footnote disclosure explaining the amount of salaries made to drivers, but do not count them as part of the remuneration paid to the above benefits.
- Note 5: Refers to any salaries, allowances, severance pay, bonuses, incentives, travel allowances, special allowances, subsidies, accommodation, vehicles and in-kind benefits that the director received in the last year for assuming the role of a company employee (such as a president or vice president, other managers or employees). Where housing, cars, vehicles or personal allowances were granted, the nature and cost of assets, the rental rates (calculated based on actual or fair value), cost of petrol and other subsidies are also disclosed. Where personal drivers were allocated, please make a footnote disclosure explaining the amount of salaries made to drivers, but do not count them as part of the remuneration paid to the above benefits. Part of the salary expense was recognized according to IFRS2 – "Share-based Payment." Amounts including employee stock options, restricted employee shares and subscription to cash issues are treated as remuneration.
- Note 6: Refers to any remuneration that the director has received (in cash or in shares) in the last year for assuming the role of an employee (such as president or vice president, manager or other employees). The amount of employee remuneration proposed by the Board of Directors in the last year has been disclosed (where the amount could not be estimated, the actual amount paid in the last year was presented instead). Table 1-3 has also been completed for reference.
- Note 7: The disclosure includes all companies covered by the consolidated financial report (including the Company), and represents the total amount of remuneration paid by all companies above to the Company's directors.
- Note 8: The amount of remuneration paid by the Company to each director has been disclosed in ranges. The name of the director must also be disclosed.
- Note 9: The details represent the range of remuneration paid by all companies in the consolidated report (including the Company) to each director. The name of the director must also be disclosed.
- Note 10: The net income after tax refers to the net income after tax of the most recent fiscal year; if IFRSs have been adopted, the net income after tax refers to the net income after tax of the most recent year for separate or individual financial reports.
- Note 11: a. This field represents all forms of remuneration that the president and vice president received from the Company's invested businesses other than subsidiaries (if none, please fill in "none").
- b. For directors who received remuneration from invested businesses other than subsidiaries or the parent company, amounts received from these invested businesses or the parent company have been added to columns I of the remuneration brackets table. In which case, columns I and J will be renamed "parent company and all invested businesses."
- c. Remuneration refers to any returns, remuneration (including remuneration received as an employee, director and supervisor) and professional service fees which the director received for serving as directors, supervisors or managers in invested businesses or the parent company other than subsidiaries.

* The basis of remuneration disclosed above is different according to the basis of the Income Tax Act; hence, the above table has been prepared solely for information disclosure and not for tax purposes.

(2) Remuneration to the President and Vice President

December 31, 2021 Unit: NT\$1,000; thousand shares

Title	Name	Salary (A) (Note 2)		Pension (B)		Bonus and bonuses, special allowances, etc. (C) (Note 3)		Employee remuneration amount (D) (Note 4)				The sum of A, B, C and D as a percentage of the net income (Note 8)		Remuneration from investees other than subsidiaries (Note 9)
		The Company	All companies included in the financial report (Note 6)	The Company	All companies included in the financial report (Note 6)	The Company	All companies included in the financial report (Note 6)	The Company		All companies included in the financial report (Note 6)		The Company	All companies included in the financial report (Note 6)	
								Cash Amount	Stock Amount	Cash Amount	Stock Amount			
President	Huang Chao-Hsing	26,480	Not applicable	485	Not applicable	1,495	Not applicable	48,700	0	Not applicable	Not applicable	9.02%	Not applicable	None
Senior Vice President	Chen Hsien-Chung													
Vice President	Wu Chang-Ming													
Vice President	Chin Yu-Chung													
Vice President	Hsieh Chin-Lung													
Vice President (Note 3)	Chung Chin-Ling													

Note 1: The Company's net profit after tax for 2021 was NT\$855,081 thousand.

Note 2: Pension is provision of expenses.

Note 3: Vice president Chung Chin-Ling took a leave of absence during 2021/04/01-2021/09/09.

Note 1: The names of the president and vice president are required to be presented separately; the amount of payments made may be presented in aggregate sums. If a director is also a president or vice president, this table and table (1-1), or (1-2-1) and (1-2-2) above shall be filled in.

Note 2: Refers to salaries, allowances and severance pay made to the president and vice president in the last year.

Note 3: Refers to other remuneration such as bonuses, incentives, travel allowances, special allowances, subsidies, accommodation, corporate vehicle or other in-kind benefits made to the president and vice president. Where housing, cars, vehicles or personal allowances were granted, the nature and cost of assets, the rental rates (calculated based on actual or fair value), cost of petrol and other subsidies are also disclosed. Where personal drivers were allocated, please make a footnote disclosure explaining the amount of salaries made to drivers, but do not count them as part of the remuneration paid to the above benefits. Part of the salary expense was recognized according to IFRS2 – "Share-based Payment." Amounts including employee stock options, restricted employee shares and subscription to cash issues are treated as remuneration.

Note 4: Represents the amount of employee remuneration provided for the president and vice president (in cash or in shares), which the Board of Directors has proposed as part of the most recent earnings appropriation (where the amount could not be estimated, a calculation was made based on last year's payout ratio). Table 1-3 has been prepared in addition to the above details.

Note 5: The disclosure includes all companies covered by the consolidated financial report (including the Company), and represents the total amount of remuneration paid by all companies above to the Company's president and vice president.

Note 6: The amount of remuneration made by the Company to its president and vice president; the names of president and vice president have been disclosed separately in ranges.

Note 7: The disclosure includes the sum of amounts paid by the consolidated entity (including the Company) to the Company's president and vice president; the names of president and vice president have been disclosed separately in ranges.

Note 8: The net income after tax refers to the net income after tax of the most recent fiscal year.

Note 9: a. This field represents all forms of remuneration that the president and vice president received from the Company's invested businesses or the parent company other than subsidiaries (if none, please fill in "none").

b. For president and vice president who receive remuneration from invested businesses or the parent company other than subsidiaries, the president and vice president of the company should be transferred. The amount of remuneration from these invested businesses or the parent company have been added to column E of the remuneration brackets table. In which case, Column E will be renamed "parent company and all invested businesses."

c. Remuneration refers to any returns, remuneration (including remunerations received as an employee, director and supervisor) and professional service fees which the Company's president and vice president received for serving as directors, supervisors or managers in invested businesses or the parent company other than subsidiaries.

* The basis of remuneration disclosed above is different according to the basis of the Income Tax Act; hence, the above table has been prepared solely for information disclosure and not for tax purposes.

Range of Remuneration

Range of remuneration for each general manager and vice president of the Company	The names of the president and vice president	
	The Company (Note 6)	All companies included in the financial report (Note 7) E
Below NT\$1,000,000		Not applicable
NT\$1,000,000 (inclusive) - NT\$2,000,000 (exclusive)		
NT\$2,000,000 (inclusive) - NT\$3,500,000 (exclusive)		
NT\$3,500,000 (inclusive) - NT\$5,000,000 (exclusive)	Chung Chin-Ling	
NT\$5,000,000 (inclusive) - NT\$10,000,000 (exclusive)	Chen Hsien-Chung, Wu Chang-Ming	
NT\$10,000,000 (inclusive) - NT\$15,000,000 (exclusive)		
NT\$15,000,000 (inclusive) - NT\$30,000,000 (exclusive)	Huang Chao-Hsing, Chin Yu-Chung Hsieh Chin-Lung	
NT\$30,000,000 (inclusive) - NT\$50,000,000 (exclusive)		
NT\$50,000,000 (inclusive) - NT\$100,000,000 (exclusive)		
Over NT\$100,000,000		
Total	6 persons	Not applicable

(3) Top 5 executives of TWSE/TPEX companies with the highest remuneration: not applicable

(4) Names of employee remuneration to managers and the distribution status

December 31, 2021 Unit: NT\$thousand

	Title	Name	Stock amount	Cash amount	Total	Ratio of total amount to profit after tax (%)
Manager	President	Huang Chao-Hsing	0	51,000	51,000	5.96%
	Senior Vice President	Chen Hsien-Chung				
	Vice President	Wu Chang-Ming				
	Vice President	Chin Yu-Chung				
	Vice President	Hsieh Chin-Lung				
	Vice President	Chung Chin-Ling				
	Financial Accounting Manager	Chiang Chih-Ching				

(5) Analysis of remuneration paid to Directors, President and Vice President by the Company and all companies in the consolidated financial statements in the recent two years as a percentage of net income in the parent company only or individual financial statements and explanation on remuneration policy, standards and composition, procedures and the correlation with operation performance and future risks:

A. Analysis of remuneration paid to Directors, President and Vice President by the Company in the recent two years as a percentage of net income:

Title	Total remuneration for 2021 as a percentage of net income after tax	Total remuneration for 2020 as a percentage of net income after tax
Director	8.57%	8.78%
President and vice president	9.02%	9.57%

Description: The Company's remuneration to directors plus remuneration to part-time employees to net income after tax for 2021 and 2020 was 8.57% and 8.78%, respectively. As there are no significant differences, they should be considered as reasonable. The Company does not have consolidated statements.

B. Remuneration policy, standards and composition, procedures and the correlation with operation performance and future risks:

- a. Pursuant to Article 21 of the Company's Articles of Incorporation, if the Company makes a profit for the year, it shall allocate 5% to 15% of the profit as employee compensation and no more than 3% as directors' remuneration. However, where the Company has cumulative losses, it shall first reserve part of the profit to make up for losses and distribute remuneration in accordance with the aforementioned

percentages. Distribution of remuneration to employees and directors shall be submitted to the Compensation Committee for review and Board of Directors for resolution reported at the shareholders' meeting.

- b. As a means to provide a basis for the payment of remuneration to the Company's directors while being in line with provisions set forth in Article 196 of the Company Act, we have formulated "Regulations for Remuneration to Directors" and related matters are handled according to these Regulations.
- c. With respect to the performance assessment and remuneration of directors and managers of the company, it shall refer to the typical pay levels adopted by peer companies, and take into consideration the reasonableness of the correlation between remuneration and individual performance, the company's business performance, and future risk exposure. The evaluation includes: the status of achieving personal goals, the performance of other positions, remuneration given by the Company to those in the same position in recent years, short-term and long-term business goals, and the Company's financial condition. The results are evaluated and proposed by the chairman to be submitted to the Compensation Committee for review, which will be resolved at the Board meeting.

IV. Implementation of Corporate Governance

(I) Information on the operations of the Board of Directors:

In the most recent fiscal year, a total of 6 Board meetings were held (A), the attendance of the directors is as follows:

Title	Name	Actual attendance B	Attendance by proxy	Actual attendance rate % [B/A]	Remark
Chairman	Chen Chien-Liang	6	0	100%	
Director	Chen Mao-Chang	6	0	100%	
Director	Ren Tai Investment Co., Ltd. Representative: Yeh Sheng-Mao	6	0	100%	
Director	Huang Chao-Hsing	6	0	100%	
Director	Lai-Yu Hsiu-Min	3	3	50%	
Director	Shang-Jin Investment Co., Ltd. Representative: Chang Cheng-Liang	6	0	100%	
Director	Ren Tai Investment Co., Ltd. Representative: Wu Chun-Yi	6	0	100%	
Director	Ren Tai Investment Co., Ltd. Representative: Shih Chih-Hsun	6	0	100%	
Independent director	Huang Man-Sheng	6	0	100%	
Independent director	Lin Hao-Hsiung	6	0	100%	
Independent director	Wang Chia-Hsiang	6	0	100%	

Other information required:

1. For Board of Directors meetings that meet any of the following descriptions, state the date, session, the discussed agenda, opinions of independent director opinions and how the company has responded to such opinions:

(1) Matters stated in Article 14-3 of the Securities and Exchange Act.

Board of Directors Date	Session	Contents of resolution	Opinions of all independent directors	How the company has responded to such opinions
2021/03/18	6th meeting of the 9th Board	2020 International Control System Statement	None	Not applicable
		Motion for change of CPAs	None	Not applicable
		Motion for appointing CPAs Chou Hsiao-Tzu and Lai Chung-Hsi of PwC Taiwan to audit the Company's various financial reports and tax income on profit-making businesses for 2021.	None	Not applicable

2021/10/28	10th meeting of the 9th Board	Motion for the 2022 audit plan	None	Not applicable
2022/03/10	12th meeting of the 9th Board	Formulation of “Ethical Corporate Management Best-Practice Principles” and “Procedures for Ethical Management and Guidelines for Conduct”	None	Not applicable
		Motion for amendments to some provisions of the “Procedure for Acquisitions or Disposal of Assets”	None	Not applicable
		2021 International Control System Statement	None	Not applicable
		Motion for appointing CPAs Chou Hsiao-Tzu and Lai Chung-Hsi of PwC Taiwan to audit the Company’s various financial reports and tax income on profit-making businesses for 2022.	None	Not applicable

(2)Except for the preceding matters, any matter resolved by the Board of Directors with an independent director expressing an objection or reservation that has been included in records or stated in writing: none.

2.For the implementation and state of directors' recusal for conflicts of interest, the directors' name, topic discussed, reasons for the required recusal and participation in the voting process: none.

3.Evaluation cycle and period, evaluation scope, method and self-evaluation or peer Evaluation of the Board of Directors: The Self-Evaluation or Peer Evaluation of the Board of Directors was passed by the Board meeting held on June 12, 2019. An internal board performance evaluation is conducted once a year, which is completed before the end of first quarter of the following year. For an external performance evaluation, an external professional independent institution or external experts or scholars shall conduct an evaluation at least once every 3 years. The Company completed Board of Directors performance evaluation for 2021 in the first quarter of 2022.

Evaluation cycle	Evaluation period	Evaluation scope	Evaluation method	Evaluation content
Once a year	June 1, 2021 to December 31, 2021	Board of Directors	Internal self-evaluation of the Board of Directors	Including: participation in the operation of the company, quality of the Board of Directors' decision making, composition and structure of the Board of Directors, election and continuing education of the directors and internal controls
		Individual directors	Board members Self-Evaluation	Including: alignment of the goals and missions of the company, awareness of the duties of a director, participation in the operation of the company, management of internal relationship and communication the director's professionalism and continuing education and internal control
		Functional Committee	Member Self-Evaluation	Participation in the operation of the company, enhancement of awareness of the duties of the functional committee, improvement of quality of decisions made by the functional committee, composition of the functional committee and election of its members, and internal control

IV. An evaluation of targets (e.g., establishment of an Audit Committee and enhancement of information transparency) for strengthening of the functions of the Board during the current and immediately preceding fiscal years, and measures taken toward achievement thereof: The Company’s Board of Directors is operated in accordance with the laws and regulations, Articles of Incorporation and by resolutions of the shareholders’

meeting. We encourage directors to take further education and uphold the philosophy of transparent operations and value the interests of shareholders. After a Board meeting is convened, we publicly announce important resolutions of the meeting and aim to develop a diverse board of directors.

(II) Functionality of the Audit Committee:

The Company's Audit Committee is made up of three independent directors. They are responsible for assisting the Board of Directors in fulfilling its role of supervising the quality and integrity of the Company's implementation of accounting, auditing, financial reporting process and financial controls.

Major matters to be reviewed:

1. Financial statements
2. Internal control system and related policy and process
3. Material assets or derivative transactions
4. Material loaning of funds or endorsements/guarantees
5. Raising or issuing marketable securities
6. Derivative financial instruments and cash investments
7. Regulatory compliance
8. Whether or not managers and directors have related-party transactions and possible conflicts of interest
9. Appointment, dismissal or remuneration of CPAs
10. Appointment and dismissal of finance, accounting or internal audit supervisors
11. Fulfillment of responsibilities of the Audit Committee
12. Audit Committee self-evaluation survey on performance

● Review of financial report

The Board of Directors of the Company sent the 2021 business report, an earnings distribution proposal and the financial statements (including balance sheets, statements of comprehensive income, statements of changes in equity, and statements of cash flow) audited and certified by Chou, Hsiao-Tzu and Lai Chung-Hsi, CPAs at PwC Taiwan, to the Audit Committee. The committee has completed the review of said documents and found no discrepancies therein.

● Evaluation of the internal control system effectiveness

The Audit Committee evaluates the effectiveness of the policies and procedures (including control measures on finance, operation, risk management, information security, outsourcing and statutory compliance) of the Company's internal control system. It also reviews the periodic reports of the Company's Audit Department and CPAs as well as management, including risk management, and statutory compliance. With reference to the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Audit Committee believes that the Company's risk management and internal control system is effective and that the Company has adopted the control mechanisms necessary to monitor and correct non-compliance.

In the most recent fiscal year, a total of 4 Audit Committee meetings were held (A), the attendance of the independent directors is as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance (%)(B/A)	Remark
Independent director	Huang Man-Sheng	4	0	100.00%	
Independent director	Lin Hao-Hsiung	4	0	100.00%	
Independent director	Wang Chia-Hsiang	4	0	100.00%	

Other information required:

I. For Audit Committee meetings that meet any of the following descriptions, state the date and session of the Audit Committee meeting held, the discussed topics, the content of the objections, reservations or material recommendations on independent directors, the Audit Committee's resolution and how the company has responded to Audit Committee's opinions.

(I) Matters stated in Article 14-5 of the Securities and Exchange Act.

Date	Session	Contents of resolution	Resolution results	How the company has responded to Audit Committee's opinions.
2021/03/18	3rd meeting of the 2nd term	Motion for the 2020 financial statements	Passed by all independent directors	Not applicable
		2020 International Control System Statement	Passed by all independent directors	Not applicable
		Motion for change of CPAs	Passed by all independent directors	Not applicable
		Motion for appointing CPAs Chou Hsiao-Tzu and Lai Chung-Hsi of PwC Taiwan to audit the Company's various financial reports and tax income on profit-making businesses for 2021.	Passed by all independent directors	Not applicable
2021/04/29	4th meeting of the 2nd term	Motion for Q1 2021 financial report	Passed by all independent directors	Not applicable
2021/07/29	5th meeting of the 2nd term	Motion for Q2 2021 financial report	Passed by all independent directors	Not applicable
2021/10/28	6th meeting of the 2nd term	Motion for Q3 2021 financial report	Passed by all independent directors	Not applicable
		Motion for the 2022 audit plan	Passed by all independent directors	Not applicable
2022/03/10	7th meeting of the 2nd term	Motion for the 2021 financial statements	Passed by all independent directors	Not applicable
		Formulation of "Ethical Corporate Management Best-Practice Principles" and "Procedures for Ethical Management and Guidelines for Conduct"	Passed by all independent directors	Not applicable
		Motion for amendments to some provisions of the "Procedure for Acquisitions or Disposal of Assets"	Passed by all independent directors	Not applicable
		2021 International Control System Statement	Passed by all independent directors	Not applicable
		Motion for appointing CPAs Chou Hsiao-Tzu and Lai Chung-Hsi of	Passed by all independent directors	Not applicable

		PwC Taiwan to audit the Company's various financial reports and tax income on profit-making businesses for 2022.		
2022/04/28	8th meeting of the 2nd term	Motion for Q1 2022 financial report	Passed by all independent directors	Not applicable

(II) In addition to the aforementioned matters, motions not approved by the Auditing Committee but passed by the Board with the consent of more than 2/3 of the Directors: none.

II. For the implementation and state of independent directors' recusal for conflicts of interest, the directors' name, topic discussed, reasons for the required recusal and participation in the voting process: none. The communication between the independent directors and the chief internal auditor (materiality, means and result of communication on the financial position and operation of the company should be covered):

(I) The independent directors communicates with the chief internal auditor through the Audit Committee and Board of Directors. The chief internal auditor provides a report on internal audit status and internal control operations. The last month's internal audit report is also emailed to independent directors on a monthly basis.

Summary of communication between the independent directors and the chief internal auditor

Date	Communication focus
2021/03/18 Audit Committee 2021/03/18 Board of Directors	Q4 2020 audit execution report 2020 International Control System Statement
2021/04/29 Audit Committee 2021/04/29 Board of Directors	Q1 2021 audit execution report
2021/07/29 Audit Committee 2021/07/29 Board of Directors	Q2 2021 audit execution report
2021/10/28 Audit Committee 2021/10/28 Board of Directors	Q3 2021 audit execution report Formulation of the 2022 audit plan

(II) Independent directors communicate with CPAs via through Audit Committee. The CPAs provide an explanation upon issuance of the annual financial report and engage in a full communication and discussion on whether there are major adjustments to the records or amendments to the laws and regulations that affect the accounts.

Summary of communication between the independent directors and CPAs

Date	Communication focus
2022/03/10 Before an Audit Committee meeting	1.2021 financial report audit scopes and findings. 2.Independence statement of the firm. 3.Regulatory Update. 4.Corporate Governance 3.0 - Sustainable Development Roadmap

(III) Corporate governance implementation and the deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and reasons:

Evaluation item	State of operation			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
I. Has the company established and disclosed its rules of corporate governance in accordance with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?	V		The Company has formulated the “Corporate Governance Best-Practice Principle,” which are disclosed on the company website and MOPS.	No difference
II. Equity structure and shareholders’ equity (I) Has the company formulated internal procedures regulated to handle shareholders’ proposals, doubts, disputes and litigation matters and have the procedures been implemented accordingly?	V		(I) The Company has established a spokesperson system to properly handle shareholders’ proposals and doubts. In the event of a litigation matter, a legal advisor is engaged to handle such matter. There have not been any disputes or litigation as the Company has maintained a harmonious relationship with shareholders.	No difference
(II) Does the company possess a list of the company’s major shareholders and a list of the ultimate controllers of its major shareholders? ?	V		(II) As we keep a sound relationship with major shareholders, we are able to grasp the names of major shareholders and ultimate controllers who have actual control over the Company. We report the number of shares held by directors and major shareholders on a monthly basis as required by the competent authorities.	
(III) Has the company established and implemented the risk control and firewall mechanisms between the affiliates?	V		(III) We have “Management of Related-Party Transactions” in place in the internal control system which stipulates clear rules for transactions with affiliates. We also have a complete firewall and risk control mechanism.	
(IV) Has the company set up internal regulations to prohibit internal personnel from utilizing the undisclosed information to trade securities?	V		(IV) We have formulated the “Procedures for Handling Material Inside Information Technology Division” and “Procedures for Prevention of Insider Trading” to regulate related matters, which are promoted to relevant personnel on a regular basis.	
III. Composition and duties of the Board of Directors (I) Has the Board of Directors formulated a diversity policy and specific management objectives and have them implemented?	V		(I) The diversity policy for the composition of the Board of Directors is stipulated in the “Corporate Governance Best-Practice Principle,” which are disclosed on the company website. The composition of the Board of Directors shall be determined by taking diversity into consideration. It is advisable that directors concurrently serving as company officers not exceed one-third of the total number of the board members and that an appropriate policy	No significant differences

Evaluation item	State of operation		Summary	Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>on diversity based on the company's business operations, operating dynamics, and development needs be formulated and include, without being limited to, the following two general standards:</p> <p>I. Basic requirements and values: gender, age, nationality and culture.</p> <p>II. Professional knowledge and skills: A professional background (<i>e.g.</i>, law, accounting, industry, finance, marketing, technology), professional skills and industry experience.</p> <p>All members of the Board of Directors shall have the knowledge, skills and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the board of directors shall possess the following abilities:</p> <p>(I) Ability to make operational judgments. (II) Ability to perform accounting and financial analysis. (III) Ability to conduct management administration. (IV) Ability to conduct crisis management. (V) Knowledge of the industry. (VI) An international market perspective. (VII) Ability to lead. (VIII) Ability to make policy decisions.</p> <p>The Company's Board of Directors is made up of 11 directors, including 8 general directors and three directors. All Board members come from different backgrounds, including business management and industry knowledge, enabling them to provide professional advice from different angles. This poses benefits to the Company's business performance and management efficiency. The Company's directors with employee status account for 18% and independent directors account for 27% of the total number of directors, with female accounting for 9%. The seniority of 3 independent directors is 3-9 years; 4 directors are over 70 years old, 2 are between 61 and 70 years old, 1 is between 51-60 years old and 4 are under 50 years old. We attach importance on gender equality when it comes to the composition of the Board of Directors and have a target of 20%</p>	

Evaluation item	State of operation			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
(II) Apart from the Compensation Committee and Audit Committee, has the company voluntarily established other functional committees?		V	<p>of female directors. Our goal is to add one more female director for the 10th and 11th Board, respectively. Relevant implementation status is as the following table.</p> <p>(II) The Company has formed a Compensation Committee and Audit Committee. In the future, other types of functional committees will be set up in accordance with the laws and regulations or the actual needs.</p>	
(III) Has the company established Self-Evaluation or Peer Evaluation of the Board of Directors and its evaluation methods, and does the company conduct a performance evaluation each year and submit the performance evaluation results to the Board of Directors and use them as reference in determining compensation for individual directors and nomination for reappointment?	V		<p>(III) The Company formulated the Self-Evaluation or Peer Evaluation of the Board of Directors and its evaluation methods in June 2019. Since 2019, a self or peer evaluation is conducted on the Board of Directors and individual directors each year. The performance evaluation results for the first quarter of 2022 were reported at the Board meeting held on 2022/03/10.</p> <p>The results of the performance evaluation of the Board of Directors are used as a basis for selection or nomination of directors. The results of the performance evaluation of individual directors are executed in accordance with the “Regulations for Remuneration to Directors” amended in March 2020. The performance evaluations are linked with remuneration of directors as they account for 20% of the ratio of remuneration to directors.</p>	
(IV) Does the company regularly assess the independence of its CPAs?	V		<p>(IV) The Company’s Board of Directors evaluates the independence of the CPAs each year to ensure there are no other financial interests or business relationship other than CPA fees and fees on taxation cases. We have also obtained a “Statement of Independence and Audit” provided by the CPAs (please see the company website). The independence criteria for the evaluation of the independence of the Company’s CPAs are as follows:</p> <ol style="list-style-type: none"> 1.The CPAs have no direct or significant indirect financial interests with the Company. 2.The CPAs have no financing or guarantee activities with the Company or its directors. 3.An audit carried out by the CPAs is not affected due to the consideration of the possibility of loss of the Company's customers. 4.The CPAs have no close business relationships or potential employment relationships with the Company. 	

Evaluation item	State of operation			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			<p>5.The CPAs have no contingent fees in relation to audits.</p> <p>6.The members of the audit team of the accounting firm do not currently serve as a director or manager or have significant influence over the audit cases of the Company; nor have they done so in the past two years.</p> <p>7.The non-audit services provided by the accounting firm do not indirectly affect the important items of audit cases.</p> <p>8.The CPAs do not promote or broker any shares issue or other securities by the Company.</p> <p>9.The CPAs do not serve as an advocate for the Company or coordinate conflicts with other third parties on behalf of the Company.</p> <p>10.The CPAs are not relatives with the Company's directors or managers or personnel who have significant influence on audits.</p> <p>11.The CPAs have not retired within one year after serving as a director or manager, or personnel who have significant influence on audits.</p> <p>12.The CPAs have not received any gifts or presents of significant value from the Company's directors or managers.</p> <p>13.The CPAs have not accepted improper choices of accounting policies or improper disclosures in the financial statements by the Company's management.</p> <p>14.The CPAs have not accepted any pressure on the accounting firm from the Company to improperly reduce items that shall be audited.</p>	
IV. Has the Company established a full- or part-time corporate governance unit or personnel to oversee corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, handling matters related to board meetings and shareholders' meetings according to laws, handling corporate registration and amendment registration, producing (or recording) minutes of board meetings and shareholders' meetings)?		V	The Company has designated the Financial Division as the part-time unit responsible for corporate governance-related affairs, with the Financial Accounting Manager responsible for supervision.	No significant difference
V. Has the company established communication channels with stakeholders (including but not limited to shareholders, employees, customers	V		The Company has a spokesperson in place as an external communication channel. There is also a section dedicated to stakeholders on the company website to provide them with relevant contact	No difference

Evaluation item	State of operation			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
and suppliers), establishment of investors' relations office on websites and proper response to stakeholders' concerns of corporate social responsibility?			means for them to ask questions and express their views. By doing this, we are able to understand the reasonable expectations and needs of stakeholders while also providing timely responses in handling their concerned issues.	
VI. Has the company entrusted professional organizations for handling shareholders' meeting matters?	V		The Company has entrusted the Stock Affairs Agency Department of Taishin Integrated Securities Co., Ltd. to handle shareholders' affairs.	No difference
VII. Information disclosure (I) Has the company established a website to disclose information concerning financial affairs and corporate governance? (II) Has the company adopted other means for disclosure, such as setting up an English website, appointing personnel to gather and disclose relevant information, properly implementing the spokesperson system and posting the meetings minutes of investor conference on the company website? (III) Does the company publicly announce and file the annual financial report within two months after the close of the fiscal year and announce and file the financial reports of the Q1, Q2 and Q3 and the monthly operating status prior to the regulated deadline?	V V V		(I) The Company's financial operations and corporate governance information are disclosed on the Company's website at http://www.vpec.com.tw and the MOPS. (II) In addition to disclosing information in Chinese, we also have set up an English website for foreign investors to get to know about the Company. Moreover, we have designated dedicated personnel responsible for the collection and disclosure of information. The spokesperson is implemented according to the requirements. (III) As required by the regulations of the Securities and Exchange Act, currently, the Company publicly announces and files the annual financial report within two months after the close of the fiscal year and announces and files the financial reports of the first, second and third quarters and the monthly operation status prior to the regulated deadline before the 10th of each month. In the future, public announcement will be adjusted accordingly in the future.	No difference
VIII. Is there any other important information (including but not limited to the interests of employees, employee care, investor relations, supplier relations, the rights of stakeholders, the continuing education for directors and supervisors, the implementation of risk management policies and risk measurement standards, the execution of customer policy, the purchase of liability insurance for the Company's directors and supervisors) that is helpful in understanding the corporate governance operation of the Company?	V		(I) Interests of employees: we hire employees in accordance with the regulations promulgated by the competent authorities. We place emphasis on employee rights and interests and the communication outlets are smooth, while also providing employees with a sound working environment. The formulation and amendment of the Company's "Work Rules" are approved by the labor-management meeting and set to the Taoyuan City government for approval and are announced to all employees as their work code of conduct. (II) Employee care: the Company provides an array of education and training, as well as reasonable remuneration and welfare	No difference

Evaluation item	State of operation			Deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			<p>measures.</p> <p>(III) Investor relations: we keep an open communication channel and information exchange with investors and other stakeholders, while also respecting and protecting their rights and interests.</p> <p>(IV) Supply relations: we keep a sound relationship with suppliers and seek a win-win situation through collaboration.</p> <p>(V) Rights of stakeholders: the Company keeps the communication channel open at all times and put into play the spokesperson mechanism. As well as this, we also uphold the principle of integrity in the course of disclosing information in a timely manner to protect investor relations and the rights and interests of stakeholders.</p> <p>(VI) Further education of directors: as the following table.</p> <p>(VII) Implementation of risk management policy and risk measurement criteria: based on the risk evaluation results, the internal auditors formulate an annual audit plan to submit to the Board of Directors for approval. In doing this, the effectiveness of the design and implementation of the Company's internal control system is evaluated. Also, the self-evaluation of the internal control system conducted by internal units each year also helps understand the Company's implementation of risk management policy and risk measurement criteria.</p> <p>(VIII) Implementation of customer policy: The Company has established a customer complaint handling process. The interaction and communication between the Company and customer are sound.</p> <p>(IX) Purchase of liability insurance for the Company's directors: The Company has taken out liability insurance for directors.</p>	
<p>IX. Please specify the status of the correction based on the corporate governance assessment report released by the Corporate Governance Center of TWSE in the most recent year and the priority corrective actions and measures against the remaining deficiencies. (The Company was not required for evaluation)</p> <p>The Company has completed its self-evaluation of the 2021 corporate governance assessment and conducted review according to the results. In the future, we will continue to promote related affairs to better meet applicable regulations.</p>				

1. Implementation of diversity for Board of Directors members:

Title	Director Name	Nationality	Gender	Part-time employee of the Company	Age	Years of service of independent directors	Industry experience/Expertise							
							Business judgement	Finance and accounting	Operating Operations	Management Operations	Industry knowledge	International market perspective	Leadership and decision-making	Legal
Chairman	Chen Chien-Liang	ROC	Male	V	Under 50 years old		V	V	V	V	V	V	V	
Director	Chen Mao-Chang	ROC	Male		Over 70 years old		V		V	V	V	V	V	
Director	Ren Tai Investment Co., Ltd. Representative: Yeh Sheng-Mao	ROC	Male		Over 70 years old		V		V			V	V	V
Director	Huang Chao-Hsing	ROC	Male	V	51-60 years old		V	V	V	V	V	V	V	
Director	Lai-Yu Hsiu-Min	ROC	Female		Over 70 years old		V	V	V			V	V	
Director	Shang-Jin Investment Co., Ltd. Representative: Chang Cheng-Liang	ROC	Male		Under 50 years old		V		V			V	V	
Director	Ren Tai Investment Co., Ltd. Representative: Wu Chun-Yi	ROC	Male		Under 50 years old		V		V		V	V	V	
Director	Ren Tai Investment Co., Ltd. Representative: Shih Chih-Hsun	ROC	Male		61-70 years old		V		V			V	V	
Independent director	Huang Man-Sheng	ROC	Male		Over 70 years old	3 to 9 years	V	V	V	V		V	V	
Independent director	Lin Hao-Hsiung	ROC	Male		61-70 years old	3 to 9 years	V		V	V	V	V	V	
Independent director	Wang Chia-Hsiang	ROC	Male		Under 50 years old	3 to 9 years	V	V	V	V		V	V	V

2.2021 further education of directors

Title	Name	Appointment Date	First date of Date	Further education date		Organizer	Course name	No. of hours	Whether or not further education meets the requirements
				From	End				
Director	Chen Chien-Liang	2020/06/12	2011/06/10	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	International Economic Situation and China's Political and Economic Changes; Response of Taiwanese Businessmen	3.0	Yes
Director	Chen Chien-Liang	2020/06/12	2011/06/10	2021/05/05	2021/05/05	Taiwan Corporate Governance Association	Company Material Information Disclosure and Responsibilities of Directors and Supervisors	3.0	Yes
Director	Chen Chien-Liang	2020/06/12	2011/06/10	2021/03/19	2021/03/19	Taiwan Corporate Governance Association	To Give Or Not To Give Information? Information Rights of Directors	3.0	Yes
Director	Chen Mao-Chang	2020/06/12	1996/11/07	2021/09/23	2021/09/23	The ARDF	The Latest "Corporate Governance 3.0 - Sustainable Development Roadmap" - Financial Report Self-Prepared Issues and Response Practices	3.0	Yes
Director	Chen Mao-Chang	2020/06/12	1996/11/07	2021/09/01	2021/09/01	The FSC	The 13th Taipei Corporate Governance Forum	3.0	Yes
Director	Huang Chao-Hsing	2020/06/12	2008/06/19	2021/10/19	2021/10/19	The ARDF	Utilization of ESG to Improve Corporate Strategic Ability and Sustainable Financial Trend Response	6.0	Yes
Director	Lai-Yu Hsiu-Min	2020/06/12	2005/06/10	2021/09/24	2021/09/24	The ARDF	Corporate Cooperation of Auditing Practices of CPAS: Responsibility of Checking Financial Reporting for "Fraud"	3.0	Yes
Director	Lai-Yu Hsiu-Min	2020/06/12	2005/06/10	2021/09/23	2021/09/23	The ARDF	The Latest "Corporate Governance 3.0 - Sustainable Development Roadmap" - Financial Report Self-Prepared Issues and Response Practices	3.0	Yes
Corporate director representative	Chang Cheng-Liang	2020/06/12	2014/06/12	2021/09/01	2021/09/01	The FSC	The 13th Taipei Corporate Governance Forum	3.0	Yes
Corporate director representative	Chang Cheng-Liang	2020/06/12	2014/06/12	2021/08/10	2021/08/10	The SFI	Corporate Financial Information Analysis and Decision-Making Utilization	3.0	Yes
Corporate director representative	Wu Chun-Yi	2020/06/12	2019/08/01	2021/01/12	2021/01/12	The SFI	Wafer Foundry and Advanced Packaging Technology Supply Chain Opportunities	3.0	Yes
Corporate	Shih	2020/06/12	2005/06/10	2021/11/02	2021/11/02	The ARDF	Regulatory Compliance	6.0	Yes

Title	Name	Appointment Date	First date of Date	Further education date		Organizer	Course name	No. of hours	Whether or not further education meets the requirements
				From	End				
director representative	Chih-Hsun						Practices of Corporate "Investments" and "Mergers"		
Independent Director	Huang Man-Sheng	2020/06/12	2017/06/08	2021/09/30	2021/09/30	Independent Directors Association Taiwan	Board of Directors Practice Examples - Simulation Exercise	3.0	Yes
Independent Director	Huang Man-Sheng	2020/06/12	2017/06/08	2021/03/23	2021/03/23	Taiwan Corporate Governance Association	Precautions of 2021 Board of Directors Meetings and Shareholders' Meetings	3.0	Yes
Independent Director	Lin Hao-Hsiung	2020/06/12	2017/06/08	2021/11/18	2021/11/18	Taiwan Corporate Governance Association	Case Studies of Hostile M&R, Management Rights Competition Cases and Corporate Countermeasures	3.0	Yes
Independent Director	Lin Hao-Hsiung	2020/06/12	2017/06/08	2021/08/27	2021/08/27	Taiwan Corporate Governance Association	How to Use D&O to Maximize the Value of Protection of Directors?	3.0	Yes
Independent Director	Lin Hao-Hsiung	2020/06/12	2017/06/08	2021/08/20	2021/08/20	Taiwan Corporate Governance Association	A Lesson Directors and Supervisors Should Learn: Global Risk Acknowledgment	3.0	Yes
Independent Director	Wang Chia-Hsiang	2020/06/12	2013/06/28	2021/11/05	2021/11/05	Taiwan Corporate Governance Association	International Economic Situation and China's Political and Economic Changes; Response of Taiwanese Businessmen	3.0	Yes
Independent Director	Wang Chia-Hsiang	2020/06/12	2013/06/28	2021/05/05	2021/05/05	Taiwan Corporate Governance Association	Company Material Information Disclosure and Responsibilities of Directors and Supervisors	3.0	Yes

3.2021 further education of managers

Title	Name	Appointment Date	Further education date		Organizer	Course name	No. of hours	Whether or not further education meets the requirements
			From	End				
President	Huang Chao-Hsing	2008/06/19	2021/10/19	2021/10/19	The ARDF	Utilization of ESG to Improve Corporate Strategic Ability and Sustainable Financial Trend Response	6.0	Yes
Financial Accounting Manager	Chiang Chih-Ching	2020/07/30	2021/09/13	2021/09/14	The ARDF	Continuing Education Course for Principal Accounting Officers of Issuers, Securities Firms and Securities Exchanges	12.0	Yes

(IV) If the Company has established the Compensation Committee, its composition, responsibilities and operations should be disclosed:

1. Compensation Committee operations

April 10, 2022

Identity (Note 1)	Name	Criteria	Professional qualifications and experience (Note 2)	Independence (Note 3)	Number of serving members of Compensation Committees in other public companies

Independent director	Wang Chia-Hsiang	EMBA of National Chengchi University. He is a current accountant/associate/U.S. accountant at Crowe Global, an independent director and serves as an Audit Committee member and Compensation Committee member of Tainergy Tech. Co., Ltd. He has practical experience in finance, accounting and management and his expertise is used for supervisory function of the Compensation Committee. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	financial and accounting services provided by the Company or its affiliates in the past two years is zero.	1
Others	Hsieh Ming-Kai	Master, Business Administration, National Chengchi University, Master, Nankai Institute Of Economics, China Current director of Kenmec Mechanical Engineering Co., Ltd., corporate director representative of Tainergy Technology (Kunshan) Co., LTD., Director of Kentec Inc., President of Tainergy Tech. Co., Ltd., corporate director representative of Star Solar New Energy Co., Ltd., supervisor of TKT Corporation, Chairman of Taisic Materials Co., Chairman of Jui Hsuan Investment Co., Ltd., Chairman of Chief Global Logistics Co., Ltd. He has practical experience in business and management and his expertise is used for supervisory function of the Compensation Committee. Does not meet any of the circumstances in the subparagraphs of Article 30 of the Company Act.	None of the Company's Compensation Committee members, their spouses or relatives of second degree of kinship are directors, supervisors or employees of the Company or its affiliates. The independent director himself/herself, their spouses or relatives of second degree of kinship (or under the name of others) do not hold company shares. Does not serve as a director, supervisor or employee of a company with which the Company has a specific relationship with. Amount of remuneration received for commercial, legal, financial and accounting services provided by the Company or its affiliates in the past two years is zero.	None

2. Information on the operations of the Compensation Committee

(1) There are 3 members of the Company's Compensation Committee

(2) Duration of service for this term: July 16, 2020 to June 11, 2023. For the most recent fiscal year, 2(A) Compensation Committee meetings were held.

Qualifications of the members and the attendance are as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Remark
Convener	Lin Hao-Hsiung	2	0	100.00%	
Member	Wang Chia-Hsiung	2	0	100.00%	
Member	Hsieh Ming-Kai	2	0	100.00%	

Other information required:

1. If the board of directors declines to adopt or modify a recommendation of the compensation committee, the date, session, topic discussed and the resolution of the board meeting and handling of the resolution of the compensation committee shall be specified (if the compensation package approved by the Board is better than the recommendation made by the committee, please specify the discrepancy and its reason): none.

2. As to the resolution of the compensation committee, if a member expresses any objection or reservation, either by recorded statement or in writing, the date, session and topic discussed of the committee meeting, all members' opinions and handling of members' opinions shall be specified: None.

Date of Compensation Committee meeting	Session	Contents of resolution	Opinions of members	The Company's handling of such opinions
2021/3/18	2nd meeting of the 4th term	Motion for the 2020 distribution of directors	Passed by all members	Not applicable
		Motion for the amendment to some provisions of the "Regulations for Remuneration to Directors"	Passed by all members	Not applicable
2021/7/8	3rd meeting of the 4th term	Motion for the 2020 distribution of employees	Passed by all members	Not applicable
		Motion for salary adjustment for 2021	Passed by all members	Not applicable
2022/1/27	4th meeting of the 4th term	Motion for 2022's structural salary adjustment of managers	Passed by all members	Not applicable
		Motion for promotion of manager	Passed by all members	Not applicable
2022/3/10	5th meeting of the 4th term	Motion for the 2021 distribution of directors	Passed by all members	Not applicable

(V)Implementation of sustainable development promotion and deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and reasons thereof:

Promotion	Implementation status (Note 1)			Deviations from Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Y es	N o	Summary	
I. Has the company constructed a governance structure to promote sustainable development and established a dedicated (part-time) unit for the promotion of sustainable development, which is managed by senior management by authorization of the board of directors and is supervised by the board of directors?	V		<p>1.Describe the Company's governance structure to promote sustainable development</p> <p>2.Describe the implementation of all organizations, including but not limited to:</p> <p>(1)Name of the dedicated (concurrent) unit that promotes sustainable development, timing and authorization of the Board of Directors.</p> <p>(2)The composition, operation and implementation (e.g., work plans and tasks) of the current year of the promotion unit members</p> <p>(3)The frequency (at least once a year) of the report to the Board of Directors or the date of the report to the Board of Directors.</p> <p>3.Describe the Board of Directors' supervision on sustainable development, including but not limited to: management policy, strategy and objective setting, review measures, etc.</p>	At present, the Company's dedicated (concurrent) units to promote sustainable development are the Environmental Protection Section and the Occupational Safety and Health Section. The Company's ESG Task Force is formed by the heads of President Office, Human Resource & Administration Division, Financial Division, Supply Chain Management Division, Facility Division, Marketing & Sales Division, QA Division and Information Technology Division. Currently, PwC Taiwan has been delegated to identify sustainability issues concerning the Company's operations and stakeholders, and propose corresponding strategies, goal directions for issues of energy-saving and carbon reduction and ESG risks, which are reported to the Chairman and President each quarter by the Environmental Safety unit. In doing this, business management-level personnel are aware of these issues. The subsequent implementation results and future plans for environmental social and corporate governance issues associated with sustainability development are reported to the Board of Directors by the ESG Task Force so that directors are able to review the progress of the plan and evaluate the Company's opportunities and risks with respect to sustainable development. The Task Force also adjusts the Company's sustainable development objectives, directions and implementation focus based on the instructions, views or suggestions of the Board of Directors.
II. Has the company implemented the risk assessment of environmental, social, and governance issues related to corporate operation and established relevant risk management policies or strategies based on the principle of materiality? (Note 2)	V		<p>1.Describe risk evaluation boundary (covering the scope of the subsidiary) The risk evaluation boundary disclosed here shall be the same as the boundaries of subsequent environmental and social issues of this table. If there are any differences, the boundary of each issue should be specified.</p> <p>2.Identify risk evaluation criteria, processes, results and risk management policies or strategies that identify the importance of environmental, social, corporate governance</p>	The Company has delegated PwC Taiwan to identify environmental, social and governance issues concerning the Company's operations. At present, the internal "Corporate Governance Responsibility Management Handbook (M0133)" and "Identification and Evaluation Process of Environmental Safety and Health Considerations (M0092)" are used to identify the entire Company's related risks. As well as this, we have set target plans for material environmental, social and governance risks which are regularly tracked and controlled. Furthermore, we carry out a variety of drills and preparations based on the "Emergency Preparedness and Response Procedures (M0081)" and "Operating Procedures for Operational Continuity Management

			issues.	(M0112)” to reduce risks. Since such measures were implemented, there have been no major environmental pollution, occupational disasters, operational disruptions, major financial losses, labor or corporate governance disputes.
III. Environmental issues (I) Has the company implemented environmental policies suitable for the Company’s industry characteristics?	V		1. Describe how to carry out an effective environmental management system and the regulations that it is based on. 2. Describe the international certification standards (which should be valid as of the publication date of the annual report) passed by the Company and the scopes they cover.	The Company is in the optoelectronic component manufacturing industry which consumes high energy and generates high level of pollution. In accordance with the law and regulations, we have designated dedicated personnel responsible for the management of air pollution, wastewater, waste and toxic substances. The dedicated environmental management unit is the Environmental Protection Section and the Facility Division, and has been run under ISO14001:2015 environmental management system and passed third-party certification (including the 2 plants of the Company) in 2002. For certification, please see Environmental Safety and Health Section Environmental Safety and Health Management System on the company website.
(II) Is the company committed to enhancing the efficiency of energy consumption and use recycled materials that pose low impact on the environment?	V		Describe the company’s policy to enhance the efficiency of energy consumption, including but not limited to: base year data, promotion measures, objectives and achievements.	Based on the environmental policy, the Company has set various environmental objectives and measures such as resource recycling, waste reduction, water and energy conservation and carbon reduction. As well as this, the consumption of water, power and raw materials used per unit of product will be continuously followed up. We have set a target to reduce energy consumption and greenhouse gas (GHG) emissions per unit of product by 5%. Compared to the base year which is 2011, energy consumption and carbon emissions per unit of product have reduced by approximately 15% and water consumption per unit of product has been reduced by approximately 10%. As for energy conservation, we have dedicated energy management personnel in place and brought in external advisors to evaluate various energy-saving solutions. At present, we have replaced old lamps by energy-saving lamps and installed high-efficiency chilled water mainframes, further saving total electricity consumption by approximately 1% per year.
Does the company assess the present and future potential risk and opportunities of climate change and adopt countermeasures related to climate issues?	V		Describe how the company assesses the present and future potential risk and opportunities of climate change, its assessment results, and its adoption of countermeasures related to climate issues.	In accordance with the management system (ISO-14001), we continue to assess environmental impact of climate change on the Company’s current and future potential risks and opportunities. By doing so, we are able to adopt countermeasures for insurance, damage prevention and energy efficiency enhancement. We will evaluate climate change opportunities and risks on the

			Company's sustainability in accordance with the TCFD and propose related strategies and plans.
(IV) Does the Company gather statistics of the greenhouse gas emission, water consumption and the gross weight of waste in the past two years and establish policies for reduction of greenhouse gas emission and water consumption or other waste management?	V	<p>Describe the statistics, intensity (e.g., per unit of product, service or turnover calculation) data coverage (including all plants and subsidiaries) for the past 2 years for the following items:</p> <p>(1) GHG: Including carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, nitrogen trifluoride and others announced by the central authority, distinguished as direct emissions (Scope 1: directly from sources owned or controlled by the Company), energy indirect emissions (Scope 2: indirect GHG emissions from input power, heat or steam) and other indirect emissions (Scope 3: emissions from the Company's activities and not from energy indirect emissions, but sources owned or controlled by other companies);</p> <p>(2) Water consumption;</p> <p>(3) Waste: distinguished between the total weight of hazardous waste and non-hazardous waste. If a company is in a non-manufacturing industry, there is no need for a distinction; however the total weight of waste shall be disclosed according to the characteristics of the industry.</p> <p>2. Describe the policy for GHG reduction, water consumption or other waste management, including but not limited to: base year data, reduction target, promotion measures and achievement status,etc.</p> <p>3. Describe various information verification (which should be valid as of the publication date of the annual report) passed by the</p>	<p>The Company does not consume a large amount of energy (with annual GHG emissions of less than 10,000 tons). We will continue to keep a close eye on carbon tax and total GHG weight control and their possible impact on our operating activities. Meanwhile, we also revise the Company's strategies for energy conservation, carbon reduction and GHG reduction in a timely manner.</p> <p>1. Since 2012, inventories (covering Scope 1 and Scope 2) on GHG emissions have been conducted in our Pingzhen Plant according to ISO-14064-1. Compared to 2011, the base year, the energy consumption and carbon emissions per unit of product were reduced by approximately 15%. The relevant information is disclosed and surveys provided for customers and suppliers for reference. Furthermore, the GHG emissions inventory conducted in 2021 covered the Company's 2 plants (Scope 1 and Scope 2). In 2022, the GHG emissions inventory will not only cover the 2 plants but part of the GHG emissions in Scope 3 will also be included. (For GHG emission inventory results for past years, please see Environmental Safety and Health Section Environmental Safety and Health Management System on the company website)</p> <p>2. The Company's total consumption of water was 69015CM in 2020 and 74480CM in 2021. The unit wafer consumption was approximately 8.5 metric tons/m² in 2021, down by approximately 25%.</p> <p>3. In terms of waste output, the combined waste generated was approximately 170 tons in 2020; among this, hazardous waste accounted for 77%, non-hazardous waste 23%. The combined waste generated was approximately 242 tons in 2021; among this, hazardous waste accounted for 84%, non-hazardous waste 16%. The waste volume per wafer in 2021 was approximately 0.28 tons/m², slightly lower than that in 2020.</p>

			Company and the scopes that they cover.	
IV. Social issues				
(I) Has the company formulated management policies and procedures in accordance with the applicable laws and regulations and international conventions on human rights?	V		Describe the human rights policies and specific management plans (e.g., human rights evaluation, mitigation measures for human rights risks, related education and training) and the applicable laws and regulations and international conventions on human rights that the policies and plans were based on.	The Company abides by the labor laws and regulations in order to protect the legal rights of employees and the employment policy of no differential treatment. Furthermore, we adopt an open two-way communication approach when it comes to company policy promotion and understanding of opinions of employees.
(II) Has the company established and implemented reasonable employee welfare measures (including compensation, holidays, and other benefits) and reflect the corporate business performance or achievements in the employee remuneration?	V		<ol style="list-style-type: none"> 1. Describe employee welfare measures, including but not limited to: employee remuneration, diverse and equal workplace (including but not limited to: percentage of female employees and senior executives), holidays, various allowances, gifts and subsidies. 2. Describe how operating performance or results are reflected in employee compensation policy and how it is implemented. 	Aside from labor insurance, health insurance, pension allocation and unpaid parental leave provided to employees as required by law, we also organize regular employee health examinations and provide a variety of benefits including gifts/money for 3 major festivals, allowances for weddings and funerals, as well as employee group insurances and domestic or international trips. Not only these, the Company also allocates 5% to 15% profit of the year as remuneration to employees. However, when the Company still has accumulated losses, an amount should be retained to cover the losses and then employee remuneration should be allocated in accordance with the aforementioned percentages.
(III) Does the company provide employees with a safe and healthy work environment and provide safety and health education to employees regularly?	V		<ol style="list-style-type: none"> 1. Describe the measures for a safe and healthy workplace and education policy for employees and how they are implemented. 2. Describe certification (which should be valid as of the publication date of the annual report) attained by the company and the scopes that they cover. 3. Describe the number of employee disasters, the number of employees and the ratio to the total number of employees in the current year and improvement measures. 	<ol style="list-style-type: none"> 1. The specific measures for the Company's working environment and health protection of employees are as follows: <ul style="list-style-type: none"> ● Carry out periodic regulatory audit (monthly), risk assessment and internal audit (annually) to ensure legal compliance and that there are no concerns of safety and health in the workplace. ● Carry out periodic operating environment inspection (every 6 months) and various equipment automation inspection (monthly). ● Regular fire equipment inspection and maintenance (annually), gas detector calibration (every 6 months) and fire and emergency drills (quarterly). ● Employee physical examination, regular general health examination, special health examination. ● Equipment, machine and chemical safety evaluation and activation inspection. ● Labor safety and health education and training. (including new employee training, on-the-job training, case promotion) ● Control of high-risk operations and informing of hazards to vendors upon entry of the plant ● In-plant PPE and education and education and training are provided.

				<ul style="list-style-type: none"> ●Occupational health and health promotion services are provided by occupational medicine specialists. ●With respect to major risks and improvement opportunities, we set targets and management plans each year for control and continuous improvement. Each quarter, the Chairman attends the safety committee meeting (with labor representatives account for 1/3 of the committee) to participate in various environmental safety and health issues. ●Participate in environmental autonomous management activities, support for toxic disaster response drills and share practical experience. <p>2. At the initial stage of establishment in 2001, our Pingzhen Plant passed the hazardous workplace inspection, while the Pingzhen Plant II passed the hazardous workplace inspection in 2018. As required by law, the Company has set up a dedicated first-level management unit and personnel to implement occupational safety and health. Moreover, we have also constructed a management system in accordance with the occupational and health management systems (ISO-45001:2018/CNS-45001) and attained third-party certifications (for certifications, please see Environmental Safety and Health Section Environmental Safety and Health Management System on the company website).</p> <p>3. In 2021, there was 1 non-commuting accident, resulting in 1 employee suffering from a disability injury (0.4% of total employees). In addition to providing PPE to operators, standard operating procedures have also been formulated and supervisors conduct an inspection before work.</p>
(IV) Does the company have an effective career capacity development training program established for the employees?	V		Describe the aspects covered in the training program (e.g., new employee training, professional further education, supervisor training), the scope (e.g., managers of all levels, employees) and how it is implemented.	We build effective occupational capacity development training programs. As well as this, we provide employees subsidies for education and training for them to take part in courses for occupational capability enhancement and professional licenses. Where an opportunity arises for other duties, we consult with the employee regarding transferring him/her to another department. In doing this, we are able to increase their work experience to facilitate future promotion.

<p>(V) Does the company comply with relevant laws and international standards with regard to issues of customer health and safety, privacy, marketing and labeling in relation to the products and services and establish relevant policies and complaint procedure to protect the rights of the consumers or customers?</p>	<p>V</p>	<p>Describe regulatory compliance and international standards and describe the name, contents and grievance process of the consumer or customer protection policy.</p>	<p>To allow products to be in line with customer demand and to fulfill corporate governance responsibility, suppliers of the Company's products and raw materials are required to sign a pledge to forbid the use of environmentally hazardous substances, guaranteeing that products provided are on par with ROHS and other environmental directives. Furthermore, we strictly follow environmental protection laws and regulations and applicable norms in the course of manufacturing and relevant operating activities.</p>
<p>(VI) Has the company implemented a supplier management policy that regulates suppliers' conduct with respect to environmental protection, occupational safety and health or work rights/human rights issues and does the company track suppliers' performance on a regular basis?</p>	<p>V</p>	<ol style="list-style-type: none"> 1. Describe supplier management policy and applicable regulatory compliance and its contents of specific requirements on suppliers regarding environmental protection, occupational safety and health or labor human rights 2. Describe supplier management policy and applicable regulatory compliance implementation (e.g., implementation of self-evaluation of suppliers, coaching or education, performance evaluation). 	<p>The Company's Supply Chain Management Division has set up the "Supplier Management Procedures (M0047)" and a supplier assessment is carried out according to the type of vendor and actual situation. The assessment includes records of environmental management and compliance of vendors, as well as their green products. The compliance of suppliers is then evaluated by the environmental safety unit.</p> <p>Once contracted, the vendor is required to sign the Company's environmental safety and health agreement - "Contractor Safety and Health Management Procedures (M0090)." The Occupational Safety and Health Section and Environmental Protection Section ensures the performance and records of the supplier in terms of environmental safety and health and corporate social responsibility according to the contractor environmental safety and health assessment form. The form is used as a basis for future business relationships.</p> <p>Moreover, the Environmental Protection Section is responsible for carrying out an audit on environmentally sensitive waste treatment vendors to ensure their compliance while conveying the Company's dedication to environmental sustainability and the implementation of corporate social responsibility.</p>
<p>V. Has the company prepared a sustainability report or a report on non-financial information with reference to generally accepted international standards or guidelines? Are these reports supported by the assurance or opinion of a third-party verification entity?</p>	<p>V</p>	<ol style="list-style-type: none"> 1. Describe the international standards or guidelines which the CSR report or a report on non-financial information was prepared with reference to it. 2. Those with assurance or opinion of a third-party verification entity should specify the name, verification items or scope and the standards to which the assurance or opinion was based on. 	<p>At present, the Company entrusts PwC Taiwan to prepare the 2022 Sustainability Report in accordance with the international guidelines (GRI/SASB). The 2021 Sustainability Report is expected to be disclosed in September 2022. In June 2023, the 2022 Sustainability Report will be prepared in accordance with the GRI/SASB/TCFD and its contents will be verified or assured by a third-party verification entity.</p>

VI. If the Company has established its own Sustainable Development Best-Practice Principles based on the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies,” please describe any discrepancies between the principles and their implementation:

The Company’s Board of Directors meeting held in April 2022 passed the formulation of “Sustainable Development Best-Practice Principles” to reinforce the implementation of corporate social responsibility. The Company reviews its corporate social responsibility in accordance with these Principles and make improvements and there is no discrepancy.

VII. Any other important information that may help in understanding the performance of sustainable development better:

1. We abide by the RBA (Responsible Business Alliance) Code of Conduct and Taiwan’s labor laws. Additionally, we have formulated the “Corporate Social Responsibility Management Handbook (M0133)” as ethics compliance guidelines in the workplace for the Company and all its employees to follow.
2. We conduct surveys on employee opinions from time to time and have set up an opinion box aiming to make improvements targeting matters that require to be addressed.
3. We hold a labor-management meetings on a regular basis and monthly staff meetings. By taking this approach, we strengthen employee communication and promote a harmonious labor-management relationship.
4. We provide an employee health examination, analyze and track their health information to further promote their health.
5. Emergency assistance is set up to help employees better respond to emergencies and we provide good physiological counseling to employees.
6. In order to provide customers with the best service quality, we promote green products and operating continuity management programs.
7. Participate in environmental autonomous management activities, support for toxic disaster response drills and share practical experience.
8. We have introduced the OHSAS-18001/TOSHMS occupational safety and health management system and obtained five years of recognition for occupational safety and health performance from the Council of Labor Affairs.
9. We provide coaching of a variety of professional institutions to continue to promote pollution prevention, energy conservation and carbon reduction and hazards prevention measures.
10. Various environmental and safety operations in the plant are implemented and internal and external professional training/drills arranged.
11. We promote environmental protection in the office and waste batteries are recycled and properly handled to avoid pollution to the environment.
12. Moreover, we carry out audits on environmentally sensitive vendors to ensure their compliance, while conveying the Company dedication on the implementation of corporate social responsibility.
13. We have signed a greenery adoption agreement and green management plan with Pingzhen Industrial Park to jointly build a quality production environment.
14. To fulfill our “corporate social responsibility,” we encourage our workers to take part in blood donation drives organized by public institutions, private entities or blood-donation buses. By doing this, we promote the idea of “give blood, save lives.”
15. In a bid to implement in-plant risk management, we invite external experts to provide guidance to improve the organization’s risk management and response capability. We also work with universities to conduct exposure evaluation to lower employee health risks.
16. We conduct validated audit process (VAP) labor, safety and health, environment, ethics and systems in accordance with RBA (Responsible Business Alliance) Code of Conduct 7.0.
17. Received five years of recognition for Taiwan Occupational Safety and Health Management System from the Council of Labor Affairs, Ministry of Labor and Badge Accredited Healthy Workplace by Health Promotion Administration, Ministry of Health and Welfare in 2014.
18. Received a Certificate of Appreciation from the Industrial Park in 2015.
19. Received an excellent company award from the he Manufactures United General Association Of Industrial Park of R.O.C. in 2016.
20. Received an excellent company award from the he Manufactures United General Association of Industrial Parks of R.O.C. and in 2021 and excellent manufacturer award for regional joint defense exercise from Pingzhen Industrial Park.

(VI) Implementation of ethical corporate management and deviations from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof

Evaluation item	State of operation (Note)		Summary	Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Y es	N o		
I. Formulation of ethical management policies and programs				No difference
(I) Has the company established an ethical corporate management policy approved by the board of directors? Does the policy clearly specify in its rules and external documents the ethical corporate management policies, and the commitment of the board of directors and the senior management to pro-actively implement the management policy?	V		(I) The Company formulated the “Ethical Corporate Management Best-Practice Principles,” “Procedures for Ethical Management and Guidelines for Conduct” and “Guidelines for the Adoption of Codes of Ethical Conduct” in March 2022 and were approved by the Board of Directors. These will be incorporated in employee education and training. The Company also arranges ethical management-related training courses for employees and senior supervisors.	
(II) Has the company established a risk assessment mechanism against unethical acts, analyzed and assessed business activities within their business scope regularly that are at a higher risk of being involved in unethical act, and established prevention programs covering at least the preventive measures specified in Paragraph 2, Article 7 “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”?	V		(II) The Company has established preventive measures in the “Procedures for Ethical Management and Guidelines for Conduct” and the “Employee Code of Conduct.” New employees are informed of these requirements upon training and if there are any violations, employees will be disciplined by the Company. For serious incidents, the Company may terminate the employment contract. Meanwhile, possible non-ethical risks are reviewed at all times to enhance the effectiveness of the Company's ethical management.	
(III) Has the company clearly provided the operating procedures, conduct guidelines, disciplinary measures for violations and a grievance system in its program to prevent unethical acts and are these implemented and whether or not the formally disclosed program has been regularly reviewed and amended?	V		(III) The Company has formulated the “Procedures for Ethical Management and Guidelines for Conduct,” which include the prohibition of unethical conduct, reporting system and punishment for violations. Each year, these Procedures are reviewed for revision or whether or not supplementary policies and operating procedures are required.	
II. Implementation of ethical management				No difference
(I) Has the company evaluated the records for ethical management of all counterparties it has business relationships with? Are there any clauses with respect to ethical management in the agreements entered into with business partners?	V		(I) The Company adheres to the principle of fair treatment of customers and suppliers. Prior to entering into a contract, a supplier should follow the “Supplier Code of Conduct” covering labor, health and safety, environmental, integrity and ethical management standards.	
(II) Has the company set up a dedicated unit to promote ethical corporate management	V		(II) The President Office is the dedicated unit to promote ethical corporate management and	

Evaluation item	State of operation (Note)		Summary	Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
<p>under the board of directors and has such unit reported to the Board of Directors its execution in terms of ethical management policy and preventive programs against unethical conducts and the supervision status on a regular basis?</p> <p>(III) Has the company formulated a policy that prevents conflicts of interest and a channel that facilitates the reporting of conflicting interests?</p> <p>(IV) Has the company established an effective accounting system and internal control system in order to implement ethical management and proposed relevant audit plans according to the assessment results of the risks of unethical conducts and reviewed the compliance of the prevention of unethical conducts or entrusted an accountant to carry out the review?</p> <p>(V) Has the company organized internal or external training on a regular basis to maintain ethical management?</p>	V	V	<p>reports to the Board of Directors its execution with respect to ethical management policy, preventive programs against unethical conduct, and the supervisor in status on a regular basis (at least once a year).</p> <p>(III) The Company’s “Ethical Corporate Management Best-Practice Principles”, “Procedures for Ethical Management and Guidelines for Conduct”, “Guidelines for the Adoption of Codes of Ethical Conduct” and “Employee Code of Conduct” set forth that direct or indirect offering, promising, demanding or accepting any improper benefits or engaging in any other unethical conducts in violation of integrity, wrongfulness or breach of fiduciary duty in order to obtain or maintain benefits. To implement this policy, we have established a reporting procedure.</p> <p>(IV) The Company has established effective accounting systems and internal control systems for business activities possibly at a higher risk of being involved in an unethical conduct, to ensure that the design and enforcement of the systems are showing results. Its compliance is regularly checked by internal auditors and reported to the Board of Directors.</p> <p>(V) The Company organizes internal education and training on “Ethical Management of Corporate Social Responsibility” and “Employee Code of Conduct.” Moreover, internal education and training on ethical management-related issues is also arranged accordingly.</p>	
<p>Whistleblowing system</p> <p>(I) Has the company set up a specific reporting and incentive system and established a channel to facilitate reporting and assigned dedicated personnel to receive reports?</p> <p>(II) Has the company implemented any standard operating procedures and/or subsequent measures after carrying out an investigation or confidentiality measures for handling reported misconducts?</p>	V	V	<p>(I) The Company has formulated the “Handling Measures for Reporting of Illegal, Unethical or Dishonest Conduct” and the “Handling Measures for Staff Grievance (M0135).” For anyone who has been reported, the Company assigns appropriate staff to handle such matter.</p> <p>(II) The handling process and handling methods for the Company’s “Handling Measures for Reporting of Illegal, Unethical or Dishonest Conduct” and the “Handling Measures for Staff Grievance (M0135)” regulate standard operating procedures, measures to be taken after an investigation and related confidentiality mechanism of the grievance raised.</p>	No difference

Evaluation item	State of operation (Note)		Summary	Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Y es	N o		
(III) Has the company taken appropriate measures to protect the whistleblower from improper treatment as a result of whistleblowing?	V		(III) The Company handles a grievance in a confidential manner and performs verification through independent channels to do its utmost to protect the whistleblower. The identity of the whistleblower is kept strictly confidential.	
IV. Strengthen information disclosure Has the company disclosed the content of its Ethical Corporate Management Best-Practice Principles and the results of implementation on its official website and MOPS?	V		The Company has formulated the “Ethical Corporate Management Best-Practice Principles” and “Procedures for Ethical Management and Guidelines for Conduct,” disclosed on the company website and MOPS.	No difference
IV. For companies who have established Ethical Corporate Management Best Practice Principles in accordance with the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies,” please describe the current practice and any deviations from the code of conduct: The Company has formulated the “Ethical Corporate Management Best-Practice Principles” and “Procedures for Ethical Management and Guidelines for Conduct” and there are no significant differences.				
VI. Any other important information that may help understanding the performance of ethical corporate management better: (e.g., review or revise its Ethical Corporate Management Best-Practice Principles): none.				

(VII) If the company has established the Corporate Governance Best Practice Principles and related regulations, the inquiry method:

1. The Company has established the following regulations and measures:

- | | |
|---|---|
| (1) Operating Procedure for Acquisition or Disposal of Assets | (11) Guidelines for the Adoption of Codes of Ethical Conduct |
| (2) Handling Procedures for Derivatives Trading | (12) Compensation Committee Charter |
| (3) Procedures for Lending Funds to Others | (13) Audit Committee Charter |
| (4) Procedures for Endorsements/Guarantees | (14) Method for Election of Directors |
| (5) Parliamentary Rules for Shareholders’ Meetings | (15) Standard Operating Procedures for Handling Directors’ Requests |
| (6) Parliamentary Rules for Board of Directors Meetings | (16) Handling Measures for Reporting of Illegal, Unethical or Dishonest Conduct |
| (7) Procedures for Handling Material Inside Information Technology Division | (17) Self-Evaluation or Peer Evaluation of the Board of Directors |
| (8) Procedures for Prevention of Insider Trading | (18) Ethical Corporate Management Best-Practice Principles |
| | (19) Procedures for Ethical Management and Guidelines for Conduct |
| | (20) Sustainable Development Best |

- (9) Corporate Governance Practice Principles
Best-Practice Principle
- (10) Rules Governing the Scope of Powers of Independent Directors

2. Inquiry method: The Investors section on the Company's website at <http://www.vpec.com.tw>

(VIII) Other significant information that will provide a better understanding of the state of the company's implementation of corporate governance:

1. To establish a sound mechanism for handling material information, we have established the "Procedures for Handling Material Inside Information Technology Division." All directors, managers and employees are made aware of these Procedures to avoid any violation or occurrence of insider trading.
2. The Company's newly appointed insiders including directors and managers are given the latest version of "Compliance Brochure for Directors and Supervisors" compiled by the competent authorities to facilitate their compliance.
3. Licenses obtained by the Company's financial information transparency-related personnel: 1 internal auditor, ISO9001-led auditor, and 2 persons passed professional competency tests for stock affairs specialists organized by the Securities and Futures Commission.
4. Employee code of conduct and ethics: The Company has formulated the "Employee Code of Conduct" as a basis for employee work and conduct.

(IX)Implementation of the internal control system

1.Statement on Internal Control

Visual Photonics Epitaxy Co., Ltd.
Statement on Internal Control System

Date: March 10, 2022

The following statement has been made based on the 2021 self-assessment of the Company's internal control system:

- I. The Company acknowledges and understands that the establishment, implementation and maintenance of the internal control system are the responsibility of the Board of the Directors and managers and that such a system has been implemented within the Company. The purpose of this system is to provide reasonable assurance in terms of business performance, efficiency (including profitability, performance and asset security) and reliable financial reporting and regulatory compliance.
- II. There are inherent limitations to even the most well-designed internal control system. Therefore, an effective internal control system can only reasonably assure achievement of the three goals mentioned above. Furthermore, changes in the environment and circumstances may all affect the effectiveness of the internal control system. However, the internal control system of the Company features a self-monitoring mechanism that rectifies any deficiencies immediately upon discovery.
- III. The Company evaluates the design and execution of its internal control system based on the criteria specified in "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "The Governing Principles") to determine whether or not the existing system continues to be effective. Criteria introduced by "The Governing Principles" consists of five major elements, each representing a different stage of internal control: 1. Control environment; 2. Risk evaluation and response; 3. Procedural control; 4. Information and communication; and 5. Supervision. Each element further encompasses several sub-elements. Please refer to "The Governing Principles" for more details.
- IV. The Company has adopted the aforementioned criteria to validate the effectiveness of its internal control system design and execution.
- V. Based on the assessments described above, the Company considers the design and execution of its internal control system to be effective as at December 31, 2021. This system (including the supervision and management of subsidiaries) has provided assurance with regard to the Company's business results, target accomplishments, reliability, timeliness and transparency of reported financial information and its compliance with relevant laws.
- VI. This Statement constitutes part of the Company's Annual Report and prospectus and shall be disclosed to the public. Any illegal misrepresentation or concealment in the public statement above are subject to the legal consequences described in Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
- VII. This Statement was passed unanimously without objections by all 11 directors present at the Board of Directors meeting held on March 10, 2022

Visual Photonics Epitaxy Co., Ltd.

Chairman: Chen Chien-Liang

President: Huang Chao-Hsing



Signature



Signature

2.If an accountant is entrusted to perform a special audit on the internal control system, the audit report shall be disclosed: none.

(X)If there has been any legal penalty against the company or its internal personnel or any disciplinary penalty by the company against its internal personnel for violation of the internal control system, during the most recent fiscal year or during the current fiscal year up to the publication date of the annual report, where the results of such penalty could have a material effect on shareholder equity or securities prices, the annual report shall disclose the penalty, the main shortcomings, and condition of improvement: none.

(XI)Material resolutions of a shareholders' meeting or a board of directors' meeting during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report.

1. Material resolutions of a shareholders' meeting and their implementation

Date	Material resolutions and their implementation
2021/07/29	<ol style="list-style-type: none"> 1. Motion for recognition of the 2020 Business Report and Financial Statements 2. Motion for recognition of the 2020 earnings distribution Implementation: August 21, 2021 has been set as the base date for cash dividends for payment of NT\$2.59 per share. The distribution date was September 3, 2021.

2. Important resolutions of Board of Directors

Date	Important resolutions
2021/01/28	<ol style="list-style-type: none"> 1. Motion for formulating the 2021 operational plan
2021/03/18	<ol style="list-style-type: none"> 1. Resolutions by the 2nd meeting of the 4th Compensation Committee 2. Motion for the 2020 Business Report and Financial Statements 3. Motion for the 2020 remuneration to employees and directors 4. Motion for the 2020 earnings distribution 5. 2020 International Control System Statement 6. Motion for the convening of the 2021 annual general meetings of shareholders 7. Motion for change of CPAs 8. Motion for appointing CPAs Chou Hsiao-Tzu and Lai Chung-Hsi of PwC Taiwan to audit the Company's various financial reports and tax income on profit-making businesses for 2021.
2021/04/29	<ol style="list-style-type: none"> 1. Motion for Q1 2021 financial report
2021/07/08	<ol style="list-style-type: none"> 1. Resolutions by the 3rd meeting of the 4th Compensation Committee 2. Motion for the matters relating to the 2021 annual general meetings of shareholders
2021/07/29	<ol style="list-style-type: none"> 1. Motion for setting the base date for the Company's 2021 cash dividend payment and related matters 2. Motion for Q2 2021 financial report
2021/10/28	<ol style="list-style-type: none"> 1. Motion for Q3 2021 financial report 2. Motion for the 2022 audit plan 3. Motion for evaluation of the independence of the 2021 CPAs
2022/01/27	<ol style="list-style-type: none"> 1. Resolutions by the 4th meeting of the 4th Compensation Committee 2. Motion for formulating the 2022 operating plan
2022/03/10	<ol style="list-style-type: none"> 1. Motion for the 2021 remuneration to employees and directors 2. Motion for the 2021 Business Report and Financial Statements 3. Motion for the 2021 earnings distribution 4. Formulation of "Ethical Corporate Management Best-Practice"

Date	Important resolutions
	Principles” and “Procedures for Ethical Management and Guidelines for Conduct” 5. Motion for amendments to some provisions of the “Articles of Incorporation” 6. Motion for amendments to some provisions of the “Procedure for Acquisitions or Disposal of Assets” 7. 2021 International Control System Statement 8. Motion for the convening of the 2022 annual general meetings of shareholders 9. Motion for appointing CPAs Chou Hsiao-Tzu and Lai Chung-Hsi of PwC Taiwan to audit the Company’s various financial reports and tax income on profit-making businesses for 2022.
2022/04/28	1. Motion for Q1 2022 financial report 2. Motion for formulation of “Sustainable Development Best Practice Principles” 3. Motion for amendments to some provisions of the “Corporate Governance Best-Practice Principle”

(XII) Any other documented objections or qualified opinions raised by directors against Board of Directors’ resolutions during the most recent fiscal year or during the current fiscal year up to the publication date of the annual report: None.

(XIII) Resignation or discharge of anyone related to the financial report (including chairman, president and accounting officer, financial officer, internal auditing officer and research and development officer) during the most recent fiscal year or during the current fiscal year up to the publication date of the annual report: None.

V. Information on CPA Professional Fees:

Unit of amount: NT\$ thousands

Name of accounting firm	Name of CPA	CPA Audit period	Audit fee	Non-audit fee	Total	Remark
PwC Taiwan	Chou, Hsiao-Tzu	2021.01-2021.12	1,820	0	1,820	None
	Lai Chung-Hsi					

(1) When the company changes its accounting firm and the audit fees paid for the financial year in which the change took place are lower than those paid for the financial year immediately preceding the change, the amount of the audit fees before and after the change and the reason shall be disclosed: none.

(2) When the audit fees paid for the current financial year are lower than those paid for the immediately preceding financial year by 10% or more, the amount and percentage of and reason for the reduction in audit fees shall be disclosed: none.

VI. Information on Replacement of CPAs

(I) Regarding the former CPAs

Date of change	Passed by resolution of the Board of Directors on March 18, 2021		
Reason and explanation for change	Internal duty rotation of the accounting firm		
Has the company or the CPA terminated or discontinued the engagement	Contracting parties	CPA	The Company
	Situation		
	Voluntarily terminated the engagement	Not applicable	Not applicable
	Discontinued the engagement	Not applicable	Not applicable
An audit report issued during the most recent 2 years containing an opinion other than an unqualified opinion, state the opinion and reason.	No		
Different opinions from the issuer	Yes		Accounting principle or practice
			Disclosure of financial report
			Audit scope or steps
			Other
	None	V	
	Explanation: not applicable		
Other matters for disclosure (matters covered in items 1-4 to 1-7, sub-paragraph 6, Article 10 of these Regulations should be disclosed)	None		

(II) Regarding the successor CPA

CPA firm	PwC Taiwan
Name of CPA	Chou, Hsiao-Tzu Lai Chung-Hsi
Date of engagement	Passed by resolution of the Board of Directors on March 18, 2021
If prior to the formal engagement of the successor CPA, the company consulted the new CPA regarding the accounting treatment of or application of accounting principles to a specific transaction, or the type of audit opinion that might be rendered on the	No

company's financial report	
Written views of the former CPA on which the successor disagreed with the former CPA	No

(III) Reply letter from the former CPA regarding matters covered in items 1 and 2-3, sub-paragraph 6, Article 10 of these Regulations: not applicable.

VII. Where Company Chairman, President or any Manager in Charge of Finances or Accounting Matters in the Most Recent Fiscal Year Holding a Position at the Company's CPA Accounting Firm or at an Affiliated Enterprise of Such Accounting Firm, the Name, Job Title, and Period of Tenure at Such Shall be Disclosed. The Term "Affiliated Enterprise of CPA Accounting Firm" Refers to an Enterprise Where CPA at the CPA Accounting Firm Holds At least 50% of the Shares in the Firm or Has Acquired More Than Half of the Seats of Directors or a Company or Institution Listed in the Materials Disclosed or Published by the CPA's CPA Accounting Firm as an Affiliated Enterprise:
none.

VIII. Any Transfer of Equity Interests and/or Pledge of or Change in Equity Interests (During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report) by a Director, Manager, or Shareholder with a Stake of More than 10%:

Unit: Shares

Title	Name	2021		Current year as of April 10	
		Increase (decrease) in shareholdings	Increase (decrease) in pledged shares	Increase (decrease) in shareholdings	Increase (decrease) in pledged shares
Chairman	Chen Chien-Liang	0	80,000	0	0
Director	Chen Mao-Chang	(87,000)	0	0	0
Director	Ren Tai Investment Co., Ltd.	75,000	0	0	0
Director representative	Yeh Sheng-Mao	0	0	10,000	0
Director	Huang Chao-Hsing	(20,000)	(170,000)	0	0
Director	Lai-Yu Hsiu-Min	(156,000)	0	0	0
Director	Shang-Jin Investment Co., Ltd.	0	0	0	0
Director representative	Chang Cheng-Liang	0	0	0	0
Director	Ren Tai Investment Co., Ltd.	75,000	0	0	0
Director representative	Wu Chun-Yi	0	0	0	0
Director	Ren Tai Investment Co., Ltd.	75,000	0	0	0
Director representative	Shih Chih-Hsun	0	0	0	0
Independent director	Huang Man-Sheng	0	0	0	0
Independent director	Lin Hao-Hsiung	0	0	0	0
Independent director	Wang Chia-Hsiang	0	0	0	0
Senior Vice President	Chen Hsien-Chung	(30,000)	0	0	0
Senior Vice President	Chin Yu-Chung	0	0	0	0
Senior Vice President	Hsieh Chin-Lung	0	0	0	0
Vice President	Wu Chang-Ming	(10,000)	0	0	0
Vice President	Chung Chin-Ling	(10,000)	0	0	0
Financial Accounting Manager	Chiang Chih-Ching	0	0	0	0

During the transfer of shares in which the counterparty is a related party: none.

During the pledge of shares in which the counterparty is a related party: none.

IX. Relationship among the Company's 10 Largest Shareholders as a Related Party, a Spouse or a Relative Within the Second Degree of Kinship:

April 10, 2022; Unit: Shares

Name	Shares held by the shareholder the time of election		Shareholding of spouses and minor children		Shareholdings under the name of others		Names and relationship of top 10 shareholders who are related parties, spouses or within second-degree of kinship to each other under Statements of Financial Accounting Standards - 6.		Remark
	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	No. of shares	Shareholdings ratio	Name (or name)	Relationship	
Zhengyuan Investment Co., Ltd.	6,707,000	3.63%	0	0.00%	0	0.00%	Huang, Zheng-Yuan	The company Representative	None
Zhengyuan Investment Co., Ltd. Representative: Huang, Zheng-Yuan	6,058,000	3.28%	15,000	0.01%	0	0.00%	Huang, Zheng-Yuan	The company Representative	None
Huang, Zheng-Yuan	6,058,000	3.28%	15,000	0.01%	0	0.00%	Zheng-Da Investment Co., Ltd. Spring Rainbow Construction Co. Ltd. Huang, Tsung-Yuan Huang Ling-Ju	Representative Representative Father and son Father and daughter	None
Huang, Ben-Ji	5,955,000	3.22%	0	0.00%	0	0.00%			None
Huang, Tsung-Yuan	4,268,000	2.31%	0	0.00%	0	0.00%	Huang, Zheng-Yuan	Father and son	None
China Life Insurance Company Limited	4,227,000	2.29%	0	0.00%	0	0.00%			None
China Life Insurance Company Limited Representative: Tan Shuo-Lun	0	0.00%	0	0.00%	0	0.00%			None
HSBC Bank (Taiwan) is entrusted with the custody of the Manulife Fund Unit Trust Investment Account	3,845,000	2.08%	0	0.00%	0	0.00%			None
Public Service Pension Fund Management Board	3,730,000	2.02%	0	0.00%	0	0.00%			None
Spring Rainbow Construction Co. Ltd.	3,585,000	1.94%	0	0.00%	0	0.00%	Huang, Zheng-Yuan	The company Representative	None
Spring Rainbow Construction Co. Ltd. Representative: Huang, Zheng-Yuan	6,058,000	3.28%	15,000	0.01%	0	0.00%	Huang, Zheng-Yuan	The company Representative	None
Kanghui Investment Co., Ltd.	3,410,000	1.84%	0	0.00%	0	0.00%			None
Kanghui Investment Co., Ltd. Representative: Huang Ling-Ju	607,000	0.33%	0	0.00%	0	0.00%	Huang, Zheng-Yuan	Father and daughter	None
JPMorgan Chase Bank, Taipei Branch is entrusted with the custody of Franklin Terra Firma Investment Fund - Terra Firma Asian Smaller Companies	3,247,000	1.76%	0	0.00%	0	0.00%			None

X.Total Number of Shares and Total Equity Stake Held in any Single Enterprise by the Company, its Directors, Managers, and any Companies Controlled Either Directly or Indirectly by the Company: none.

Chapter IV. Capital Overview

I. Capital and Shares

(1) Sources of capital

April 10, 2022 Unit: NT\$1,000; thousand shares

Month/ Year	Issue price	Authorized capital		Paid-in capital		Remarks		
		Shares (shares)	Amount (NTD)	Shares (shares)	Amount (NTD)	Sources of capital	Capital increase by assets other than cash	Other
Nov. 1996	10	36,000	360,000	23,000	230,000	Funding upon incorporation	—	Approved by Letter (85)-Shang No. 120384 dated Nov. 26, 1996.
Jun. 1998	10	36,000	360,000	36,000	360,000	Capital increase in cash by NT\$130,000,000	—	Approved by Letter (87)-Tai-Cai-Cheng-(I) No. 48087 dated Jun. 8, 1998.
Mar. 1999	20	60,000	600,000	50,400	504,000	Capital increase in cash by NT\$144,000,000	—	Approved by Letter (88)-Tai-Cai-Cheng-(I) No. 23291 dated Mar. 4, 1999.
Mar. 2000	40	100,000	1,000,000	70,000	700,000	Capital increase in cash by NT\$196,000,000	—	Approved by Letter (88)-Tai-Cai-Cheng-(I) No. 21449 dated Mar. 1, 2000.
Apr. 2001	10	100,000	1,000,000	77,900	779,000	Capitalization of earnings and employee bonuses in the amount of NT\$46,800,000 and capitalization of capital surplus in the amount of NT\$32,200,000.	—	Approved by Letter (90)-Tai-Cai-Cheng-(I) No. 117356 dated Apr. 4, 2001.
Sept. 2004	10	130,000	1,300,000	81,300	813,000	Capital increase through private placement by NT\$34,000,000	—	Approved by Letter Shou-Shang No. 09301184700 dated Sept. 29, 2004.
Mar. 2005	8	130,000	1,300,000	89,550	895,500	Capital increase through private placement by NT\$82,500,000	—	Approved by Letter Shou-Shang No. 09401035630 dated Mar. 10, 2005.
Jul. 2005	5	160,000	1,600,000	97,900	979,000	Capital increase through private placement by NT\$83,500,000	—	Approved by Letter Shou-Shang No. 09401119360 dated Jul. 5, 2005.
Aug. 2006	15.8 - 18.8	160,000	1,600,000	100,095	1,000,950	Conversion of stock options in the amount of NT\$21,950,000	—	Approved by Letter Shou-Shang No. 09501187760 dated Aug. 24, 2006.
Nov. 2006	15.8 - 18.8	160,000	1,600,000	100,624	1,006,240	Conversion of stock options in the amount of NT\$5,290,000	—	Approved by Letter Shou-Shang No. 09501269090 dated Nov. 30, 2006.
Mar. 2007	15.8 - 47.79	160,000	1,600,000	100,978	1,009,782	Conversion of corporate bonds into shares in the amount of NT\$272,000 and conversion of stock options in the amount of NT\$3,270,000.	—	Approved by Letter Shou-Shang No. 09601041660 dated Mar. 7, 2007.

Month/ Year	Issue price	Authorized capital		Paid-in capital		Remarks		
		Shares (shares)	Amount (NTD)	Shares (shares)	Amount (NTD)	Sources of capital	Capital increase by assets other than cash	Other
Jul. 2007	8.8 - 47.79	160,000	1,600,000	102,189	1,021,890	Conversion of corporate bonds into shares in the amount of NT\$628,000 and conversion of stock options in the amount of NT\$11,480,000.	—	Approved by Letter Shou-Shang No. 09601169190 dated Jul. 18, 2007.
Aug. 2007	8.8 - 47.79	160,000	1,600,000	102,711	1,027,110	Conversion of corporate bonds into shares in the amount of NT\$1,360,000 and conversion of stock options in the amount of NT\$3,860,000.	—	Approved by Letter Shou-Shang No. 09601197290 dated Aug. 28, 2007.
Oct. 2007	60.4	160,000	1,600,000	110,711	1,107,110	Capital increase in cash by NT\$80,000,000	—	Approved by Letter Jin-Guan-Cheng-I No. 0960045977 dated Sept. 4, 2007.
Nov. 2007	8.8 - 47.79	160,000	1,600,000	113,339	1,133,390	Conversion of corporate bonds into shares in the amount of NT\$23,770,000 and conversion of stock options in the amount of NT\$2,510,000.	—	Approved by Letter Shou-Shang No. 09601284190 dated Nov. 20, 2007.
Feb. 2008	15.8 - 47.79	160,000	1,600,000	114,126	1,141,257	Conversion of corporate bonds into shares in the amount of NT\$3,327,000 and conversion of stock options in the amount of NT\$4,540,000.	—	Approved by Letter Shou-Shang No. 09701047380 dated Feb. 27, 2008.
May 2008	8.8 - 38.23	160,000	1,600,000	114,754	1,147,544	Conversion of corporate bonds into shares in the amount of NT\$2,066,000 and conversion of stock options in the amount of NT\$4,220,000.	—	Approved by Letter Shou-Shang No. 09701117840 dated May 27, 2008.
Jul. 2008	8.8 - 38.23	160,000	1,600,000	115,228	1,152,276	Conversion of corporate bonds into shares in the amount of NT\$2,773,000 and conversion of stock options in the amount of NT\$1,960,000.	—	Approved by Letter Shou-Shang No. 09701190840 dated Jul. 31, 2008.
Sept. 2008	10	160,000	1,600,000	126,640	1,266,402	Capitalization of capital surplus in the amount of NT\$114,126,000.	—	Approved by Letter Shou-Shang No. 09701239430 dated Sept. 23, 2008.

Month/ Year	Issue price	Authorized capital		Paid-in capital		Remarks		
		Shares (shares)	Amount (NTD)	Shares (shares)	Amount (NTD)	Sources of capital	Capital increase by assets other than cash	Other
Nov. 2008	7.9 - 15.8	160,000	1,600,000	127,163	1,271,633	Conversion of corporate bonds into shares in the amount of NT\$3,871,000 and conversion of stock options in the amount of NT\$1,360,000.	—	Approved by Letter Shou-Shang No. 09701286020 dated Nov. 7, 2008.
May 2009	7.9	160,000	1,600,000	127,193	1,271,933	Conversion of stock options in the amount of NT\$300,000	—	Approved by Letter Shou-Shang No. 09801104360 dated May 27, 2009.
Nov. 2009	7.9 - 37.3	160,000	1,600,000	127,676	1,276,763	Conversion of stock options in the amount of NT\$4,830,000	—	Approved by Letter Shou-Shang No. 09801269440 dated Nov. 20, 2009.
Dec. 2009	58	160,000	1,600,000	137,676	1,376,763	Capital increase in cash by NT\$100,000,000	—	Approved by Letter Shou-Shang No. 09801296340 dated Dec. 28, 2009.
Feb. 2010	37.3 - 42.2	160,000	1,600,000	137,769	1,377,693	Conversion of stock options in the amount of NT\$930,000	—	Approved by Letter Shou-Shang No. 09901033230 dated Feb. 12, 2010.
May 2010	37.3 - 42.2	160,000	1,600,000	139,300	1,393,003	Conversion of stock options in the amount of NT\$15,310,000	—	Approved by Letter Shou-Shang No. 09901098690 dated May 14, 2010.
Aug. 2010	37.3 - 42.2	160,000	1,600,000	139,904	1,399,043	Conversion of stock options in the amount of NT\$6,040,000	—	Approved by Letter Shou-Shang No. 09901187730 dated Aug. 17, 2010.
Sept. 2010	10 - 42.2	260,000	2,600,000	175,094	1,750,937	Capitalization of earnings in the amount of NT\$209,612,000, capitalization of capital surplus in the amount of NT\$139,741,000 and conversion of stock options into shares in the amount of NT\$2,540,000.	—	Approved by Letter Shou-Shang No. 09901203130 dated Sept. 7, 2010.
Nov. 2010	29.5 - 33.7	260,000	2,600,000	175,396	1,753,957	Conversion of stock options in the amount of NT\$3,020,000	—	Approved by Letter Shou-Shang No. 09901259200 dated Nov. 26, 2010.
Mar. 2011	29.5 - 33.7	260,000	2,600,000	175,588	1,755,877	Conversion of stock options in the amount of NT\$1,920,000	—	Approved by Letter Shou-Shang No. 10001036510 dated Mar. 7, 2011.
May 2011	29.5 - 33.7	260,000	2,600,000	177,190	1,771,897	Conversion of stock options in the amount of NT\$16,020,000	—	Approved by Letter Shou-Shang No. 10001105480 dated May 24, 2011.
Jul. 2011	29.5 - 33.7	260,000	2,600,000	178,076	1,780,757	Conversion of stock options in the amount of NT\$8,860,000	—	Approved by Letter Shou-Shang No. 10001160040 dated Jul. 19, 2011.

Month/ Year	Issue price	Authorized capital		Paid-in capital		Remarks		
		Shares (shares)	Amount (NTD)	Shares (shares)	Amount (NTD)	Sources of capital	Capital increase by assets other than cash	Other
Aug. 2011	10	260,000	2,600,000	222,595	2,225,946	Capitalization of earnings in the amount of NT\$267,113,000 and capitalization of capital surplus in the amount of NT\$178,076,000.	—	Approved by Letter Shou-Shang No. 10001180530 dated Aug. 8, 2011.
Nov. 2011	26.9	260,000	2,600,000	222,604	2,226,036	Conversion of stock options in the amount of NT\$90,000	—	Approved by Letter Shou-Shang No. 10001271100 dated Nov. 28, 2011.
May 2012	24.5 - 26.9	260,000	2,600,000	222,925	2,229,246	Conversion of stock options in the amount of NT\$3,210,000	—	Approved by Letter Shou-Shang No. 10101087470 dated May 17, 2012.
Jul. 2012	24.5 - 26.9	260,000	2,600,000	223,427	2,234,266	Conversion of stock options in the amount of NT\$5,020,000	—	Approved by Letter Shou-Shang No. 10101138410 dated Jul. 13, 2012.
Aug. 2012	10	260,000	2,600,000	245,769	2,457,692	Capitalization of capital surplus in the amount of NT\$223,427,000.	—	Approved by Letter Shou-Shang No. 10101161930 dated Aug. 9, 2012.
Nov. 2012	20.5 - 23.4	260,000	2,600,000	245,874	2,458,742	Conversion of stock options in the amount of NT\$1,050,000	—	Approved by Letter Shou-Shang No. 10101230800 dated Nov. 7, 2012.
Feb. 2013	20.5 - 23.4	260,000	2,600,000	246,541	2,465,412	Conversion of stock options in the amount of NT\$6,670,000	—	Approved by Letter Shou-Shang No. 10201028180 dated Feb. 8, 2013.
2017	10	260,000	2,600,000	184,906	1,849,059	Refund of payment of shares in the amount of NT\$616,353,000 due to capital reduction in cash.	—	Approved by Letter Shou-Shang No. 10501198760 Aug. 24, 2016.

April 10, 2022; Unit: Shares

Share type	Authorized capital			Remarks
	Issued shares	Unissued shares	Total	
Ordinary shares	184,905,918	75,094,082	260,000,000	Shares of publicly listed company

Relevant information on shelf registration: None.

(2) Shareholder structure:

April 10, 2022

Shareholder structure Item	Government agencies	Financial institutions	Other institutional shareholders	Domestic natural persons	Foreign institutions and natural persons	Total
Number of shareholders	7	69	255	32,408	185	32,924
Shareholding (shares)	9,575,254	24,640,877	20,168,161	89,860,527	40,661,099	184,905,918
Percentage (%)	5.18%	13.33%	10.91%	48.60%	21.99%	100.00%

Note: The ownership of the Company's shares by Chinese-funded entities is 0%.

(3) Shareholding distribution status:

NT\$10 per share April 10, 2022

Scale of shareholdings	Number of shareholders	Shareholding (shares)	Percentage (%)
1 to 999	18,697	1,288,036	0.70%
1000 to 5,000	12,146	21,843,038	11.81%
5,001 to 10,000	1,094	8,458,279	4.57%
10,001 to 15,000	302	3,827,321	2.07%
15,001 to 20,000	171	3,146,071	1.70%
20,001 to 30,000	143	3,613,737	1.95%
30,001 to 40,000	56	1,960,966	1.06%
40,001 to 50,000	52	2,423,859	1.31%
50,001 to 100,000	91	6,430,152	3.48%
100,001 to 200,000	59	8,385,988	4.54%
200,001 to 400,000	39	11,174,960	6.04%
400,001 to 600,000	21	10,540,891	5.70%
600,001 to 800,000	14	9,893,256	5.35%
800,001 to 1,000,000	6	5,691,571	3.08%
1,000,001 to 999,999,999	33	86,227,793	46.63%
1,000,000,000 or more	0	0	0.00%
Total	32,924	184,905,918	100.00%

(4) List of major shareholders:

April 10, 2022

Shareholder's name	Shareholding (shares)	Shareholding (shares)	Percentage (%) (%)
Zhengyuan Investment Co., Ltd.		6,707,000	3.63%
Huang, Zheng-Yuan		6,058,000	3.28%
Huang, Ben-Ji		5,955,000	3.22%
Huang, Tsung-Yuan		4,268,000	2.31%
China Life Insurance Company Limited		4,227,000	2.29%
HSBC Bank (Taiwan) is entrusted with the custody of the Manulife Fund Unit Trust Investment Account		3,845,000	2.08%
Public Service Pension Fund Management Board		3,730,000	2.02%
Spring Rainbow Construction Co. Ltd.		3,585,000	1.94%
Kanghui Investment Co., Ltd.		3,410,000	1.84%
JPMorgan Chase Bank, Taipei Branch is entrusted with the custody of Franklin Terra Firma Investment Fund - Terra Firma Asian Smaller Companies		3,247,000	1.76%

- (5) Share prices for the past two fiscal years, with market price per share, company net worth per share, earnings per share and dividends per share.

Unit: NT\$1,000

Item		Year	2020	2021	Current year as of March 31, 2022
		Market price per share (Note 1)	Highest	125.00	162.50
	Lowest	60.80	89.60	108.50	
	Average	91.06	124.33	122.36	
Net worth per share (Note 2)	Before distribution	15.69	17.73	18.90	
	After distribution	15.69	17.73	—	
Market price per share	Weighted average shares (thousand shares) (before distribution)		184,905	184,905	184,906
	Weighted average shares (thousand shares) (after distribution)		186,150	185,873	186,274
	Earnings per share (before distribution)(Note 3)		2.88	4.62	1.18
	Earnings per share (after distribution)		2.86	4.60	1.17
Market price per share	Cash dividends		2.59	4.00	—
	Stock dividends	Dividends from retained earnings	0.00	0.00	—
		Dividends from capital surplus (thousand shares)	0.00	0.00	—
	Accumulated undistributed dividends (Note 4)		0.00	0.00	—
Return on investment	Price/earnings ratio (Note 5)		31.62	26.91	—
	Price/dividends ratio (Note 6)		35.16	31.08	—
	Cash dividends yield rate (Note 7)		0.03	0.03	—

Note 1: The highest and lowest market prices of ordinary shares in each year are listed and the average market price in each year is calculated based on the transaction value and volume in each year.

Note 2: The number of issued shares at the end of the year shall prevail and fill in the data according to the resolution adopted by the Board of Directors or the shareholders' meeting in the following year.

Note 3: If retrospective adjustment is required due to stock dividends, the earnings per share before and after adjustment shall be listed.

Note 4: If the criteria for the issuance of equity securities stipulate that the undistributed dividends in the year may be accumulated and distributed in the year with there is surplus, the cumulative undistributed dividends up to the current year shall be disclosed additionally.

Note 5: Price/earnings ratio = Average closing price per share for the year/Earnings per share.

Note 6: Price/dividend ratio = Average closing price per share for the year/Cash dividend per share.

Note 7: Cash dividends yield = Cash dividends per share/Average closing price per share for the current fiscal year.

Note 8: The net worth per share and earnings per share shall be entered based on the information audited (reviewed) by the CPAs in the most recent quarter up to the publication date of the annual report; other fields shall be entered based on the information in the current year up to the publication date of the annual report.

(6) Company's dividends policy and implementation thereof:

1. Dividend policy

If there is a net income after tax in the current period based on the annual financial statements, the Company shall compensate the cumulative deficit first and then set aside 10% of the balance as a legal reserve in accordance with the law unless the legal reserve has reached the amount of the Company's total paid-in capital. After the Company has appropriated or reversed a special reserve in accordance with the law or the regulations of the competent authority, the Board of Directors shall draw up a distribution proposal based on the balance along with the cumulative undistributed earnings from the previous years and submit it to the shareholders' meeting for resolution.

The Company's current development is in the growth stage in the industry and will have plans to expand production and require funds in the next few years. To stabilize our position in the market, the Company, based on the long-term capital needs and continuous expansion of capital scale, will adjust and distribute dividends according to the profitability, to maintain the steady growth of earnings per share. Cash dividends shall not be less than 10% of the dividends distributed to shareholders in the year. Regarding the actual percentage, the Board of Directors is authorized to draw up a distribution proposal based on the Company's capital condition and capital budget and submit it to the shareholders' meeting for approval.

2. The proposed dividend distribution at this shareholders' meeting: The earnings distribution proposal for 2021 was drawn up by the Board of Directors on March 10, 2022, as shown in the table below. This proposal will proceed per the relevant regulations after the resolution is adopted by the annual general meeting of shareholders on June 8, 2022.

Unit: NT\$1,000

Item	Amount
Undistributed earnings at the beginning of the period	\$ 1,601,193
Plus: Adjusted retained earnings for 2021	20,949
Undistributed earnings after adjustment	\$ 1,622,142
Plus: Profit and loss for 2021	855,081,302
Less: Provision for legal reserve	85,510,225
Distributable earnings	\$ 771,193,219
Distribution	
Shareholder dividends - cash (NT\$4.00 per share)	\$ 739,623,672
Undistributed earnings at the end of the period	\$ 31,569,547

3. To consider the Company's share capital structure, the Company pays out cash dividends in principle and the amount shall not be lower than 50% of the earnings after tax in the year. For the actual percentage for distribution, the Board of Directors shall be authorized to draw up a distribution proposal based on the

Company's capital and capital budget and submit it to the shareholders' meeting for approval.

(7) The impact of the stock dividends proposed at the shareholders' meeting on the Company's operating performance and earnings per share: Not applicable.

(8) Employee compensation and directors' remuneration:

1. The percentage or scope of employee compensation and directors' remuneration as specified in the Company's Articles of Incorporated:

If the Company makes a profit for the year, it shall allocate 5% to 15% of the profit as employee compensation and no more than 3% as directors' remuneration. However, when the Company still has cumulative deficit, it shall reserve an amount to compensate it first and then appropriate amounts as employee compensation and directors' remuneration in accordance with the aforementioned percentages.

Employee compensation is decided by the Board of Directors to be paid in stock or cash via resolution and the recipients may include employees of subsidiaries who meet certain criteria.

Employee compensation and directors' remuneration distribution proposal shall be submitted to the shareholders' meeting for reporting.

2. The basis for estimating employee compensation and directors' remuneration in the current period, the basis for calculating the number of shares for employee compensation distributed by stock and the accounting treatment when the amount of the actual distribution is different from the estimated amount:

A. The Company estimated the amounts of employee compensation and directors' remuneration in accordance with the dividend policy as specified in the Company's Articles of Incorporation.

B. In 2021, the basis for estimating employee compensation and directors' remuneration is the pre-tax income multiplied by 12% for employee compensation and by 3% for directors' remuneration. In 2021, no employee compensation was distributed in stock.

C. If the amount of the actual distribution approved by the shareholders' meeting is different from the estimated amount, it will be regarded as a change in accounting estimate and accounted for as profit or loss for 2022.

3. Distribution approved by the Board of Directors:

A. The amounts of employee compensation and directors' remuneration distributed in cash or stock: the proposed employee compensation to be distributed is NT\$148,613,189 in cash and NT\$0 in stock and directors' remuneration to be distributed is NT\$37,153,297 in cash.

B. The amount of any employee compensation distributed in stock, and the size of that amount as a percentage of the sum of the net income after tax stated in the parent company only or individual financial reports for the current period and total employee compensation: none.

4. The actual distribution of employee compensation and directors' and supervisors'

remuneration for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed) and if there is any discrepancy between the actual distribution and the employee compensation and directors' and supervisors' remuneration recognized, the discrepancy, cause and how it is treated shall be disclosed: The Company distributed employee compensation in cash in the amount of NT\$58,184,555 and directors' remuneration \$21,819,208 for 2020; the amounts are not different from those recognized.

(9) Share Repurchases: None.

II. Corporate Bonds: None.

III. Preferred Shares: None.

IV. Global Depository Shares: None.

V. Employee Stock Options: None.

New Restricted Employee Shares: None.

VI. Issuance of New Shares in Connection with Mergers or Acquisitions or with Acquisitions of Shares of Other Companies: None.

VII. Implementation of the Company's Capital Allocation Plans: None.

Chapter V. Operating Highlights

1. Business Activities

(1) Business Scope

1. Main business activities

- (1) CC01080 Electronics Components Manufacturing
- (2) F119010 Wholesale of Electronic Materials
- (3) ZZ99999 All business activities that are not prohibited or restricted by law, except those that are subject to special approval is not allowed.

2. Percentage out of the Company's business lines

Unit: NTD thousand; %

Product lines	2020		2021	
	Operating revenue	Business ratio (%)	Operating revenue	Business ratio (%)
Revenue from homemade products	2,643,035	99.93%	3,606,374	99.94%
Others	1,968	0.07%	2,147	0.06%
Total	2,645,003	100.00%	3,608,521	100.00%

3. The Company's current products and services

- A. HBT epi wafer
- B. PHEMT epi wafer
- C. InP HBT epi wafer
- D. HBT+PHEMT (BiHEMT) epi wafer
- E. PD/APD epi wafer (wave length 650nm~1700nm/1900nm~2600nm)
- F. 2.5G FP/DFB LD epi wafer; 10G FP/DFB LD epi wafer
- G. EEL/VCSEL epi wafer
- H. High-power FP/DFB LD
- I. Multi-junction solar cell epi wafer

4. New products and services planned to be developed

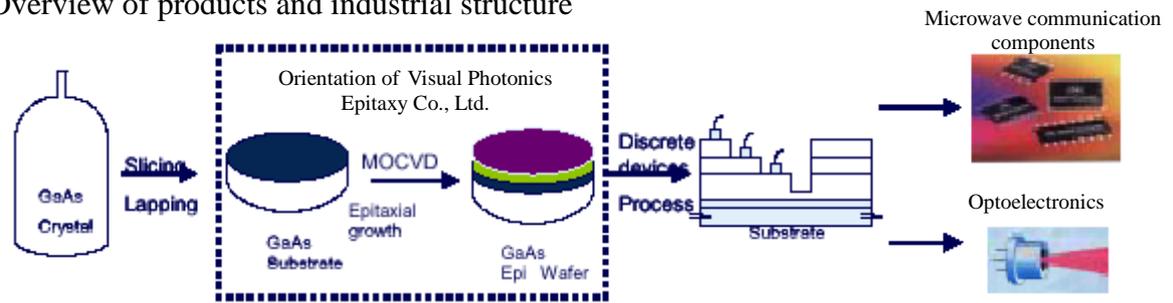
- (1) Microelectronic products: GaAs HBT/InP HBT/GaAs PHEMT/GaN on SiC/GaN on Si/GaN on Sapphire applied to PA of 5G mobile phones and Infrastructure (Base Station and Small Cell) PA.
- (2) Photoelectronic products:
 - A. PD: 25G APD, 50G PD, 1.9-2.6 μ m long wavelength PD.
 - B. LD: Application of GaAs and InP FP/DFB LD for High Power, High Speed and LiDAR.
 - C. VCSEL: iTOF/dTOF, Multi-Junction VCSEL, long-wavelength VCSEL.

5. Expenditures expected to be invested in future R&D: the expenditure expected to be invested in the R&D is NT\$300,000 thousand in 2022.

(2) Overview of the Industry

I. Current condition and development of the industry

(1) Overview of products and industrial structure



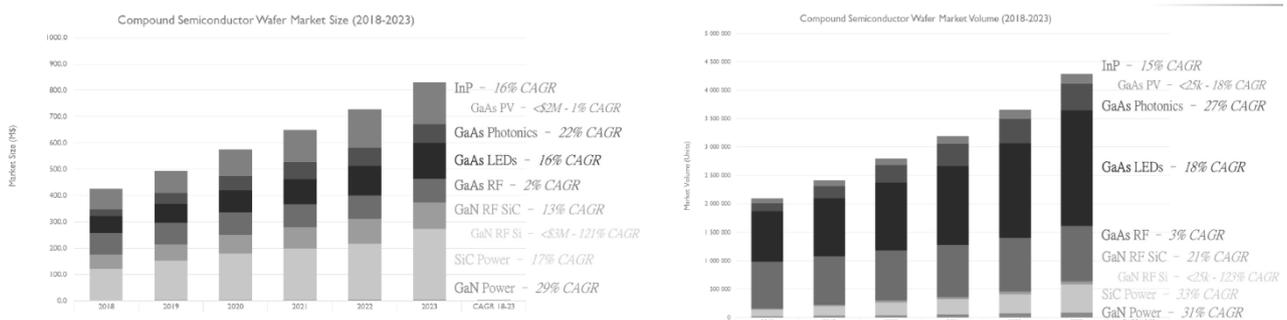
Source: Visual Photonics Epitaxy Co., Ltd.

① Overview of products

The Company, VPEC, is the metal organic chemical vapor deposition (MOCVD) technology-based company specializing in the production of III-V compound semiconductor wafers. What we called semiconductor is a material with electrical conductivity due to electron flow (as opposed to ionic conductivity) intermediate in magnitude between that of a conductor and an insulator. It is characterized by adding different impurities can be appropriate to change the material properties (what we called doping) and get major changes by applications of heat and light.

Because the III-V compound semiconductor possesses the advantages of high frequency, low noise, natural radiation resistance, good energy efficiency, energy level and electronic movement with adjustable speed, it has been developed as the key component of wireless communications, optical communication, optical sensors, solar cells and light in the recent years. The Company's main products are categorized into Microelectronics and Photonics.

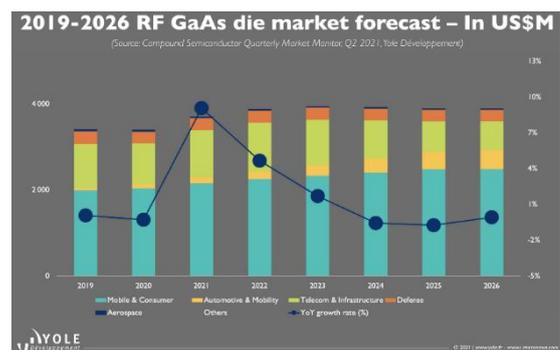
The forecast provided by Yole about the market scale and production volume growth of III-V compound semiconductor is stated in the following Figures.



Source: Yole

Microelectronics:

The Company's microelectronics are primarily applied to the wireless communication RF field to provide GaAs and GaN wafers. Among the other things, GaAs is primarily applied to mobile phones, communications and infrastructure, while GaN is primarily applied to communications, infrastructure and national defense. The RF market scale applying GaAs is forecast as shown in the following Figure.



a. HBT (Heterojunction Bipolar Transistors)

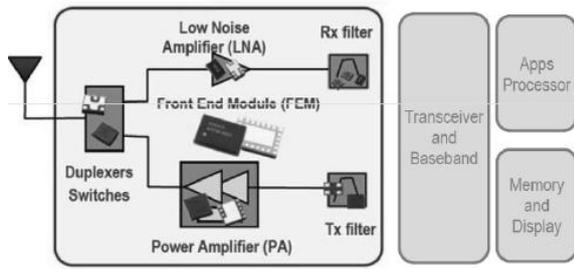
Because of the physical characteristics of HBT such as high linearity, good broadband response, high breakdown voltage, high gain, high efficiency, low parasitic effects, design without negative bias and low phase noise, etc., the HBT functions deliver good power magnification, low standby current consumption, small size and other advantages. Therefore, HBT has become the mainstream technology of mobile phones and wireless local area network (WLAN) power amplifier (Power Amplifiers, PA) markets. Above all, 5G PA must satisfy the envelop-tracking mode (ET) Saturated Efficiency and average-power tracking mode (APT) Linearity Efficiency at the same time. The Gain and Power Output may be improved through the HBT structure. Given this, HBT becomes indispensable and irreplaceable in the 5G era.

b. PHEMT (Pseudo-morphic Heterostructure Field Effect Transistors)

Because InGaAs joins PHEMT, it is especially suitable for the application of RF Switch on the computer. Therefore, its application to WLAN between computers, fixed long-distance wireless transmission to WLL and even fiber optic communications, satellite communications, point to point microwave communications, satellite broadcasting, cable TV, digital TV applications, automobile radar and vehicle collision avoidance systems and other applications have been considerable room for growth. Notwithstanding, the application of PHEMT in the RF switch has been affected by the SOI technology increasingly; therefore, it is no longer the only choice for switch. The mobile phones require the higher standards on low noise, in consideration of the LNA (Low Noise Amplifier). Given the higher mobility, PHEMT is more likely to help satisfy the low noise requirements. GaAs PHEMT can better satisfy the Linearity requirements. Meanwhile, in consideration of its small size, it has become an alternate for LNA, in addition to Silicon. If PHEMT is adopted as the material applied to the base station PA and WiFi Switch and LNA, the Company will also work with different customers to plan product development and mass production.

c. BiHEMT

By virtue of the circuit design and the epitaxial growth and process, the InGaP HBT linear power amplifier, AlGaAs PHEMT high-frequency switching, AlGaAs PHEMT logic control circuit, AlGaAs PHEMT low-noise amplifier, passive components and their connections are integrated into a single GaAs integrated circuit chip. As chip integration can be improved and thereby reduce the die size, cut packaging costs and reduce the costs of materials significantly. Also, because the internal components are all GaAs-based ones, they can help save some bias and control circuit and save more power. BiHEMT structure may also provide design flexibility for the circuit designers. Each unit of its internal components can choose different structures to deliver better properties.

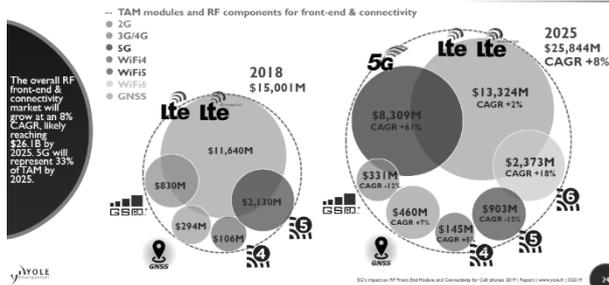


Source: Yole

Fig.

RF FRONT-END & CONNECTIVITY MARKET - FORECAST

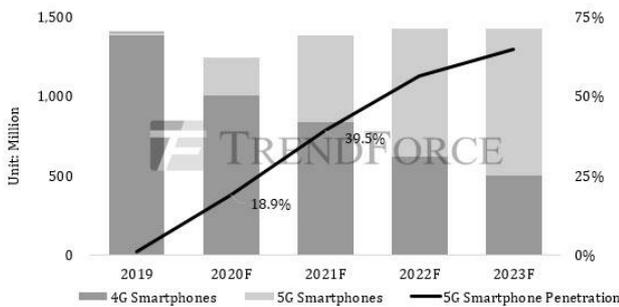
By air standard



Source: Yole

Fig.

Figure 1: Global Smartphone Production Forecast, 2019-2023



Source: TrendForce, Jul. 2020

Source: TrendForce

Fig. 3

Said three products refer to the main materials for the PA, Switch and LNA of the RFFront-End Module (RF FEM) (see Fig. 1) . According to Yole’s forecast, in the future, the growth of microelectronics will be driven primarily by the increasing penetration rate of 5G mobile phones and WiFi6/6e, as shown in Fig. 2. Further, the RF1 (Frequency range 1, Sub-7GHz) of 5G corresponds to n77, n78 and n79 (Ultra High Band, UHB). These new frequency ranges require additional PAs, thus increasing the areas occupied by the GaAs epi wafer more than those for traditional 4G mobile phones by about 20%~30%. Further, 5G and WiFi6/6e result in the high integration of components and frequency ranges in the RF Front-End Module, thereby increasing the complexity of the structure. According to the forecast by Trendforce, 5G mobile phones will deliver about 60% penetration rate in 2022, as shown in Fig. 3.

IoT will be the application for the largest number of wireless communication modules, including the Internet of Vehicles, smart home, smart medical care, smart city, etc. Whenever the communication method it has adopted requires the specific power, distance and higher frequency ranges, it may be equipped with wireless communication modules, rather than SoC integrated with the RF function. According to the forecast by Ericsson IoT connections outlook, the number of connections with the IoT will increase from 14.6 billion in 2021 to more than 30.2 billion in 2027. Among the other things, those adopting the Cellular technologies, including 2G, 3G, 4G, 5G, NB-IoT and Cat-M will increase from 1.9 billion to 5.5 billion at the same time.

d. GaN

In consideration of the characteristics, such as high frequency and high power, GaN makes GaN PA products outperform the traditional LDMOS or GaAs PA in the characteristics including power density, bandwidth, gains, reliability, small size and high temperature resistance. Therefore, GaN would deliver more advantages when it is applied to the fields of 5G base station antenna array and Small Cell PA. The Company has used its best effort to invest in the R&D of relevant samples. For the time being, GaN PA is mostly based on GaN on SiC structure and, therefore, is primarily applied to 5G base stations. Notwithstanding, given the higher unit price and limited supplies of SiC substrates, many manufacturers are also engaging in development of the technologies for different substrates, such as GaN on Si and GaN on Sapphire. Therefore, it is easier to acquire substrates at lower price. The target market is related to the application of Small Cell. The Company is also striving to invest in the R&D of relevant samples, develop different GaN PA epitaxial structures to be applied to the GaN epitaxial technology platforms varying based on frequency and power.

Due to the fact that the frequency ranges adopted by the 5G communication technology are becoming higher and higher, the short wavelength causes the distance of signal transmission to become shorter and be disrupted by obstacles more easily. To correct the shortcoming, the Company aims to achieve the integrity of signal transmissions by constructing the Small Cell. GaN PA may support the high transmission capacity and broadband required by 5G mmWave and, therefore, can be applied to 5G base stations and Small Cell.

Photonics:

Photonics applies the characteristics about the exchangeability of semiconductor light energy and electrical energy. For the time being, optical fiber is known as the one with the most rapid speed among the known transmission media, as it has the strengths, such as mass communication capacity, long transmission distance, anti-electromagnetic interference, low transmission loss, low signal crosstalk, light weight and better confidentiality. It is the best choice to achieve light-speed transmission. Based on the principles for optical communications, the audiovisual work or data signals go through modulation before they are transmitted and then the electrical signals are converted into optical signals through the Transmitter and transmitted in the optical fiber network and the optical signals are restored back to the electrical signals through the Receiver, eventually re-presenting the original audiovisual work or data through modulation again and completing the optical communications process. The optical communications are primarily applied to the telecommunication base stations, optical fiber networks and data centers. According to the forecast by Market Study Report, the output value of the optical communication network equipment market will increase from US\$13.65 billion in 2020 to US\$23.57 billion in 2028, namely, CAGR 7.06%.

The Company has engaged in the business of optoelectronics for many years. Many new products of the Company are under mass production after having passed customers' certification. Due to the growing industry and customers' demand, the increase in the percentage of operating revenue from optoelectronics results in the structural adjustment for optimization of product portfolio,

thus benefiting mitigation of the business risk, avoidance of excess reliance on the mobile phone market and improvement of earnings.

The Company's photonics primarily comprise of the following items. Meanwhile, the related industrial scale and growth are also stated as following:

a. Photo Detector (PD)

The Company's PD and APD photodetectors require wavelength ranges that vary depending on the application fields. Optical fiber communications, consumer sensors and LiDAR (Light detection and ranging) apply 650nm~1700nm, while 1900nm~2600nm is applied to the SWIR (short-wave infrared) niche sensors. Based on the basic principles of PD: (1) the light incident to the semiconductor generates electron holes; (2) the electron holes keep increasing gains and transmissions to generate the current; (3) the inter-operability of the current and internal electronic circuits generates the output signals. Generally, it requires the operating wavelength with high sensitivity, high response speed, high reliability and low noise. APD applies the avalanche multiplication effect based on PIN to amplify the photocurrent received by it and thereby improve the detection sensitivity.

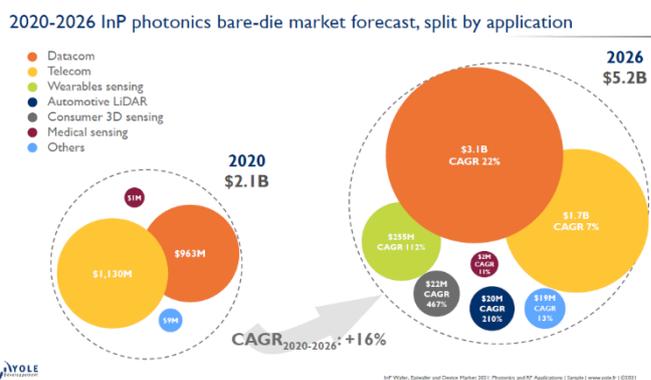
b. Laser Diode (LD)

It is primarily applied to the 1270nm, 1310nm & 1550nm Laser Diode at the Transmitter. It adopts the far field angle design to improve power, reduce the lens and packaging costs at the customer end and improve the yield rate.

The FP-type laser adopts the double heterostructure. The active layer thereof forms a waveguide layer automatically. When the electron holes are combined and emit light, resonance will be generated in the mirrors at both sides, thus amplifying the feedback amplification and generating the laser light. Notwithstanding, since the length of the laser resonant cavity is more than the wavelength of light, multiple modes are permitted to exist at the same time finally. Notwithstanding, when the laser is output under multi-modes, the long-distance transmission will cause the signals to be deformed and distorted due to the dispersion effect. Therefore, the application of FP-type laser is limited, as it is applicable to the medium-distance high-speed transmission only. For example, FP-type laser is only applicable to EPON, while the DFB-type laser is only applicable to GPON.

The DFB-type laser is designed in the grating raster area above the gain area of the FP-type laser, in order to select a specific wavelength to generate feedback and form a stable single-mode output, thus effectively mitigating the chances of signal deformation caused by the dispersion effect in the process of the high-speed transmission of light, maintaining specific signal-to-noise ratio and providing better optical coupling and lower threshold current density by means of the better grating design.

PD and LD are primarily made of InP materials, applied to Telcom, Datacom, consumer

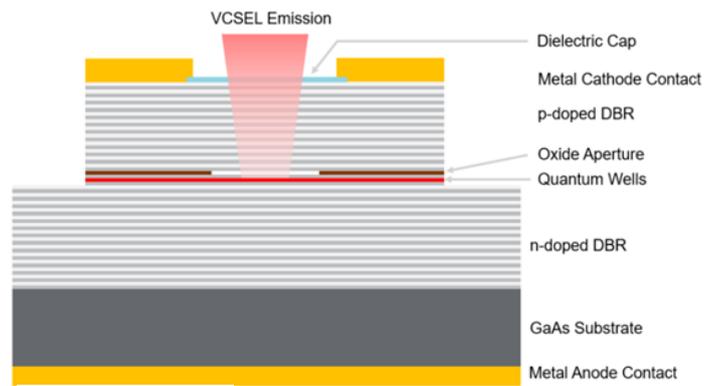


sensors and LiDAR, etc. According to the forecast by Yole, the output value for various applications from 2020 to 2026 is stated in the right figure.

c. VCSEL

VCSEL (Vertical Cavity Surface Emitting Lasers): Due to the improvement of mirror design and crystal growth, gain structure and electric field and trapped light manufacturing technology, the application of VCSEL is expected to be more promising and valuable commercially.

VCSEL is one of the light sources for optical communications and also type of laser. Different from the traditional laser, that emits light from the side face, VCSEL laser resonant cavity is situated between epitaxial layers. The beam is emitted from the vertical side on the epitaxial layer, primarily consisting of the resonant cavity formed by the quantum wells and two sets of high-reflection multilayer films



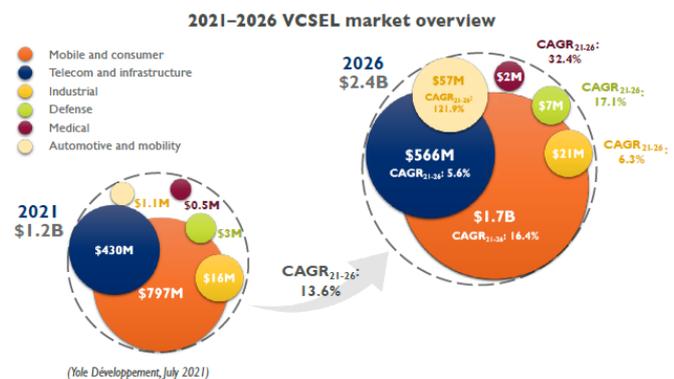
Source: OSRAM

at the upper and lower sides. The two sets of high-reflection multilayer films refer to the DBR (distributed Bragg reflector). The DBR consists of two materials with different refractive indices that are repeatedly stacked, with the thickness precisely controlled as a quarter of the central wavelength, enabling the light waves to produce constructive interference in the center so as to achieve the maximum reflection coefficient and then emit the single-mode laser light. The structural drawing is shown as above.

VCSEL wafer used to adopt the single-layer structure and a single-hole luminous efficacy was generally 5~10mW. In the recent years, the multi-junction technology has been developed in order to amplify the luminous efficacy and the single-hole luminous efficacy became over 30mW therefor. The epitaxial structure design enables light waves to be reflected and gathered in the multi-layer structure. As a result, under the same input current, it may amplify the luminous efficacy, cut power consumption, reduce the areas occupied by wafer, simplify the optical design and system structure and also facilitate the high-power applications of VCSEL, e.g., LiDAR and industrial machine vision, etc.

Compared to the traditional laser, VCSEL delivers the following strengths:

- Narrow linewidth, easy coupling of conical laser beam with optical fiber
- Fast modulation at a low current level and applicable to the high-speed transmission.
- Single-mode output
- Low driving current
- High output power
- The feature of light emission from the front may be designed as 1D or 2D Arrays.

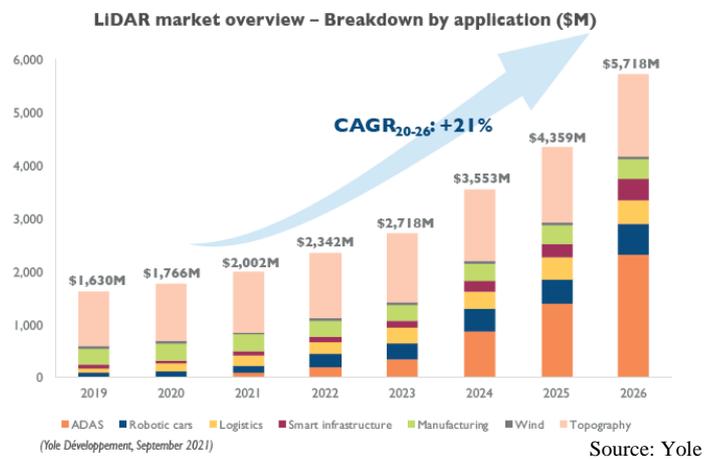


● The wafer may be tested before packaging to cut the costs significantly.

The applications may be categorized into two major ones. The output value of each type is stated in the right figure:

- High Power applications (e.g., consumer electronics 3D Sensing, in-vehicle, safety monitoring and medical beauty care, etc.)
- High Speed applications (25G for Data Center and short-distance optical transceiver module products).

Given the stricter requirements for car safety and automation, the in-vehicle sensors tend to be applied based on diversified and complementary programs. Therefore, cameras, ultrasonic radar, millimeter-wave radar and LiDAR will have the chance to coexist with each other in the advanced driver assistance systems (ADAS) at the same time. Among the other things, LiDAR adopts the Laser and Photo Detector as the sources of light emission and detector components and makes it become the most rapid and precise sensor solution for detection of long-distance objects. However, in consideration of the high cost and stricter memories and computing power specifications, LiDAR is mostly installed in ADAS Level 3 and above and also high unit price car models. Following the increasing penetration rate, the overall demand quantity will increase accordingly, thus helping cut the LiDAR costs step by step and driving more applications (personal cars, self-driving cars and robots in unmanned factories, etc.)



For the time being, multiple car makers, including Audi, Benz, BMW, XPeng Motors and NIO, have launched the car models equipped with LiDAR. The self-driving car makers include Waymo and Cruise, *et al.* The industry covers logistics and taxi business. According to Yole’s report (see the right figure), the automotive applications will be the largest source to drive the growth of the LiDAR market in the future, including ADAS and self-driving cars.

② Industrial structure

Overview of investments by domestic/foreign manufacturers in the field of compound semiconductor

By industry	Domestic manufacturer	Foreign manufacturer
Epitaxy	VPEC, IQE TAIWAN CORPORATION (consolidated into IQE), and LandMark Optoelectronics Corporation, etc.	IQE · InteliEpi, Picogiga (Soitec) and Sumika, etc.
Foundry	WIN Semiconductors, Advanced Wireless Semiconductor, and Wavetek Microelectronics Corporation, etc.	GCS, San’an Optoelectronics Co., Ltd. (Xiamen) and Unicompound Semiconduct, etc.
IDM	Transcom, and Hexawave, etc.	Skyworks, Qorvo and Broadcom, etc.

Among the compound semiconductors, GaAs is applied to communications

products most extensively, especially the RF module on the mobile phone, WiFi and key components of communication base station. From the upstream Epitaxy, mid-stream Foundry and IDM, considerable capital are attracted and invested. Said table shows the investments by domestic/foreign manufacturers in the field of compound semiconductor.

2. Relations with industries upstream, mid-stream and downstream

The production process for a GaAs IC consists of crystal pulling (manufacturing of substrate), epitaxial growth, then production of IC, and finally packaging and testing. Then, a compound semiconductor IC is completed.

The major difference between compound semiconductors and elemental (silicon) semiconductors resides in that the epitaxial growth of compound semiconductors is more complicated and thereby forms the single epitaxial business, while the epitaxial growth steps for silicon are usually carried out in wafer fabs. During the epitaxial growth, certain materials will be put on the GaAs wafer, such as AlGaAs, InGaP, etc., subject to the different intended uses of the products, in order to meet the requirements for electrical characteristics of components from the customer end through doping and structural adjustment. Considering that the component characteristics are decided the epitaxial growth stage mostly, epitaxy forms a very important part of the supply chain, critical to the yield rate, characteristics and quality of the customers' products.

3. Product development trends and competition status

①Product development trends

Microelectronic epi wafer

In order to deal with the requirements about product reliability and improved component integration functionality, the HBT technology has evolved from AlGaAs HBT to InGaP HBT. Similarly, PHEMT also evolved from PHEMT to E/D Mode PHEMT. For the time being, the new technology, BiFET/BiHEMT, combining HBT and PHEMT emerges in order to improve the integration of GaAs component circuits, reduce the spaces occupied by the circuit, increase functions, and simplify the component items in the customers' BOM to cut the costs of materials, manufacturing and packaging of finished goods, and also provide mobile communication device manufacturers with larger design spaces and flexibility and help save power consumption. The Company outperforms the others in the same industry in the field of such products. So far, the Company has implemented design-win from multiple customers.

In addition to GaAs, the Company is also striving to present the sample of GaN applied to communications products. Per the customers' need, the Company provides the epitaxy designs with different substrates, including GaN on SiC, GaN on Si and GaN on Sapphire, etc, which are under mass products after passing the certification by customers.

Optoelectronics epi wafer

In order to deal with the construction of 4G and 5G base stations, optical fiber networks and data centers, the Company's demand for PIN Diode has grown significantly. The PIN Diode refers to the materials for PIN Photo Detector, which is primarily applied to the receiving end in the optical fiber communications, where the received optical signals are

restored to the electrical signals to complete the communications after the signals are computed and decoded through the network processor.

The Company continues to launch new products (new Photo Detector & APD) in response to the R&D planning and progress of the major customers' epitaxy structure material choices, and also expands the optoelectronic product profile by launching the FP-LD and DFB-LD applied to the Transmitter, LD and PD applied to LiDAR sensing components, and VCSEL applied for High Power and High Speed.

② Competition status

Microelectronics

The Company's main product refers to the HBT epi wafer. Its foreign competitors include the UK-based company, IQE (which acquired the MOCVD department of Kopin in January 2013) and the Japan-based company, Hitachi Cable, primarily. Its domestic competitors include IQE TAIWAN CORPORATION (formerly a Taiwan subsidiary of the US-based company, Kopin and then consolidated into IQE Group through the IQE M&A transaction).

Optoelectronics

The Company's optoelectronic products adopt MOCVD to produce epitaxial layers. The foreign competitors include the UK-based company, IQE, primarily. The domestic competitor is LandMark Optoelectronics Corporation.

(3) Technology and research and development summary

(1) Invested research costs each year for the last 5 years

Unit: NTD thousand

Item \ Year	2017	2018	2019	2020	2021	2022 Q1
R&D expenses	126,422	193,413	256,598	299,346	281,661	70,880

(2) Successfully developed technologies or products

- | | |
|----------------------------------|---|
| ①4/5/6-inch AlGaAs HBT epi wafer | ⑥PIN Diode epi wafer |
| ②4/5/6-inch InGaP HBT epi wafer | ⑦Low-operating voltage HBT epi wafer |
| ③PHEMT epi wafer | ⑧6-inch BiHEMT epi wafer |
| ④VCSEL epi wafer | ⑨4/6-inch high-efficiency multi-junction solar cell epi wafer |
| ⑤780nm LD epi wafer | ⑩FP/DFB LD epi wafer |

(4) Long-term and short-term business development plans

(1) Short-term development plans

①Marketing plan

A. Improve the strength of the Company's products in quality, cost and deliver period; increase the major customers' procurement from the Company and develop heavy-hitter customers at the same time; raise the Company's market share and publicity in the industry by thinking about provision of services to

customers and also the assistance to improvement of customers' competitiveness.

B. Participate in the Design-in at the beginning of new product R&D at the customer end pro-actively to become the specifications maker and expand the gap with competitors, and build customers' loyalty with leading technology.

C. Deepen the relationship with customers with technical services to have the in-depth knowledge about production process at the customer end; help customers improve the yield rate and stability of the process to form the sound partnership with the customer end.

② Production and operating plan

A. Cost reduction

Execute the plan to reduce the procurement cost subject to the suppliers' characteristics; implement the concept about Lean Production to eliminate the waste potentially arising in the procedure; adjust the optimum production scheduling in response to changes in the order placed by customers; continue to analyze various costs, train colleagues to think about _how to create the maximum output with limited resources in the routine operating activities to keep improving the work literacy; adjust the factory premises to be the most competitive cost structure transcending competitors, as the threshold that competitors are unlikely to reach.

B. Quality improvement

Intensify colleagues' awareness toward quality by virtue of continuing education and training; keep improving the quality level, in order to practice the strategy to develop customers thoroughly with stable quality and build the competitive strengths of products by cutting the costs to be incurred by defective quality.

③ R&D plan

Proactively participate in the R&D projects for improvement of materials and structure initiated at the customer end continuously in order to upgrade the component integration level and characteristics and reduce the costs; help customers shorten the time spent in R&D and strive for the design-win opportunities from mobile phone suppliers for the customers' products with the partnership for the joint R&D.

Accelerate the R&D of new photoelectronic products and have them pass the certification by customers; strive for the business opportunities resulting from the booming development of optical communications and optical sensor industries; create the operating revenue from photoelectronic products and growth of earnings; diversify the product portfolio and customer structure to disperse the business risk effectively.

④ Financial Plan

Continue to improve the cost structure and increase the gross margin; cut various

operating expenses; assess the foreign exchange risk; increase the turnover of various assets; strictly assess the effect of fund utilization and control cash outflows; accelerate the cash inflows accumulated from operating activities; improve the cash holdings and efficiency of asset utilization; insofar as the Company's normal operation and stable profit policy remain unaffected, cover the capital requirement with the cash inflow from operating activities as much as possible, in order to cut the funding cost and improve the profitability; review the adequacy of capital scale; increase the ROE.

(2) Long-term development plans

① Marketing strategies

A. Upgrading of the market share

Upgrade the market share of the main products, such as HBT, with the strengths in the product quality, service, price and delivery period and in response to the market growth and upgrading of the Company's production capacity.

B. Enhancement of customer services

Interact with customers pro-actively and control the specifications, structure and materials of the customers' next generation products to shorten the time spent in launching new products.

② Production strategies

A. Utilize the sound production and marketing mechanism and production schedule to achieve the target for timely shipment.

B. Improvement of quality: ensure that the customers will be provided with excellent product quality, by keeping improve the production process and operations.

C. Cost reduction: periodic cost down for the raw materials and supplies, continuous streamlining of work flows and improvement of jigs & fixtures, improve the production efficiency and reduce the labor cost; improve the facilities and availability of production equipment, and mitigate the occurrence of extraordinary circumstances and the losses.

③ Product development

A. Exercise the sound market and industrial analysis to select the new products with marketability as the ones to be developed.

B. Adequate allocation of resources to accumulate experience, control costs and development schedule effectively.

C. Continue to design and improve functions of MOCVD to satisfy the requirements for the new products' characteristics and mass production.

D. Develop the ability of self-certification to ensure that the quality of the new products satisfies the characteristics and specifications required by customers.

④ Business strategies

Continue to streamline the procedure, improve efficiency and quality/control cost of various operations.

⑤ Financial strategies

Continue to improve the cost structure and increase the gross margin; cut various operating expenses; assess the foreign exchange risk; increase the turnover of various assets; strictly assess the effect of fund utilization and control cash outflows; accelerate the cash inflows accumulated from operating activities; improve the cash holdings and efficiency of asset utilization; insofar as the Company's normal operation and stable profit policy remain unaffected, cover the capital requirement with the cash inflow from operating activities as much as possible, in order to cut the funding cost and improve the profitability; review the adequacy of capital scale; increase the ROE. Strive for the feasibility of various R&D credits proactively to reduce income tax and increase EPS.

⑥ HR Strategies

- A. Pro-actively recruit technical talents and continue to improve colleagues' expertise, awareness toward costs, and literacy through education and training continuously.
- B. Pro-actively train the middle and senior management in order to find the management talents required by business growth.
- C. Integrate the Company's strategies and goals, establish the performance-oriented enterprise culture and guide colleagues' engagement in line with the Company's development target.

II. Market as well as Production and Marketing Situation

1. Analysis on market

(1) Geographic areas where the main products are sold

Unit: NTD thousand; %

Year/Geographic Area	2020		2021	
	Sale amount	Percentage (%)	Sale amount	Percentage (%)
Taiwan	1,252,596	47.36%	1,618,762	44.86%
the USA	1,074,362	40.62%	1,496,590	41.47%
Others	318,045	12.02%	493,169	13.67%
Total	2,645,003	100.00%	3,608,521	100.00%

(2) Market share

The Company generates its operating revenue primarily from the sales of microelectronic products, for which the applicable terminal products refer to wireless communication components, namely the upstream materials of various consumer products. As the Company has the strengths, such as outstanding technology, stable quality and competitive price, its market share has been increasing year by year. According to the financial forecast by the industry, the operating revenue generated by it from GaAs epi wafer applied to wireless communications has been in the first place in 2021.

(3) Demand and supply conditions for the market in the future and the market's growth potential

The communication components based on GaAs are mainly applied to the power amplifiers, microwave switches and low noise amplifiers of the mobile communication devices including mobile phones, tablets, PCs and wearable devices. The market size is critical to the sales of wireless communications. The market size is subject to the following two factors at the same time; therefore, the growth trend is clear and definite, as far as the long term is concerned:

①Evolving applications to new wireless communications products: The successive development of mobile phones, tablets, PCs, wearable devices, IoT, Internet of Vehicles, small-size base stations and other wireless communications products and applications thereto, makes the overall wireless communications market growth expectable.

②Evolution of wireless communications specifications: The wireless communications specifications develop from the lower rank, GSM, to the higher rank, WCDMA, LTE and 5G progressively. The WiFi specifications evolved from WiFi5 to WiFi6/6e and are going to evolve into WiFi7 in the future. The evolution of specifications drives the significant growth of wireless communication traffic and frequency ranges and thereby increases the complexity of RF and also the overall market size growth.

The applications of GaAs to optical components mean the VCSEL in the application of 3D sensing to consumer products and LiDAR. As driven by the

application to IoT, the sensing components becomes more important:

- ①Application of 3D sensing to consumer products: 3D sensing has become one of the important specifications differentiating the high-rank Android mobile phone functions since 3D sensing was imported into Apple iPhoneX. Given the development of more and more AR applications and enhancement of the mobile phone camera focusing function, the phone's efficiency will become better and better if it is equipped with 3D sensing.
- ②LiDAR: LiDAR has the strengths, such as high precision, high readability, long distance and rapid sensing and, therefore, become one of the solutions applicable to multiple in-vehicle sensing methods. The car makers' upgrading of the ADAS and declining selling price of LiDAR year by year will benefit the LiDAR market size growth.

(4) Competitive niche

①Self-researched and developed technology

- A. Cost reduction: it is not necessary to pay royalties or technology transfer fees; therefore, the product costs may be reduced effectively.
- B. Shortened schedule for launch of new products: The Company engages in R&D of products based on the technology owned by itself. Therefore, the Company may control the schedule for launch of new products effectively, without needing to get license from any other company.

②Ability to research and develop new products

The abilities to research and develop new products and engage in mass production are identified as the two core abilities of the compound semiconductor epitaxy industry, primarily including:

- A. Sound market and industrial analysis: To select the new products with marketability as the ones to be developed.
- B. Adequate allocation of resources: To accumulate experience, control costs and development schedule effectively.
- C. Continue to design and improve functions of MOCVD to satisfy the requirements for the new products and mass production.
- D. Develop the new verification abilities

The time spent by the Company in R&D of new products and passing of certification by customers has been shortened much more than the others in the same industry. In 1999, the Company received the R&D fund for new leading products as subsidized by Ministry of Economic Affairs for its InGaP HBT. In 2000, the Company received the fund for Technology Development Program for Enterprise subsidized by Ministry of Economic Affairs for its 850nm VCSEL. It has engaged in the mass production and shipping of its 780nm Laser Diode in 2000. In 2002, it received again the fund for Technology Development Program for Enterprise subsidized by Ministry of Economic Affairs for its "High-efficiency multi-junction InGaP/GaAs/Ge solar cells for stratospheric wireless

communications platforms.” In 2007, it received the R&D fund for new leading products as subsidized by Ministry of Economic Affairs for its “High-efficiency concentrated multi-junction solar cell epi wafer.” In 2010, the Company was honored the “2010 Technology Results Innovation Award” by the Department of Industrial Technology, Ministry of Economic Affairs. Apparently, the Company’s ability to research and develop technologies has been well recognized.

③ Ability to engage in mass production

The ability to engage in mass production includes the knowledge about the characteristics of components and epitaxy process, machine parameters, control over operating workers’ stability and rapid verification of epitaxy quality.

The ability to engage in mass production is reflected subject to whether or not the products pass the certification by customers and whether the products are shipped steadily. Since 2000, the Company’s HBT has passed the certification by multiple customers (including the largest customer in the world). Apparently, the Company’s ability to engage in mass production has been well recognized.

④ Despite the high threshold for launch into the industry, the Company has been in the leading position as it already passed the certification by major customers.

The foundry service must be performed subject to the structure designated by customers. Technically, it is very hard to produce the epi wafer with the uniformity, reproducibility and electrical properties in which the concentration of doping satisfied the requirements. Besides, when certifying the potential suppliers, the customers need to invest time and fund and also spare their normal production capacity and bear the risk over disclosure of their confidential structures. Therefore, the cost spent in certifying one single potential supplier is very expensive. Once they decide 2~3 suppliers that may satisfy their requirements about quality, delivery period and ability to engage in mass production, they are not likely to continue investing considerable fund and time to certify any other suppliers manually. In other words, the high transfer costs to be spent by customers form the obstacle for the launch into the industry, and the ones that already launched into the industry successfully would be in the dominant position at first.

⑤ Strength in competitive price

Continue to reduce costs, remove all possible waste in the process of operations, continue to improve the yield rate without limitation without end, ensure the Company’s profitability and long-term competitiveness, and feed back to customers with its strength in costs, improve customers’ strengths in pricing, enter into the partnership that would create the win-win situation for both parties and build customer loyalty.

⑥ Provide customers with fine-quality technical services

Work with customers to research and develop new products, help customers shorten the delivery period for new product development and work with customers closely to improve the yield rate of the process jointly.

(5) Positive and negative factors for future development

The Company's positive factors include:

- ① The balanced development of product structure helps avoid the business risk over a single product.

The applications of compound semiconductor epitaxy products cover the industries, such as wireless communications, optical fiber communications, optical sensing and optical display, of which the market size and growth rate are promising. The product lines include HBT, PHEMT, BiHEMT, GaN, Laser Diode, PIN Diode and VCSEL, etc. The Company has its development of product structures oriented toward the three major industries including wireless communications, optical fiber communications and optical sensing to avoid excessive concentration of operating revenue on a single product and also the business risk arising from the impact posed by the economic cycle of a single market.

- ② A wide room for growth of the market

As far as the Company is concerned, the market space is generated from the following two factors:

A. Demand derived from terminal products

The on-going growth of wireless communications, optical fiber communications and optical sensing derives the demand for the Company's HBT, PHEMT, BiHEMT, GaN, Laser Diode, PIN Diode and VCSEL, and other epi wafers. Particularly, following the emerging 5G mobile phones, compound semiconductors, in consideration of their characteristics, such as high frequency, high speed, low noise, better linearity, high efficacy and power and high temperature resistance, have considerable room for growth. Further, more and more the forward-looking applications, such as WiFi devices equipped with AI and 3D Sensing functions to create smart home, smart city and smart medical care, also derive the demand for the Company's products.

B. Formation of professional epitaxy foundry service

So far, the foundries have been formed and possessed specific capacity in Taiwan (*e.g.*, WIN Semiconductors, Advanced Wireless Semiconductor, and Wavetek Microelectronics Corporation, etc.). The Company is the only one GaAs epitaxy company owning its own technologies throughout Taiwan. Geographically, the Company may work with the down-stream foundries conveniently. Therefore, it is expectable that Taiwan will become an important GaAs production base globally in the future.

- ③ Defined strategic orientation to help develop long-term partnership with customers

The compound semiconductor epitaxy manufacturers may access the confidential information about the customers' structures in the process of certification and mass production, in order to output the epi wafer in line with the relevant requirements. Where these manufacturers integrate the downstream business engaged in process out of the strategic factors, the competitive relationship with customers arising directly therefor will disbenefit both parties' mutual

cooperative relationship.

The Company defines itself as a professional epitaxy foundry and thereby help build the long-term reliable and cooperative relationship with customers. Then, it may secure a higher share of customers in the compound semiconductor industry which grows rapidly.

④Strength in competitive price

For the time being, the Company's primary competitors in microelectronic products come from the UK, USA and Japan. The Company is based in Taiwan. According to the financial forecast published in the same industry, the Company's profitability is in the first place in the industry (in terms of Gross Margin, Operating Margin and Net Income). This helps the Company secure the strength in permanent cost reduction. Meanwhile, in response to the formation of foundries in Taiwan, this will also help transfer of Taiwan into an important global GaAs production base.

⑤Sufficient production capacity

The Company adopts the business strategies to continue upgrading its market share in the oligopoly industrial competition environment. Ahead of the others in the same industry, the Company has procured multiple MOCVD units in order to keep the production capacity for customers as early as possible, satisfy the demand from the market and customers and upgrade its market share ahead of the others in the same industry.

⑥Powerful management team and excellent corporate culture

The Company's management team and technical personnel consist of the elites specialized in compound semiconductors recruited domestically and overseas. Meanwhile, as trained under the corporate culture for "sharing," the team members are willing to learn from each other to speed up their growth, thus accelerating the schedule for R&D and launch of new products.

The Company's negative factors include:

①Insufficient talents

Compared to the silicon semiconductor, the commercial use of compound semiconductor has been developed successively in the recent years. Therefore, the related talents appear to be insufficient.

②intensified industrial cycle

Due to the impact posed by various international factors recently, e.g. the Russia-Ukraine War, interest escalation by the USA, and the static corporate management in certain territories of the Mainland China as a result of the epidemic, the supply chain and transportation chain have been affected adversely too. As a result, the industrial cycle for terminal products are intensified and volatility expanded accordingly.

(6) Responsive measures

①Recruitment of professional talents

Recruit the related professional talents overseas to have them join the

technology and business teams and also work closely with the related departments/institutes of local universities at the same time.

② Build customers' loyalty

Upgrade the percentage of sales of each product to individual customers with the strengths in the product quality, service, price, delivery period and production capacity; interact with customers proactively to control the specifications, structure and materials of the customers' next generation products and thus shorten the time spent in launching new products.

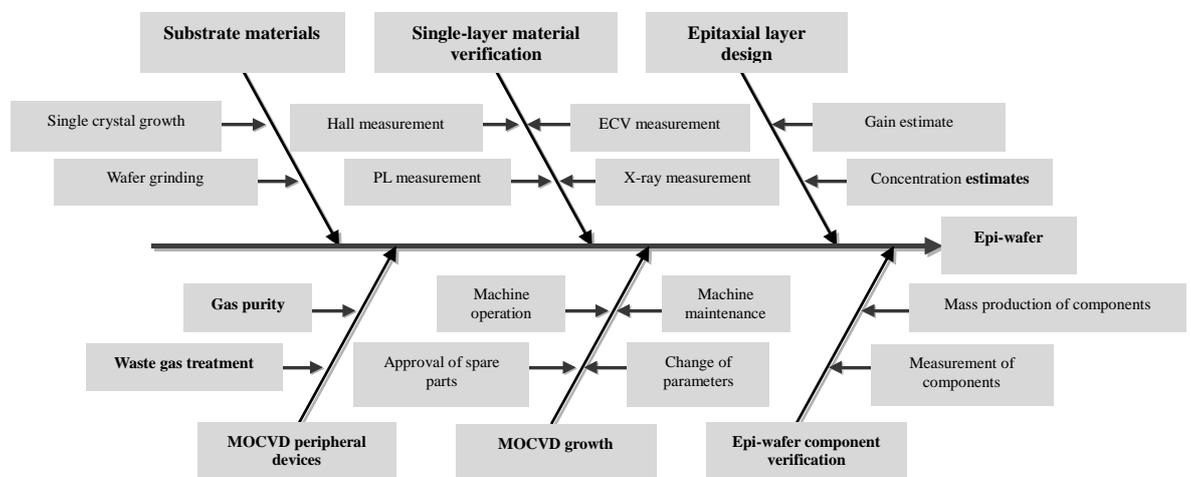
The Company may disperse its business risk effectively, mitigate the business volatility and remain invincible, only if it works with customers to join the technical R&D of the next generation product specifications, strives for the design-win opportunities in the specifications of terminal products, ensures that the Company's materials are applied to each popular mobile phone, tablet, wearable device or evolving mobile device series, adjusts the stable (no concentration of operating revenue on one or two customers only) customer structure and becomes the first largest supplier of various major customers.

(2) Important intended use and manufacturing processes for the main products

1. Important intended use of the main products

Product name	Product descriptions
Microelectronic epi wafer	Applicable to wireless communications (power amplifiers, mixers, gain amplifiers, frequency converter), satellite communication system, and GPS.
Optoelectronics epi wafer	Applicable to fiber communication Receiver and Transmitter and sensing components (3D sensing and LiDAR, etc.)

2. Manufacturing process



(3) Supply situation for the Company's major raw materials

Major raw materials	Major suppliers
Substrate	AXT, Freiberger, Sumitomo
Special gas and organic metal	Praxair Chemax Semiconductor Materials, Nippon Sanso Taiwan, Inc. and Cassen Enterprises Co., Ltd.

The major raw materials are supplied in Japan, the USA, Germany and Taiwan. The supply condition is considered fair for the time being.

(4) A list of any suppliers and clients in the most recent two years

1. Name of the suppliers accounting for 10 percent or more of the Company's total procurement amount in the most recent two years, the amounts bought from each and the percentage of total procurement accounted for by each.

Unit: NTD thousand

Name	2020			2021			In 2022 Until the previous quarter		
	Amount	To the annual net procurement amount (%)	Relationship with the issuer	Amount	To the annual net procurement amount (%)	Relationship with the issuer	Amount	Percentage of net procurement amount as in the current year until the previous quarter (%)	Relationship with the issuer
Supplier 1	637,277	54.69%	None	961,346	59.74%	None	248,005	55.74%	None
Supplier 2	290,796	24.96%	None	301,985	18.77%	None	94,591	21.26%	None
Others	237,164	20.35%	None	345,859	21.49%	None	102,345	23.00%	None
Net procurement amount	1,165,237	100.00%	—	1,609,190	100.00%	—	444,941	100.00%	—

The Company's major raw materials include GaAs substrate, organic metal, precious metal and special gas. The operating revenue hitting the new record drove the increase in shipment. Therefore, the net procurement amount increased by 38.10% in 2021 from 2020.

2. Name of the customers accounting for 10 percent or more of the Company's total sales amount in the most recent two years, the amounts sold to each and the percentage of total sales accounted for by each.

Unit: NTD thousand

Name	2020			2021			In 2022 Until the previous quarter		
	Amount	To the annual net sales amount (%)	Relationship with the issuer	Amount	To the annual net sales amount (%)	Relationship with the issuer	Amount	Percentage of net sales amount as in the current year until the previous quarter (%)	Relationship with the issuer
Customer 1	783,232	29.61%	None	750,941	20.81%	None	139,850	16.66%	None
Customer 2	530,363	20.05%	None	911,171	25.25%	None	250,067	29.80%	None
Customer 3	366,051	13.84%	None	427,660	11.85%	None	99,409	11.85%	None
Customer 4	289,381	10.94%	None	624,700	17.31%	None	36,019	4.29%	None
Others	675,976	25.56%	None	894,049	24.78%	None	313,853	37.40%	None
Net sales amount	2,645,003	100.00%	—	3,608,521	100.00%	—	839,198	100.00%	—

The Company identifies MOCVD as its core technology. The main products cover microwave communication products and photoelectric products. The increase in operating revenue resulted from the increasing market share of major customers and maturing layout in the emerging market. Therefore, the net sales amount increased by 36% in 2021 from 2020.

(5) Production volume/value for the most recent two years

Unit of production volume: pc; Unit of production value: NTD thousand

Year	2020			2021		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Major commodities						
Self-made products	508,800	354,392	1,522,784	624,000	512,896	1,980,346
Foundry products	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	508,800	354,392	1,522,784	624,000	512,896	1,980,346

(6) Sales volume/value for the most recent two years

Unit of sales volume: pc; Unit of sales value: NTD thousand

Year Sales volume/value Major products	2020				2021			
	Domestic marketing		Export sale		Domestic marketing		Export sale	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Self-made products	169,950	1,251,949	172,295	1,391,087	233,834	1,617,433	281,039	1,988,942
Foundry products	-	-	-	-	-	-	-	-
Others	197	647	186	1,320	105	733	126	1,413
Total	170,147	1,252,596	172,481	1,392,407	233,939	1,618,166	281,165	1,990,355

III. Employees

Year		2020	2021	Until the end of April 2022
Number of employees	Indirect	111	112	118
	Direct	147	155	158
	Total	258	267	276
Average age		37.8	38.2	38.0
Average service seniority		8.50	8.65	8.55
Education level ratio	PhD	2.71%	2.25%	2.18%
	Master	14.34%	14.61%	14.49%
	Bachelor	49.23%	50.56%	50.00%
	Senior high school	33.72%	32.58%	33.33%
	Total	100.00%	100.00%	100.00%

IV. Disbursements for Environmental Protection

The total amount of losses and dispositions suffered by the Company in the most recent year and up to the date of publication of the annual report due to environmental pollution incidents and future responsive measures and possible expenditure thereof:

1. The Company has not suffered any losses and expenditures in dispositions due to environmental pollution incidents in the most recent year and up to the date of publication of the annual report.
2. At the very beginning of the factory construction, the Company has valued the investment in establishment of pollution prevention equipment and also delegated the dedicated environmental protection unit personnel pursuant to laws, applied for the permits for establishment of pollution prevention facilities and emissions, emitted waste gas after treating the same through valid prevention equipment at the factory premises, contracted qualified professional service providers to clean the waste on behalf of the Company and had its waste water treatment plant at the factory premises treat waste (polluted) water and then emit the water. The Company has never suffered any dispute over pollution by the date of publication of the annual report.
3. The Company has received the environmental management system certification (ISO-14001:2002) in 2002. Since April 2006, the Company's products sold to any

member state of EU have satisfied the RoHS. In 2013, the Company completed the GHG investigation (ISO-14061-1) for 2012. In 2009, the Company received the occupational safety and health management system (OHSAS 18001) and Taiwan's occupational safety and health management system (TOSHMS) certificates. In 2014, the Company received Taiwan's occupational safety and health management system five-year performance certification from Ministry of Labor. In 2020, the Company completed the environmental management system (ISO-14001:2015) certification. In 2021, the Company completed the occupational safety and health management system certification (converted from OHSAS-18001/TOSHMS to ISO-45001:2018). In 2021, the Company completed the GHG investigation (ISO-14064-1) for 2020.

4. Per the need for expansion of factory in 2021, the Company established additional facilities to prevent pollution from stationary pollution sources, in order to satisfy the emission standards and reduce the emission of pollutants.
5. According to the requirements posed by the Bureau of Energy, Ministry of Economic Affairs, the Company has conserved the power by more than 1%, on average, from 2015 to 2021.
6. When using toxic chemical substances, the Company adopted the protection measures and responsive facilities and also maintained and cared the facilities periodically pursuant to laws, in order to provide protection in any emergency.
7. Future responsive measures: Continue to promote various pollution prevention, energy-conservation and ongoing improvement policies, and improve the performance of various pollution prevention facilities according to environmental protection laws and emission standards and subject to the needs for the Company's products and production capacity.

V. Labor-Management Relations

(1) List the Company's employee benefit plans, continuing education, training and retirement systems, the status of their implementation, and the status of labor-management agreements and measures for preserving employees' rights and interests:

1. Excellent HR strategies
 - (1) Provide competitive pay levels, and participate in the market salary survey to verify reasonable pay levels.
 - (2) Allocate the performance bonus, issue employee stock warrants, distribute remuneration to employees and implement transfer of treasury shares to employees, subject to the overview of business; place the shares held by employees under trust since August 2015, so that the Company and employees contribute the equivalent amount on a monthly basis, and employees may hold the Company's shares permanently under the systematic investment policy.
 - (3) Plan complete training programs and combine them with the promotion system to help employees with their career development.
2. Employee benefit policy

- (1)The sound insurance system providing labor insurance, national health insurance, group insurance and employer liability insurance programs enable the employees to enjoy more complete protection.
 - (2)Provide employees with periodic health checkup and professional meridian massage service without charge.
 - (3)Provide employees with meals and parking lots exclusive for employees without charge.
 - (4)Establish the worker welfare committee pursuant to laws; allow the employees to elect the committee members responsible for planning and implementing the employee benefit policies and contribute welfare fund as required.
 - (5)Provide the allowances for childbirth, marriage, funeral and other ceremonies and for hospitalization, injury and sickness, in addition to gift money or coupons for three major festivals and birthday; organize domestic and foreign tours and departmental meal parties for employees periodically.
 - (6)Provide the on-site physician’s clinic service and resident nurse’s consulting service and establish the clinic and breastfeeding room.
 - (7)Plan the group insurance program for employees’ dependents, so that the employees’ parents, spouses or children may enroll in the program at their own expense.
 - (8)Promote health to advocate atmosphere of physical activity, improve physical and mental balance, enhance physical fitness and life quality, promote the philosophy that life is exercise and exercise means health, and encourage colleagues to participate in various sports activities organized by public institutions or private entities, with a view to achieving the effect of exercise and fitness.
 - (9)To fulfill the Company’s “corporate social responsibility,” the Company encourages all colleagues to take part in blood donation organized by public institutions, private entities or blood-donation buses. By doing this, the Company promotes the idea of “give blood, save lives.”
3. Employees’ education and training: Plan complete training programs and combine them with the promotion system to help employees with their career development. Establish the competency training system by people manager and individual contributor.
- (1)A total of 294 sessions of employees’ education and training were organized in 2021.
 - (2)There are a total of 1,613 trainees for employees’ education & training in 2021.
 - (3)The employees’ education & training hours were 9.78 hours per person in 2021.
4. Employees’ code of conduct/ethics
- (1)The formulation and amendments of the employees’ code of conduct are subject to approval by the Board of Directors’ meeting.
 - (2)The formulation and amendments of the Company’s “Work Rules” are approved by the labor-management meeting and set to the Taoyuan City Government for

approval, and then are announced to all employees as their professional code of conduct.

5. Sound retirement planning

(1)The Company formulates its “Work Rules” in accordance with the Labor Standards Act, and establishes the “Labor Pension Supervisory Committee” to supervise the contribution of pension reserve periodically and take charge of the review and approval of applications for retirement.

(2)The Company contributes the pension reserve for foreign employees in accordance with the Labor Standards Act on a monthly basis, and also appoints the actuary to calculate the employees’ benefits and issue the actuarial report therefor. The Company also contributes the fund to the exclusive account of the Labor Pension Supervisory Committee as required on a monthly basis.

(3)Since July 1, 2005, in response to the Labor Pension Act implemented by the government (hereinafter referred to as the “new system”), the Company has contributed the required amount to the exclusive retirement account maintained at the Bureau of Labor Insurance on a monthly basis, for the employees who chose to apply the new system.

(4)The Company applies the following requirements pursuant to the Labor Pension Act:

A. Voluntary retirement (according to Article 53 of the Labor Standards Act)

An employee may apply for voluntary retirement under any of the following conditions:

1. Where the employee attains the age of fifty-five and has worked for fifteen years.
2. Where the employee has worked for more than twenty-five years.
3. Where the employee attains the age of sixty and has worked for ten years.

B. Forced retirement (according to Article 54 of the Labor Standards Act)

The Company shall not force an employee to retire unless any of the following situations has occurred:

1. Where the employee attains the age of sixty-five.
2. Where the employee is unable to perform his/her duties due to disability.

A business entity may request the central competent authority to adjust the age prescribed in Paragraph 2 of Article 54 of the Labor Standards Act if the specific job entails risk, requires substantial physical strength or otherwise of a special nature; provided, however, that the age shall not be reduced below fifty-five.

C. Criteria for payment of pensions

The criteria for payment of employee pensions shall be as follows:

1. For the seniority applicable to the pension system under the Labor Standards Act (old system), the criteria for payment of pensions referred to in Article 55 of the same Act shall apply. Notwithstanding, as set forth in Subparagraph 2 of Paragraph 1 of Article 54, an additional 20% on top of

the amount calculated according to the preceding subparagraph shall be given to the employees forced to retire due to disability incurred from the execution of their duties.

2. For the employee applicable to the pension system under the Labor Pension Act (new system), the Company contributes 6% of his/her wage to his personal retirement account on a monthly basis.

D. Payment of pensions

The Company shall pay the employees the pensions specified in the Labor Standards Act within 30 days from the day of the employees' retirement.

- (5) The Company establishes the "Visual Photonics Epitaxy Co., Ltd. Employee Stock Ownership Trust" to seek benefits for the colleagues and help them deposit savings permanently and accumulated wealth, so that their retirement life may be secured. Meanwhile, the Company strengthens the employees' engagement in the Company and allows the employees to hold the Company's stocks to share the Company's business results altogether.

- (2) List any losses suffered by the Company in the most recent year and up to the date of publication of the annual report due to labor disputes (including any violations of the Labor Standards Act found in labor inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, the substance of the legal violations, and the content of the dispositions), and disclose an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken, provided that if a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: none.

VI. Information and Communication Security Management:

- (1) Describe the cyber security risk management framework, cyber security policies, concrete management programs, and investments in resources for cyber security management.
 1. Cyber security risk management framework: The Company establishes the "Information Security Management Team" to promote the information security management operations, distinguish the functions of the "chief information security supervisor, information security management team and information security reporting window," dedicated to setting forth the information security policy and targets, supervise analysis, processing, reporting and record of information security incidents, execute the information security inspection for once on a semi-annual basis, test the safety of the "information infrastructure" periodically, and report on the audit results.
 2. Cyber securities policy: Strengthen the information security management to ensure the confidentiality, completeness and availability of information assets, prevent the Company from intentional or accidental threats internally and externally and control the Company's business secrets and undisclosed confidential information by maintaining the information business continuity environment to ensure the interests of the Company, customers and suppliers.

3. Concrete management programs and investments in resources for cyber security management:
 - (1) Establish the internal control mechanism including the multi-layer information security defensive framework (firewall, intrusion detection, anti-virus system and scanning of vulnerabilities) and improve the ability to defend external attacks, in accordance with the information security and network risk prevention policies.
 - (2) Periodically “update the network safety equipment, execute information security audit operations and promote information security cases” to practice the information security-related control measures and mitigate the risk over infection of malware and attacks.
 - (3) Record the tracks of periodic audit operations (mails and printouts), and maintain the track records, inquiries, reports and warnings about access to files in the key personnel’s computers and provide the routine audit or post-survey on suspicious personnel and incidents.
 - (4) Promote the information security from time to time (*e.g.*, social attack methods and sharing of guiding cases in the industry), strengthen the employees' awareness toward information security and mitigate the harm caused by information security risks.
- (2) List any losses suffered by the Company in the most recent year and up to the date of publication of the annual report publication due to significant cyber security incidents, the possible impacts therefrom and measures being or to be taken, provided that if a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: no significant information security incident posing effects to the Company’s operations has arisen in the most recent year and up to the date of publication of the annual report.

VII. Important Contracts: the contracting parties, major content, restrictive clauses and the commencement dates and expiration dates of supply/distribution contracts, technical cooperation contracts, engineering/construction contracts, long-term loan contracts and other contracts that would affect shareholders' equity, where said contracts were either still effective as of the date of publication of the annual report or expired in the most recent fiscal year: None.

Chapter VI. Financial Information

I. Condensed Balance Sheets and Statements of Comprehensive Income for the Past Five Fiscal Years, CPAs, and Their Audit Opinions

(1) Condensed Balance Sheets and Statements of Comprehensive Income Condensed Balance Sheets

Unit: NT\$1,000

Year		Financial data for the last five years (Note)					
		2017	2018	2019	2020	2021	Current year as of March 31, 2022
Current assets		1,770,279	1,319,670	1,785,163	1,972,308	2,302,233	2,541,044
Property, plant and equipment		1,420,379	2,572,657	2,529,540	2,318,762	2,405,171	2,547,731
Intangible assets		1,803	2,028	2,808	4,110	5,327	5,211
Other assets		142,153	37,707	22,078	23,420	137,854	117,958
Total assets		3,334,614	3,932,062	4,339,589	4,318,600	4,850,585	5,211,944
Current liabilities	Before distribution	493,320	1,016,079	1,107,731	1,016,670	1,372,347	1,515,696
	After distribution	493,320	1,016,079	1,107,731	1,016,670	—	—
Non-current liabilities		139	380,131	400,979	400,211	200,324	200,853
Total liabilities	Before distribution	493,459	1,396,210	1,508,710	1,416,881	1,572,671	1,716,549
	After distribution	493,459	1,396,210	1,508,710	1,416,881	—	—
Equity attributable to owners of the parent		2,841,155	2,535,852	2,830,879	2,901,719	3,277,914	3,495,395
Share capital		1,849,059	1,849,059	1,849,059	1,849,059	1,849,059	1,849,059
Capital surplus		107,182	107,182	16,691	16,736	16,736	16,736
Retained per share	Before distribution	884,914	821,082	965,129	1,035,924	1,412,119	1,629,600
	After distribution	884,914	821,082	965,129	1,035,924	—	—
Other equity interests		0	0	0	0	0	0
Treasury stock		0	(241,471)	0	0	0	0
Non-controlling interests		0	0	0	0	0	0
Total equity	Before distribution	2,841,155	2,535,852	2,830,879	2,901,719	3,277,914	3,495,395
	After distribution	2,841,155	2,535,852	2,830,879	2,901,719	—	—

Note: The financial data from 2017 through 2021 has been audited and certified by a CPA; the financial data for the first quarter of 2022 have been reviewed by a CPA.

Condensed Statements of Comprehensive Income

Unit: NT\$1,000

Item \ Year	Financial data for the last five years (Note)					Current year as of March 31, 2022
	2017	2018	2019	2020	2021	
Operating income	2,137,109	2,062,120	2,530,909	2,645,003	3,608,521	839,197
Gross profit	743,467	774,359	1,034,272	1,114,404	1,519,713	363,138
Operating profit (loss)	515,093	463,906	648,983	687,515	1,056,519	244,584
Non-operating income and expenses	(35,375)	25,273	(20,380)	(40,212)	(3,842)	27,843
Net income before tax	479,718	489,179	628,603	647,303	1,052,677	272,427
Net income from continuing operations	394,352	397,170	514,325	532,588	855,081	217,481
Loss from discontinued operations	0	0	0	0	0	0
Net income (loss)	394,352	397,170	514,325	532,588	855,081	217,481
Other comprehensive income for the current period (net of tax)	(3,046)	1,153	(466)	471	20	0
Total comprehensive income for the current period	391,306	398,323	513,859	533,059	855,101	217,481
Net income attributable to owners of the parent	—	—	—	—	—	—
Net income attributable to non-controlling interests	—	—	—	—	—	—
Total comprehensive income attributable to owners of the parent	—	—	—	—	—	—
Total comprehensive income attributable to non-controlling interests	—	—	—	—	—	—
Earnings per share	2.15	2.16	2.79	2.88	4.62	1.18

Note: The financial data from 2017 through 2021 has been audited and certified by a CPA; the financial data for the first quarter of 2022 have been reviewed by a CPA.

(2)Name of CPAs and Audit Opinions for the Last Five Years:

Year	CPA firm	CPA	Audit opinion
2017	PwC Taiwan	Chou, Hsiao-Tzu and Lee, Hsiu-Ling	Unqualified opinion
2018	PwC Taiwan	Chou, Hsiao-Tzu and Lee, Hsiu-Ling	Unqualified opinion
2019	PwC Taiwan	Chou, Hsiao-Tzu and Lee, Hsiu-Ling	Unqualified opinion
2020	PwC Taiwan	Chou, Hsiao-Tzu and Lee, Hsiu-Ling	Unqualified opinion
2021	PwC Taiwan	Chou, Hsiao-Tzu and Lai, Chung-Hsi	Unqualified opinion

II. Financial Analyses for the Past Five Fiscal Years

Financial Analysis

Item (Note 2)		Year		Financial data for the last five years (Note 1)					Current year as of March 31, 2022
		2017	2018	2019	2020	2021			
Financial structure (%)	Ratio of liabilities to assets	14.80	35.51	34.77	32.81	32.42	32.93		
	Ratio of long-term capital to property, plant and equipment	200.03	113.34	127.76	142.40	144.61	145.08		
Debt service ability (%)	Current ratio	358.85	129.88	161.15	194.00	167.76	167.65		
	Quick ratio	285.24	87.65	125.35	150.52	130.80	127.74		
	Times interest earned ratio	-	105.97	76.80	87.46	158.66	200.87		
Operating ability	Accounts receivable turnover rate (times)	5.91	5.47	6.42	5.40	6.87	6.37		
	Average days for cash receipts	62.00	67.00	57.00	68.00	53.00	57.00		
	Inventory turnover rate (times)	3.56	3.24	3.71	3.81	4.67	3.67		
	Payables turnover rate (times)	6.32	5.48	5.58	4.93	6.06	4.70		
	Average days for sale of goods	103.00	113.00	98.00	96.00	78.00	99.00		
	Turnover rate for property, plant and equipment (times)	1.45	1.03	0.99	1.09	1.53	1.36		
	Total asset turnover rate (times)	0.65	0.57	0.61	0.61	0.79	0.67		
Profitability	Asset return ratio (%)	11.99	11.03	12.60	12.44	18.77	17.38		
	Equity return ratio (%)	14.06	14.77	19.17	18.58	27.67	25.69		
	Ratio of income before tax to paid-in capital (%)	25.94	26.46	34.00	35.01	56.93	58.93		
	Net profit ratio (%)	18.45	19.26	20.32	20.14	23.70	25.92		
	Earnings per share (NTD)	2.15	2.16	2.79	2.88	4.62	1.18		
Cash flow	Cash flow ratio (%)	92.54	76.48	62.76	83.73	85.88	28.04		
	Cash flow sufficiency ratio (%)	108.50	81.24	84.34	85.60	84.52	91.08		
	Cash re-investment ratio (%)	(0.11)	5.72	3.84	6.07	10.21	5.96		
Leverage	Operating leverage	1.73	1.98	1.81	1.81	1.58	1.59		
	Financial leverage	1.00	1.01	1.01	1.01	1.01	1.01		
<p>Please specify the changes in financial ratios over the past two fiscal years (not required if the difference does not exceed 20%):</p> <ul style="list-style-type: none"> ■ Times interest earned ratio increased by 81% in 2021 compared to 2020 was mainly attributed to an increase in net income before tax. ■ Accounts receivable turnover rate and average days for cash receipts increased in 2021 compared to 2020 was mainly attributed by an increase in net sales in 2021. ■ Inventory turnover rate and payables turnover rate increased in 2021 compared to 2020 was mainly attributed by an increase in cost of goods sold in 2021. ■ Turnover rate for property, plant and equipment and total asset turnover rate increased in 2021 compared to 2020 was mainly attributed by an increase in net sales in 2021. ■ Asset return ratio and equity return ratio increased in 2021 compared to 2020 was mainly attributed by an increase in net income after tax in 2021. ■ Earnings per share increased by 60% in 2021 compared to 2020 was mainly attributed by an increase in net income after tax in 2021. ■ Cash re-investment ratio increased by 68% in 2021 compared to 2020 was mainly attributed by an increase in net cash inflow from operating activities in 2021. 									

Note: The financial data from 2017 through 2021 has been audited and certified by a CPA; the financial data for the first quarter of 2022 have been reviewed by a CPA.

III. Audit Committee's Report for the Most Recent Fiscal Year's Financial Statement

Visual Photonics Epitaxy Co., Ltd. Audit Committee's Report

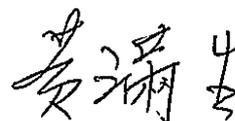
The Board of Directors of the Company sent the 2021 business report, an earnings distribution proposal and the financial statements (including balance sheets, statements of comprehensive income, statements of changes in equity, and statements of cash flow) audited and certified by Chou, Hsiao-Tzu and Lai, Chung-Hsi, CPAs at PwC Taiwan, to the Audit Committee. The committee has completed the review of said documents and found no discrepancies therein and hereby issued a report in accordance with the provisions of Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please proceed to review it.

To

The 2022 Annual General Meeting of Shareholders of Visual Photonics Epitaxy Co., Ltd.

Audit Committee of Visual Photonics Epitaxy Co., Ltd.

Convener of the Audit Committee:



March 10, 2022

IV. Financial Statements for the Most Recent Fiscal Year

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	Notes	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		<u>2,302,233</u>	<u>47</u>	<u>1,972,308</u>	<u>46</u>
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		<u>2,548,352</u>	<u>53</u>	<u>2,346,292</u>	<u>54</u>
1XXX	Total assets		<u>\$ 4,850,585</u>	<u>100</u>	<u>\$ 4,318,600</u>	<u>100</u>

(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		<u>1,372,347</u>	<u>28</u>	<u>1,016,670</u>	<u>24</u>
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		<u>200,324</u>	<u>4</u>	<u>400,211</u>	<u>9</u>
2XXX	Total Liabilities		<u>1,572,671</u>	<u>32</u>	<u>1,416,881</u>	<u>33</u>
Equity attributable to owners of parent						
Share capital						
3110	Ordinary shares	6(10)	1,849,059	38	1,849,059	43
Capital surplus						
3200	Capital surplus	6(11)	16,736	-	16,736	-
Retained earnings						
3310	Legal reserve	6(12)	555,416	12	502,110	12
3350	Unappropriated retained earnings		856,703	18	533,814	12
3500	Treasury stocks	6(10)	-	-	-	-
3XXX	Total equity		<u>3,277,914</u>	<u>68</u>	<u>2,901,719</u>	<u>67</u>
Significant commitments and contingent liabilities						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 4,850,585</u>	<u>100</u>	<u>\$ 4,318,600</u>	<u>100</u>

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)

	Items	Notes	Year ended December 31			
			2021		2020	
			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)	-	-	(1,608)	-
6000	Total operating expenses		(463,194)	(13)	(426,889)	(16)
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)	(6,677)	-	(7,487)	-
7000	Total non-operating income and expenses		(3,842)	-	(40,212)	(2)
7900	Profit before income tax		<u>1,052,677</u>	<u>29</u>	<u>647,303</u>	<u>24</u>
7950	Income tax expense	6(18)	(197,596)	(5)	(114,715)	(4)
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)	(6)	-	(118)	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		<u>20</u>	-	<u>471</u>	-
8300	Total other comprehensive income for the year		<u>\$ 20</u>	-	<u>\$ 471</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	Capital Surplus			Retained Earnings		Treasury stocks	Total equity
		Share capital - common stock	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)

	Notes	Year ended December 31	
		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		<u>1,178,525</u>	<u>851,226</u>
<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		<u>(469,861)</u>	<u>(97,234)</u>
<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		<u>(580,550)</u>	<u>(553,993)</u>
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)	<u>\$ 1,210,205</u>	<u>\$ 1,066,356</u>

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	\$ 416	\$ 432
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	\$ 416	\$ 432

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	\$ 471,405	(\$ 55,936)	\$ 415,469

	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	\$ 422,476	(\$ 50,180)	\$ 372,296

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)
	\$ 2,088,808	\$ 1,530,599

(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)
	\$ 141,004	\$ 553,072	\$ 1,514,112	\$ 468	\$ 69,652	\$ 40,454	\$ 2,318,762
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	\$ 141,004	\$ 533,506	\$ 1,367,353	\$ 2,983	\$ 70,380	\$ 289,945	\$ 2,405,171
<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)
	\$ 141,004	\$ 533,506	\$ 1,367,353	\$ 2,983	\$ 70,380	\$ 289,945	\$ 2,405,171

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:

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

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:

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
<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

<u>Type of borrowings</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
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

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2021</u>
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>

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate range</u>	<u>Collateral</u>	<u>December 31, 2020</u>
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:

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

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:

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

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>\$</u>	<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:

	<u>2021</u>	<u>2020</u>
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:

	Taiwan	US	All other segments	Total
<u>For the year ended December 31, 2021</u>				
Revenue from external customer contracts	<u>\$ 1,618,762</u>	<u>\$ 1,496,590</u>	<u>\$ 493,169</u>	<u>\$ 3,608,521</u>
<u>For the year ended December 31, 2020</u>				
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	
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Operating expenses</u>
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	<u>189,819</u>	<u>164,794</u>	<u>156,537</u>	<u>163,125</u>
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	
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Operating expenses</u>
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	<u>16,163</u>	<u>4,092</u>	<u>12,290</u>	<u>3,685</u>
	<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:

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
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:

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
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	\$ 64,052	\$ 59,506

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	\$ 855,081	184,905	\$ 4.62
<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	-	968	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 855,081	185,873	\$ 4.60

	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	\$ 406,731	\$ 57,428

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>
	\$ 10,000	\$ 10,000

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	\$ 680,000	\$ 780,000
Total equity	\$ 3,277,914	\$ 2,901,719
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

- i. 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.
- ii. 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:

	<u>Without past due</u>	<u>Up to 60 days</u>	<u>Up to 90 days</u>	<u>Up to 180 days</u>	<u>Over 181 days</u>	<u>Total</u>
<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
	<u>Without past due</u>	<u>Up to 60 days</u>	<u>Up to 90 days</u>	<u>Up to 180 days</u>	<u>Over 181 days</u>	<u>Total</u>
<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	\$ 580	\$ 580

(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:

	<u>Year ended December 31, 2021</u>		<u>Year ended December 31, 2020</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
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:

<u>Year ended December 31, 2021</u>			<u>Year ended December 31, 2020</u>		
<u>Customer</u>	<u>Net Sales</u>	<u>%</u>	<u>Customer</u>	<u>Net Sales</u>	<u>%</u>
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	192,794	261,658	Net realizable value as market price
	<u>471,405</u>	<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				Closing net book amount as at December 31, 2021		Collateral
	Addition	Deductions	Transfer				
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>		
	<u>\$ 2,318,762</u>				<u>\$ 2,405,171</u>		

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

<u>Suppliers</u>	<u>Amount</u>	<u>Note</u>
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

Creditor	Description	Amount	Term of Contract	Rat(%)	Collateral	Note
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.

V. Parent Company-Only Financial Statement for the Most Recent Fiscal Year, Certified by the CPA:Not applicable.

VI. In the Most Recent Fiscal Year and Up to the Date of Publication of the Annual Report, Any Financial Difficulties Experienced by the Company or Its Affiliates and How Said Difficulties Will Affect the Company's Financial Situation: none.

Chapter VII. Review and Analysis of the Company's Financial Position and Financial Performance and Listing of Risks

I. Financial Position

Comparison and Analysis of Financial Position

Unit: NTD thousand

Item \ Year	2021	2020	Variance	
			Amount	%
Current assets	2,302,233	1,972,308	329,925	16.73%
Property, plant and	2,405,171	2,318,762	86,409	3.73%
Other assets	137,854	23,420	114,434	488.62%
Intangible assets	5,327	4,110	1,217	29.61%
Total assets	4,850,585	4,318,600	531,985	12.32%
Current liabilities	1,372,347	1,016,670	355,677	34.98%
Non-current liabilities	200,324	400,211	(199,887)	(49.95%)
Total liabilities	1,572,671	1,416,881	155,790	11.00%
Capital stock	1,849,059	1,849,059	0	0.00%
Capital surplus	16,736	16,736	0	0.00%
Retained earnings	1,412,119	1,035,924	376,195	36.31%
Other equity interests	0	0	0	0.00%
Total shareholders'	3,277,914	2,901,719	376,195	12.96%
<p>Analysis on the changes (%):</p> <p>The increase in other assets is primarily a result of the increase in the prepayment for equipment.</p> <p>The increase in intangible assets is primarily a result of the increase in acquisition of patents and computer software.</p> <p>The increase in current liabilities is primarily a result of the increase in short-term loans and accounts payable.</p> <p>The decrease in noncurrent liabilities is primarily a result of the decrease in long-term loans.</p> <p>The increase in retained earnings is primarily a result of the increase in the current net income.</p>				

II. Financial Performance

- (1) Main reasons for any material change in operating revenues, operating income, or income before tax during the past 2 fiscal years

Unit: NTD thousand

	2021	2020	Increase (decrease)	Variance (%)
Operating revenue, net	3,608,521	2,645,003	963,518	36.43%
Operating costs	2,088,808	1,530,599	558,209	36.47%
Gross profit	1,519,713	1,114,404	405,309	36.37%
Operating expenses	463,194	426,889	36,305	8.50%
Operating income	1,056,519	687,515	369,004	53.67%
Non-operating income and expenses	(3,842)	(40,212)	36,370	90.45%
Net income before tax	1,052,677	647,303	405,374	62.63%
<p>Analysis on the changes (%):</p> <p>The increase in operating revenue, net is primarily a result of the increase in customers' demand.</p> <p>The increase in operating costs is primarily a result of the operating revenue growth.</p> <p>The increase in gross profit and net income before tax is primarily a result of the operating revenue growth.</p> <p>The increase in operating income is primarily a result of the increase in gross profit and adequate control over operating expenses.</p> <p>The non-operating income and expenses is generated primarily due to the decrease in exchange losses.</p>				

- (2) Sales volume forecast and the basis therefor, and the effect upon the Company's financial operations as well as measures to be taken in response:

Please refer to Chapter I. Letter to Shareholders of the annual report.

III. Cash Flow

1. Analysis on changes in cash flow

Unit: NTD thousand

Beginning cash balance	Net cash flow from operating activities for the year	Cash inflow (outflow) for the year	Cash balance (deficit)	Corrective measures against insufficient cash position	
				Investing plan	Financing plan
1,066,356	1,178,525	143,849	1,210,205	—	—
<p>Description:</p> <p>Operating activities: The Company's fair profit results in the abundant net cash inflow from operating activities.</p> <p>Investing activities: The net cash outflow from investing activities, NT\$469,861, is generated primarily as a result of the acquisition of equipment and plant facilities.</p> <p>Financing activities: The net cash outflow from financing activities, NT\$580,550, is generated primarily as a result of the repayment of loans and distribution of cash dividends.</p>					

2. Corrective measures to be taken in response to illiquidity

The Company is operating well with sufficient cash inflow. Therefore, there is no concern about illiquidity.

3. Liquidity analysis for the coming year

Unit: NTD thousand

Beginning cash balance	Projected net cash flow from operating activities for the year	Projected cash flow for the year	Projected cash balance (deficit)	Corrective measures against insufficient cash position	
(1)	(2)	(3)	(1)+(3)	Investing plan	Wealth management plan
1,210,205	1,000,000	(200,000)	1,010,205	-	-

Note: The projected net cash inflow from operating activities will be able to cover the acquisition of machine & equipment and distribution of cash dividends.

IV. Effect Upon Financial Operations posed by any major capital expenditures during the most recent fiscal year: no material effect has been posed by the Company's capital expenditures upon financial operations.

V. Reinvestment Policy for the Most Recent Fiscal Year, Main Reasons for Profits/Losses Generated Thereby, Plan for Improving Re-investment Profitability and Investment Plans for Coming Year:

- (1) Reinvestment Policy for the Most Recent Fiscal Year, Main Reasons for Profits/Losses Generated Thereby, Plan for Improving Re-investment Profitability: None.
- (2) Investment Plans for Coming Year: None.

VI. Risk Analysis and Assessment for the Most Recent Fiscal Year and as of the Date of Publication of the Annual Report:

- (1) The effect upon the Company's profits (losses) posed by interest and exchange rate fluctuations and changes in the inflation rate, and response measures to be taken in the future.

1. The effect upon the Company's profits (losses) posed by interest fluctuations in the most recent year and response measures to be taken in the future.

- (1) Effect upon the Company's profits (losses) posed by interest fluctuations

Unit: NTD thousand

Item	2021	2020	Variance	
			Amount	%
Interest revenue	1,572	3,049	(1,477)	-48.44%
Interest expenses	6,677	7,487	(810)	-10.82%
Interest revenue and expense, net	(5,105)	(4,438)	(667)	-15.03%
Exchange gain or loss, net	(3,424)	(37,022)	33,598	90.75%

The interest expenses, NT\$6,677, are generated as a result of the reduction of interest rate on the Company's bank loans in 2021.

- (2) Concrete response measures to be taken by the Company against interest fluctuations

The Company's short-term and long-term loans refer to the debts subject to floating interest rate. Therefore, the effective interest rate on the short-term and long-term loans will vary depending on the market interest rate fluctuations. In the future, the Company will utilize its own capital to reduce the financial costs and debt ratio.

2. Effect upon the Company's profits (losses) posed by foreign exchange rate fluctuations in the most recent year, and response measures to be taken in the future.

- (1) Effect upon the Company's profits (losses) posed by foreign exchange rate fluctuations

The Company quotes all of its products in USD and also collects the accounts in USD. The major raw materials adopted by the Company are primarily imported from foreign countries. The imported/exported raw materials and suppliers are mostly paid in USD. Therefore, the foreign exchange rate fluctuations in the exchange of NTD for USD pose considerable effects on the Company's operating revenue and profit.

- (2) Concrete response measures to be taken by the Company against foreign exchange rate fluctuations

- ① The procurement of materials and sale of products both take place overseas.

The Company's major procurement/sales are priced in USD. The fair value will vary depending on the foreign exchange rate fluctuations in the market. Although the foreign currency assets held by the Company are more than the foreign currency liabilities borne by the Company, the Company assesses that no major market risk is likely to arise under the circumstance that the Company's foreign currency assets are all going to expire within one year and may generate revolving fund quickly.

- ② Other measures

A. Collect the information about related foreign exchange rate fluctuations from time to time, control the fluctuation trend completely and engage in hedging transactions in a timely manner.

B. Sales Dept. shall adopt the uniform currency type as possible as it can and also take the foreign exchange rate fluctuations into account when providing the product quotation, in order to reflect the cost and help adjust the selling price in a timely manner.

3. Effect upon the Company's profits (losses) posed by inflation in the most recent year, and response measures to be taken in the future: The Company doesn't think that the inflation or deflation has posed any material impact to the operations of the Company, customers and suppliers by the date of publication of the annual report. Notwithstanding,

in consideration of the uncertainty in the global economic outlook, it is impossible for the Company to guarantee whether the future inflation or deflation will change significantly and thereby pose material adverse effects to the Company's operating results.

- (2) The Company's policy regarding high-risk investments, highly leveraged investments, loans to other parties, endorsements and guarantees and derivatives transactions; the main reasons for the profits/losses generated thereby; and response measures to be taken in the future: The Company never engages in any high-risk or highly leveraged investments. In order to control the risk over financial transactions, the Company adopts the internal management regulations and operating procedures oriented toward the robust finance and operations, in accordance with the competent authority's relevant laws and regulations. These management regulations include the "Procedures for Acquisitions or Disposal of Assets," "Procedures for Derivatives Trading," "Operating Procedures for Loaning of Funds to Others" and "Operating Procedures for Making Endorsements/Guarantees."
- (3) Research and development work to be carried out in the future and further expenditures expected for research and development work: please refer to the Business Activities in Chapter V. Operating Highlights of the annual report.
- (4) Effect on the Company's financial operations posed by important policies adopted and changes in the legal environment at home and abroad and measures to be taken in response: no effect has been posed by the important policies adopted and changes in the legal environment at home and abroad to the Company's financial operations in the most recent year and up to the date of publication of the annual report. In the future, the Company will access related information from time to time, and research and prepare necessary responsive measures in a timely manner, in order to satisfy the Company's operating needs.
- (5) Effect on the Company's financial operations by changes in science and technology (including cyber security risks) as well as industrial change and measures to be taken in response:

The Company engages in the upstream industry for compound semiconductors. The largest technical risk to be dealt with by the Company resides in that the other materials are being applied to the major fields to replace compound semiconductors, for the time being. To the Company's knowledge, no such risk arises now. Instead, as the wireless communications technology is developed toward high frequency, the requirements about PAE, ruggedness and linearity become stricter. In terms of the properties, compound semiconductor can better satisfy the requirements by high-frequency RF components. Therefore, the Company will continue to invest more R&D resources and work with customers to engage in the R&D, in order to ensure that both parties may win in each game in the process of technological evolution. Considering that the cyber security issues have been valued increasingly in the recent years, the Company will continue to adopt the concrete corrective measures, such as enhancement of the employees' awareness toward information security and the corporate information security functions (e.g. network safety, fixing of vulnerabilities, fixing of

firewall settings and printing management for information security), in order to maintain the normal operations of the Company's information system. No material information security incident that would affect the Company's operations has arisen in 2021.

The industrial changes include the frequent M&A transactions between international leading suppliers in the recent years and various countries' adoption of the protection policies driven by the Sino-US Trade War potentially causing the shift of supply chain, subject to multiple factors, such as intervention of various countries' government policies, QE policy environment, locations of supply and demand, corporate management ability, level of risk dispersion and business model. The Company will continue to observe possible changes in order to prepare for response thereto, and aim to become an indispensable and reliable enterprise with the ability to respond to changes and provide stable quality and competitive price as its ultimate guidelines.

- (6) Effect on the Company's crisis management posed by changes in the Company's corporate identity and measures to be taken in response: The Company continues to provide professional services and develop business based on its excellent corporate identity and maintains fair interactions with customers, suppliers and banks from time to time to seek their thorough trust and support to the Company.
- (7) Expected benefits and possible risks associated with any mergers and acquisitions, and measures to be taken in response: None.
- (8) Expected benefits and possible risks associated with any plant expansion and measures to be taken in response: The plant expansion project is expected to enable the Company to improve its production capacity to meet the market demand, improve its operating revenue and profit and expand its market share eventually. In order to deal with the future market demand, the Company establishes a set of forecast and assessment systems to evaluate the effect to be posed by the expansion or reduction of the production capacity. When the production capacity reaches the economies of scale and market share is increased, the production cost is reduced significantly. The Company's production capacity expansion has followed thorough capital expenditure planning, in order to optimize the capital utilization while the Company is striving to satisfy customers' needs.
- (9) Risks associated with the concentration of purchasing or sales operations and measures to be taken in response: The compound semiconductor industry which the Company is engaged refers to an oligopoly industry where the upstream and downstream supply chains consist of only few participants. Therefore, concentration of purchasing or sales operations is identified as one of the industry's characteristics. Under such circumstance, the Company has used its best effort to disperse the risk over concentration of purchasing or sales operations.

Meanwhile, the Company's existing suppliers of major raw materials that have passed certification will be asked to prepare the inventory at a specific quantity for the Company. Therefore, there is no likelihood of shortage or outage of materials.

- (10) Effects upon and risks to the Company in the event that a major quantity of shares

belonging to a director, supervisor or shareholder holding greater than a 10 percent stake in the Company has been transferred or has otherwise changed hands and measures to be taken in response: By the date of publication of the annual report, the Company didn't suffer a majority quantity of shares belonging to any director transferred or changed hands. Meanwhile, none of the Company's shareholders holds greater than a 10 percent stake in the Company.

- (11) Effects upon and risks to the Company associated with any change in management power and measures to be taken in response: there was no material change in the Company's management power in 2021.
- (12) Litigious and non-litigious matters: list major litigious, non-litigious or administrative disputes that involved the Company and/or its directors, supervisors, president, and de facto responsible person, any major shareholders holding a stake of greater than 10 percent and any company or companies controlled by the company; and have been concluded by means of a final and unappealable judgment, or are still under litigation. Where such a dispute could materially affect shareholders' equity or the prices of the Company's securities, the annual report shall disclose the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of publication of the annual report: None.
- (13) Other important risks, and measures to be taken in response: None.

VII. Other Important Matters: None.

Chapter VIII. Special Disclosure

- I. Information on the Affiliates: None.**
- II. Private Placement of Securities During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report. The Date of Approval and Amount Approved by the Shareholders' Meeting or the Board Of Directors, the Basis and Reasonableness of the Price Set, the Method of Selection of Specific Parties, the Reasons for Necessity for the Private Placement, Parties Targeted by the Private Placement, Criteria, Number of Securities Subscribed for, Relations with the Company, Participation in the Operations of the Company, the Actual Subscription (or Conversion) Price, the Difference Between the Actual Subscription (or Conversion) Price and the Reference Price, the Impact of the Private Placement on Shareholders' Rights and Interests, the Use of Funds from Private Placement from the Time When Payments of Shares Are Fully Received Until the Completion of the Fund Use Plan, Plan Execution Progress, and Effect of the Plan Shall be Disclosed: None.**
- III. Holding or Disposal of Shares in the Company by the Company's Subsidiaries During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report: None.**
- IV. Other Supplementary Information: None.**
- V. Situations Listed in Article 36, Paragraph 3, Sub-paragraph 2 of the Securities and Exchange Act Which Might Materially Affect Shareholders' Equity or the Price of the Company's Securities Occurring During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report: None.**

MEMO

Visual Photonics Epitaxy Co., Ltd.



Person in Charge: Chen, Chien-Liang

