

Prosperity Dielectrics Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2021 and 2020 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Prosperity Dielectrics Co., Ltd.

Opinion

We have audited the accompanying financial statements of Prosperity Dielectrics Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 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 Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits of the financial statements for the years ended December 31, 2021 and 2020 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' 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 Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Company's financial statements for the year ended December 31, 2021 is described as follows:

Validity of Sales Revenue

As a result of stable market demand for multilayer ceramic capacitors, which is the Company's main product, there was a significant increase in sales revenue in 2021 compared to the previous year. Therefore, the validity of sales revenue from some of the Company's main customers whose sales revenue increased in 2021 compared to the previous year is regarded the key audit matter of the Company's financial statements for the year ended December 31, 2021. For the accounting policies related to sales revenue, please refer to Note 4 of the financial statements.

Our audit procedures performed in response to the aforementioned key audit matter include the following: We understood the Company's internal controls on the recognition of sales revenue from the aforementioned customers, evaluated the design of the key controls, tested the operating effectiveness of these controls, inspected the sales transactions from these customers on a sample basis to ensure the validity of occurrence of the sales transactions.

Other Matter

We did not audit the financial statements of certain investments accounted for using the equity method, but such financial statements were audited by other auditors. Our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of the other auditors. The investments accounted for using the equity method amounted to NT\$147,157 thousand as of December 31, 2021, and the share of loss of associates accounted for using the equity method for the year ended December 31, 2021 amounted to NT\$5,341 thousand.

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 Preparation of Financial Reports by Securities Issuers, 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 auditing standards generally accepted 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment 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.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2021 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Yi-Min Huang and Chin-Chuan Shih.

Yi-Min Huang

Chin-Chuan Shih.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 22, 2022

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

PROSPERITY DIELECTRICS CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars)

| ASSETS | 2021 | | 2020 | |
|--|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 801,350 | 9 | \$ 753,661 | 10 |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7) | 389,047 | 4 | 315,229 | 4 |
| Financial assets at amortized cost - current (Notes 4 and 8) | 45,312 | - | 183,943 | 3 |
| Notes receivable from unrelated parties (Notes 4 and 9) | 50,882 | 1 | 26,458 | - |
| Trade receivables from unrelated parties (Notes 4 and 9) | 530,518 | 6 | 524,999 | 7 |
| Trade receivables from related parties (Notes 4 and 27) | 446,780 | 5 | 101,626 | 1 |
| Other receivables from unrelated parties | 19,206 | - | 42,832 | 1 |
| Other receivables from related parties (Note 27) | 12,486 | - | 2,745 | - |
| Inventories (Notes 4 and 10) | 765,326 | 9 | 548,801 | 7 |
| Other current assets | 49,457 | 1 | 40,465 | 1 |
| Total current assets | <u>3,110,364</u> | <u>35</u> | <u>2,540,759</u> | <u>34</u> |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 11) | 1,607,074 | 18 | 1,247,264 | 17 |
| Investments accounted for using the equity method (Notes 4 and 12) | 1,891,268 | 21 | 1,880,602 | 25 |
| Property, plant and equipment (Notes 4 and 13) | 2,093,893 | 24 | 1,698,011 | 22 |
| Right-of-use assets (Notes 4 and 14) | 162,708 | 2 | 175,228 | 2 |
| Computer software (Note 4) | 7,192 | - | 1,766 | - |
| Deferred tax assets (Notes 4 and 22) | 29,344 | - | 31,485 | - |
| Other non-current assets | 5,274 | - | 5,491 | - |
| Total non-current assets | <u>5,796,753</u> | <u>65</u> | <u>5,039,847</u> | <u>66</u> |
| TOTAL | <u>\$ 8,907,117</u> | <u>100</u> | <u>\$ 7,580,606</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 15) | \$ - | - | \$ 20,000 | - |
| Trade payables to unrelated parties | 352,993 | 4 | 333,303 | 5 |
| Trade payables to related parties (Note 27) | 74,334 | 1 | 181,250 | 3 |
| Other payables to unrelated parties (Note 16) | 689,847 | 8 | 596,494 | 8 |
| Other payables to related parties (Note 27) | 21,930 | - | 26,453 | - |
| Current tax liabilities (Notes 4 and 22) | 126,728 | 1 | 57,698 | 1 |
| Lease liabilities - current (Notes 4 and 14) | 23,972 | - | 24,804 | - |
| Current portion of long-term borrowings (Note 15) | 8,333 | - | - | - |
| Other current liabilities | 11,052 | - | 21,658 | - |
| Total current liabilities | <u>1,309,189</u> | <u>14</u> | <u>1,261,660</u> | <u>17</u> |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Note 15) | 817,656 | 9 | 762,969 | 10 |
| Deferred tax liabilities (Notes 4 and 22) | 178,518 | 2 | 107,096 | 1 |
| Lease liabilities - non-current (Notes 4 and 14) | 149,620 | 2 | 160,190 | 2 |
| Deferred revenue - non-current (Notes 4 and 16) | 9,011 | - | 12,031 | - |
| Net defined benefit liabilities - non-current (Notes 4 and 18) | 51,391 | 1 | 48,110 | 1 |
| Guarantee deposits received | 16,946 | - | 16,946 | - |
| Total non-current liabilities | <u>1,223,142</u> | <u>14</u> | <u>1,107,342</u> | <u>14</u> |
| Total liabilities | <u>2,532,331</u> | <u>28</u> | <u>2,369,002</u> | <u>31</u> |
| EQUITY (Note 19) | | | | |
| Share capital | | | | |
| Ordinary shares | 1,720,000 | 19 | 1,720,000 | 23 |
| Capital surplus | 498,548 | 6 | 497,066 | 7 |
| Retained earnings | | | | |
| Legal reserve | 509,861 | 5 | 430,775 | 5 |
| Special reserve | 67,764 | 1 | 69,489 | 1 |
| Unappropriated earnings | 2,829,865 | 32 | 2,102,322 | 28 |
| Total retained earnings | <u>3,407,490</u> | <u>38</u> | <u>2,602,586</u> | <u>34</u> |
| Other equity | | | | |
| Exchange differences on the translation of the financial statements of foreign operations | (116,523) | (1) | (185,087) | (3) |
| Unrealized gain on financial assets at fair value through other comprehensive income | 919,642 | 10 | 577,039 | 8 |
| Total other equity | <u>803,119</u> | <u>9</u> | <u>391,952</u> | <u>5</u> |
| Treasury shares | (54,371) | - | - | - |
| Total equity | <u>6,374,786</u> | <u>72</u> | <u>5,211,604</u> | <u>69</u> |
| TOTAL | <u>\$ 8,907,117</u> | <u>100</u> | <u>\$ 7,580,606</u> | <u>100</u> |

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

(With Deloitte & Touche auditors' report dated February 22, 2022)

PROSPERITY DIELECTRICS CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2021 | | 2020 | |
|--|------------------|-----------|------------------|------------|
| | Amount | % | Amount | % |
| NET SALES (Note 4) | \$ 5,103,801 | 100 | \$ 4,243,551 | 100 |
| COST OF SALES (Note 10) | <u>3,712,062</u> | <u>73</u> | <u>3,192,798</u> | <u>75</u> |
| GROSS PROFIT | 1,391,739 | 27 | 1,050,753 | 25 |
| UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES | (7,816) | - | - | - |
| REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES | <u>-</u> | <u>-</u> | <u>6,425</u> | <u>-</u> |
| REALIZED GROSS PROFIT | <u>1,383,923</u> | <u>27</u> | <u>1,057,178</u> | <u>25</u> |
| OPERATING EXPENSES | | | | |
| Selling and marketing expenses | 141,197 | 3 | 132,382 | 3 |
| General and administrative expenses | 140,765 | 3 | 132,842 | 3 |
| Research and development expenses | <u>83,880</u> | <u>1</u> | <u>83,571</u> | <u>2</u> |
| Total operating expenses | <u>365,842</u> | <u>7</u> | <u>348,795</u> | <u>8</u> |
| PROFIT FROM OPERATIONS | <u>1,018,081</u> | <u>20</u> | <u>708,383</u> | <u>17</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Share of profit of subsidiaries and associates (Notes 4 and 12) | 291,132 | 6 | 184,190 | 4 |
| Interest income | 2,168 | - | 1,991 | - |
| Dividend income | 54,883 | 1 | 30,185 | 1 |
| Other income | 19,346 | - | 18,300 | - |
| Gain on disposal of property, plant and equipment | 3,282 | - | 899 | - |
| Gain on lease modifications | - | - | 594 | - |
| Gain on valuation of financial assets at FVTPL | 33,695 | 1 | 79,694 | 2 |
| Gain on reversal of impairment loss | 6,219 | - | 6,070 | - |
| Interest expense | (9,541) | - | (7,945) | - |
| Miscellaneous expenses | (8,285) | - | (4,727) | - |
| Loss on disposal of investments | - | - | (424) | - |
| Loss on lease modifications | (333) | - | - | - |
| Foreign exchange loss | <u>(9,132)</u> | <u>-</u> | <u>(61,004)</u> | <u>(1)</u> |
| Total non-operating income and expenses | <u>383,434</u> | <u>8</u> | <u>247,823</u> | <u>6</u> |

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PROSPERITY DIELECTRICS CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2021 | | 2020 | |
|---|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| PROFIT BEFORE INCOME TAX | \$ 1,401,515 | 28 | \$ 956,206 | 23 |
| INCOME TAX EXPENSE (Notes 4 and 22) | <u>(257,874)</u> | <u>(5)</u> | <u>(164,888)</u> | <u>(4)</u> |
| NET PROFIT FOR THE YEAR | <u>1,143,641</u> | <u>23</u> | <u>791,318</u> | <u>19</u> |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans | (5,102) | - | (2,724) | - |
| Unrealized gain on investments in equity instruments at fair value through other comprehensive income | 372,570 | 7 | 269,154 | 6 |
| Share of the other comprehensive income of associates accounted for using the equity method | (6,346) | - | 8,831 | - |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Share of the other comprehensive income (loss) of associates accounted for using the equity method | <u>4,188</u> | <u>-</u> | <u>(14,750)</u> | <u>-</u> |
| Other comprehensive income for the year | <u>365,310</u> | <u>7</u> | <u>260,511</u> | <u>6</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 1,508,951</u> | <u>30</u> | <u>\$ 1,051,829</u> | <u>25</u> |
| EARNINGS PER SHARE (Note 23) | | | | |
| Basic | <u>\$ 6.67</u> | | <u>\$ 4.60</u> | |
| Diluted | <u>\$ 6.65</u> | | <u>\$ 4.59</u> | |

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

(With Deloitte & Touche auditors' report dated February 22, 2022)

(Concluded)

PROSPERITY DIELECTRICS CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars)**

| | Share Capital | | Capital Surplus | Retained Earnings | | | Other Equity (Note 19) | | Treasury Shares | Total Equity |
|--|------------------------------------|---------------|-----------------|-------------------|-----------------|----------------------------|---|--|-----------------|--------------|
| | Number of Shares (In Thousands) | Share Capital | | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on the Translation of the Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income | | |
| BALANCE, JANUARY 1, 2020 | 172,000 | \$ 1,720,000 | \$ 497,066 | \$ 353,616 | \$ 69,489 | \$ 1,698,220 | \$ (170,337) | \$ 301,321 | \$ - | \$ 4,469,375 |
| Appropriation of the 2019 earnings (Note 19) | | | | | | | | | | |
| Legal reserve | - | - | - | 77,159 | - | (77,159) | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (309,600) | - | - | - | (309,600) |
| Net profit for the year ended December 31, 2020 | - | - | - | - | - | 791,318 | - | - | - | 791,318 |
| Other comprehensive income for the year ended December 31, 2020 | - | - | - | - | - | (2,724) | (14,750) | 277,985 | - | 260,511 |
| Total comprehensive income for the year ended December 31, 2020 | - | - | - | - | - | 788,594 | (14,750) | 277,985 | - | 1,051,829 |
| Disposal of investments in equity instruments designated as at fair value through other comprehensive income (Note 19) | - | - | - | - | - | 2,267 | - | (2,267) | - | - |
| BALANCE, DECEMBER 31, 2020 | 172,000 | 1,720,000 | 497,066 | 430,775 | 69,489 | 2,102,322 | (185,087) | 577,039 | - | 5,211,604 |
| Appropriation of the 2020 earnings (Note 19) | | | | | | | | | | |
| Legal reserve | - | - | - | 79,086 | - | (79,086) | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (344,000) | - | - | - | (344,000) |
| Reversal of special reserve appropriated upon the first-time adoption of IFRSs | - | - | - | - | (1,725) | 1,725 | - | - | - | - |
| Change in capital surplus from investment in associates accounted for using the equity method | - | - | 26 | - | - | - | - | - | - | 26 |
| Net profit for the year ended December 31, 2021 | - | - | - | - | - | 1,143,641 | - | - | - | 1,143,641 |
| Other comprehensive income for the year ended December 31, 2021 | - | - | - | - | - | (5,081) | 4,188 | 366,203 | - | 365,310 |
| Total comprehensive income for the year ended December 31, 2021 | - | - | - | - | - | 1,138,560 | 4,188 | 366,203 | - | 1,508,951 |
| Disposal of subsidiaries (Note 24) | - | - | - | - | - | (13,256) | 64,376 | - | - | 51,120 |
| Difference between consideration and carrying amount of subsidiaries acquired | - | - | 1,456 | - | - | - | - | - | - | 1,456 |
| Disposal of investments in equity instruments designated as at fair value through other comprehensive income (Note 19) | - | - | - | - | - | 23,600 | - | (23,600) | - | - |
| Buy-back of ordinary shares (Note 19) | - | - | - | - | - | - | - | - | (54,371) | (54,371) |
| BALANCE, DECEMBER 31, 2021 | 172,000 | \$ 1,720,000 | \$ 498,548 | \$ 509,861 | \$ 67,764 | \$ 2,829,865 | \$ (116,523) | \$ 919,642 | \$ (54,371) | \$ 6,374,786 |

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

(With Deloitte & Touche auditors' report dated February 22, 2022)

PROSPERITY DIELECTRICS CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

| | 2021 | 2020 |
|---|----------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 1,401,515 | \$ 956,206 |
| Adjustments for: | | |
| Depreciation expense | 373,527 | 304,300 |
| Amortization expense | 3,225 | 3,331 |
| Net gain on valuation of financial assets at FVTPL | (33,695) | (79,694) |
| Interest expense | 9,541 | 7,945 |
| Interest income | (2,168) | (1,991) |
| Dividends income | (54,883) | (30,185) |
| Share of profit of subsidiaries and associates | (291,132) | (184,190) |
| Gain on disposal of property, plant and equipment | (3,282) | (899) |
| Loss on disposal of investments | - | 424 |
| Gain on reversal of impairment loss of non-financial assets | (13,604) | (20,308) |
| Unrealized gain on the transactions with subsidiaries and associates | 7,816 | - |
| Realized gain on the transactions with subsidiaries and associates | - | (6,425) |
| Gain on lease modifications | 333 | (594) |
| Changes in operating assets and liabilities | | |
| Financial assets mandatorily classified as at fair value through profit or loss | (40,123) | - |
| (Increase) decrease in notes receivable from unrelated parties | (24,424) | 2,580 |
| Increase in trade receivables from unrelated parties | (5,519) | (82,343) |
| (Increase) decrease in trade receivables from related parties | (345,154) | 174,849 |
| Decrease (increase) in other receivables from unrelated parties | 6,177 | (2,819) |
| (Increase) decrease in other receivables from related parties | (7,683) | 6,145 |
| Increase in inventories | (209,140) | (197,164) |
| Increase in other current assets | (8,992) | (2,239) |
| Increase in other non-current assets | (1,918) | (675) |
| Increase in trade payables to unrelated parties | 19,690 | 88,944 |
| (Decrease) increase in trade payables to related parties | (106,916) | 72,040 |
| Increase in other payables to unrelated parties | 79,404 | 26,994 |
| Decrease in other payables to related parties | (16,332) | (5,916) |
| (Decrease) increase in other current liabilities | (10,606) | 6,523 |
| (Decrease) increase in net defined benefit liabilities | (1,821) | 584 |
| Cash generated from operations | 723,836 | 1,035,423 |
| Interest received | 2,157 | 2,018 |
| Dividends received | 55,623 | 304,626 |
| Interest paid | (9,524) | (7,703) |
| Income tax paid | (97,821) | (116,173) |
| Net cash generated from operating activities | <u>674,271</u> | <u>1,218,191</u> |

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PROSPERITY DIELECTRICS CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

| | 2021 | 2020 |
|---|-------------------|-------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of financial assets at fair value through other comprehensive income | \$ (30,000) | \$ (146,788) |
| Disposal of financial assets at fair value through other comprehensive income | 42,758 | - |
| Purchase of financial assets at amortized cost | - | (153,443) |
| Disposal of financial assets at amortized cost | 138,631 | - |
| Purchase of investments accounted for using the equity method | (87,370) | - |
| Disposal of investments accounted for using the equity method | - | 2,616 |
| Proceeds from the return of capital upon investees' capital reduction of financial assets using the equity method | 409,726 | - |
| Payments for property, plant and equipment | (717,805) | (436,245) |
| Proceeds from disposal of property, plant and equipment | 8,046 | 10,063 |
| Increase (decrease) in refundable deposits | (46) | 181 |
| Acquisition of intangible assets | <u>(6,470)</u> | <u>(914)</u> |
| Net cash used in investing activities | <u>(242,530)</u> | <u>(724,530)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of short-term borrowings | (20,000) | (57,000) |
| Proceeds from long-term borrowings | 63,020 | 477,436 |
| Proceeds from guarantee deposits received | - | 10,568 |
| Repayment of the principal portion of lease liabilities | (25,681) | (25,004) |
| Decrease in other non-current liabilities | (3,020) | (2,436) |
| Cash dividends paid to owners of the Company | (344,000) | (309,600) |
| Payment for buy-back of ordinary shares | <u>(54,371)</u> | <u>-</u> |
| Net cash (used in) generated from financing activities | <u>(384,052)</u> | <u>93,964</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 47,689 | 587,625 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>753,661</u> | <u>166,036</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 801,350</u> | <u>\$ 753,661</u> |

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

(With Deloitte & Touche auditors' report dated February 22, 2022)

(Concluded)

PROSPERITY DIELECTRICS CO., LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Prosperity Dielectrics Co., Ltd. (the “Company”) was incorporated on May 21, 1990. The Company mainly manufactures, processes and sells multilayer ceramic capacitors (“MLCC”), chip resistors, ceramic dielectric powders and magnetic elements.

The Company’s shares have been listed on the mainboard of the Taipei Exchange (TPEX) since April 19, 2002. The parent company, Walsin Technology Corporation, held 43.13% of the common shares of the Company as of December 31, 2021 and 2020.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on February 22, 2022.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have a material impact on the Company’s accounting policies:

- 1) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”

The Company elected to apply the practical expedient provided in the amendments to deal with the changes in the basis for determining contractual cash flows of financial assets, financial liabilities or lease liabilities resulting from the interest rate benchmark reform. The changes are accounted for by updating the effective interest rate at the time the basis is changed, provided the changes are necessary as a direct consequence of the reform and the new basis is economically equivalent to the previous basis.

For the hedging relationships that are subject to the reform, the Company applies the following temporary exceptions:

- a) The changes to the hedging relationship that are needed to reflect the changes required by the reform are treated as a continuation of the existing hedging relationship.
- b) If an alternative benchmark rate that is reasonably expected to be separately identifiable within a period of 24 months, the Company designates the rate as a non-contractually specified risk component.

- c) After a cash flow hedging relationship is amended, the amount accumulated in the gain/(loss) on hedging instruments of cash flow hedge is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- d) The Company allocates the hedged items of a group hedge that is subject to the reform to subgroups based on whether the hedged items have been changed to reference an alternative benchmark rate, and designates the hedged benchmark rate separately.

2) Amendment to IFRS 16 “Covid-19 - Related Rent Concessions beyond June 30, 2021”

The Company elected to apply the amendment that extends the availability of the practical expedient to lease payments due on or before June 30, 2022. Refer to Note 4 for the relevant accounting policies of the practical expedient.

b. The IFRSs endorsed by the FSC for application starting from 2022

| New IFRSs | Effective Date Announced by IASB |
|---|-------------------------------------|
| “Annual Improvements to IFRS Standards 2018-2020” | January 1, 2022 (Note 1) |
| Amendments to IFRS 3 “Reference to the Conceptual Framework” | January 1, 2022 (Note 2) |
| Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use” | January 1, 2022 (Note 3) |
| Amendments to IAS 37 “Onerous Contracts-Cost of Fulfilling a Contract” | January 1, 2022 (Note 4) |

Note 1: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 2: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 3: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations will not impact on the Company’s financial position and financial performance.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|--|--|
| 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 IASB |
| IFRS 17 “Insurance Contracts” | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IFRS 17 “Initial Application of IFRS 9 and IFRS 17 - 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 (Note 2) |
| Amendments to IAS 8 “Definition of Accounting Estimates” | January 1, 2023 (Note 3) |
| Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” | January 1, 2023 (Note 4) |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

As of the date the financial statements were authorized for issue, the Company assessed that the application of other standards and interpretations will not impact on the Company’s financial position and financial performance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and associates, the share of other comprehensive income of subsidiaries and associates and the related equity items, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (i.e., foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the date when the fair value is determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary item denominated in a foreign currency and measured at historical cost is stated at the reporting currency as originally translated from the foreign currency.

For the purpose of presenting the parent company only financial statements, the financial statements of the Company's foreign operations that are prepared using functional currencies which are different from the currency of the Company are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date. Inventories are usually priced at standard cost, and are adjusted on the closing date to make it close to the weighted-average cost. At the end of the period, an appropriate allowance for loss on inventory is recognized based on an analysis of inventory aging and turnover.

f. Investments accounted for using the equity method

The Company uses the equity method for its investments in subsidiaries and associates.

1) Investments in subsidiaries

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of loss of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further loss, if any.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary that constitutes a business at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary that constitutes a business over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Company directly disposed of the related assets or liabilities.

Profit or loss resulting from downstream transactions is eliminated in full only in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only in the parent company only financial statements and only to the extent of interests in the subsidiaries that are not related to the Company.

2) Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Company uses the equity method to account for its investments in associates. Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of the equity of associates.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Company's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further loss, if any. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

When the Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

g. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

The depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

Financial assets are classified into the following categories: financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends, interest earned and remeasurement gains or losses on such financial assets are recognized in profit or loss. Fair value is determined in the manner described in Note 24.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents and trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit impaired on purchase or origination but have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets.

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

- iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

- iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

- b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Company always recognizes lifetime expected credit losses (ECLs) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Company considers the following situations as indicators that a financial asset is in default (without taking into account any collateral held by the Company):

- i. Internal or external information shows that the debtor is unlikely to pay its creditors.
- ii. The financial asset is more than 120 days past due unless the Company has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

k. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

l. Revenue recognition

The Company identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

- Revenue from the sale of goods

Revenue from the sale of goods comes from sales of electronic components. Sales of electronic components are recognized as revenue when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently.

m. Leasing

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

1) The Company as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for by applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee's incremental borrowing rate will be used.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by (a) decreasing the carrying amount of the right-of-use asset of lease modifications that decreased the scope of the lease, and recognizing in profit or loss any gain or loss on the partial or full termination of the lease; (b) making a corresponding adjustment to the right-of-use asset of all other lease modifications. Lease liabilities are presented on a separate line in the balance sheets.

n. Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs that the grants intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they are received.

The difference between the proceeds received from a government loan with a below-market rate of interest and the fair value of the loan based on prevailing market interest rates is recognized as a government grant.

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

p. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Act in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and such temporary differences are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The management of the Company considers the recent development of the COVID-19 in Taiwan and its economic environment implications when making its critical accounting estimates in cash flow projections, growth rate, discount rate, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|--------------------|-------------------|
| | 2021 | 2020 |
| Cash on hand | \$ 167 | \$ 167 |
| Checking accounts and demand deposits | 315,130 | 262,279 |
| Cash equivalents (investments with original maturities of 3 months or less) | | |
| Time deposits | 49,997 | 23,032 |
| Repurchase agreements collateralized by bonds | <u>436,056</u> | <u>468,183</u> |
| | <u>\$ 801,350</u> | <u>\$ 753,661</u> |

The market rate intervals of cash equivalents were as follows:

| | <u>December 31</u> | |
|--|--------------------|-------------|
| | 2021 | 2020 |
| Time deposits with original maturities of 3 months or less | 2.35%-2.4% | 2.3% |
| Repurchase agreements collateralized by bonds | 0.23%-0.24% | 0.22%-0.38% |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | <u>December 31</u> | |
|--|--------------------|-------------------|
| | 2021 | 2020 |
| <u>Financial assets mandatorily classified as at FVTPL - current</u> | | |
| Non-derivative financial assets | | |
| Domestic listed shares | <u>\$ 389,047</u> | <u>\$ 315,229</u> |

8. FINANCIAL ASSETS AT AMORTIZED COST

| | <u>December 31</u> | |
|--|--------------------|-------------------|
| | 2021 | 2020 |
| <u>Current</u> | | |
| Time deposits with original maturities of more than 3 months (a) | \$ 30,500 | \$ 30,500 |
| Restricted deposits (b) | <u>14,812</u> | <u>153,443</u> |
| | <u>\$ 45,312</u> | <u>\$ 183,943</u> |

a. The interest rates for time deposits with original maturities of more than 3 months were as follows:

| | <u>December 31</u> | |
|--|--------------------|-------------|
| | 2021 | 2020 |
| Time deposits with original maturities of more than 3 months | 0.8% | 0.8% |

b. These foreign currency deposits are repatriated and held in a special account in accordance with the regulations stipulated in “The Management, Utilization, and Taxation of Repatriated Offshore Funds Act”.

9. NOTES RECEIVABLE AND TRADE RECEIVABLES

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | <u>2021</u> | <u>2020</u> |
| <u>Notes receivable from unrelated parties</u> | | |
| At amortized cost | | |
| Gross carrying amount | \$ 50,882 | \$ 26,458 |
| Less: Allowance for impairment loss | <u>-</u> | <u>-</u> |
| | <u>\$ 50,882</u> | <u>\$ 26,458</u> |
| <u>Trade receivables from unrelated parties</u> | | |
| At amortized cost | | |
| Gross carrying amount | \$ 552,952 | \$ 547,498 |
| Less: Allowance for impairment loss | <u>(22,434)</u> | <u>(22,499)</u> |
| | <u>\$ 530,518</u> | <u>\$ 524,999</u> |

The average credit period of sales of goods is 0 to 120 days. The Company uses other publicly available financial information or its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the year to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced.

The Company measures the loss allowance for notes receivable and trade receivables at an amount equal to lifetime ECLs. The expected credit losses on notes receivable and trade receivables are estimated by reference to the customers' past default records and current financial positions. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the Company determines the expected credit loss rate only by reference to the past due days of notes receivable and accounts receivable.

The Company writes off a note receivable or trade receivable when there is evidence indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable and trade receivables based on the customers' past default records and current financial positions.

December 31, 2021

| | Not Past Due | 1 to 30 Days Past Due | 31 to 60 Days Past Due | 61 to 90 Days Past Due | 91 to 180 Days Past Due | Over 180 Days Past Due | Total |
|-----------------------------------|-------------------|-----------------------|------------------------|------------------------|-------------------------|------------------------|-------------------|
| Expected credit loss rate | 1%-4% | 5% | 10% | 20% | 50% | 100% | |
| Gross carrying amount | \$ 585,783 | \$ 11,350 | \$ 5,449 | \$ - | \$ 1,252 | \$ - | \$ 603,834 |
| Loss allowance (Lifetime ECLs) | <u>(20,696)</u> | <u>(567)</u> | <u>(545)</u> | <u>-</u> | <u>(626)</u> | <u>-</u> | <u>(22,434)</u> |
| Amortized cost | <u>\$ 565,087</u> | <u>\$ 10,783</u> | <u>\$ 4,904</u> | <u>\$ -</u> | <u>\$ 626</u> | <u>\$ -</u> | <u>\$ 581,400</u> |

December 31, 2020

| | Not Past Due | 1 to 30 Days Past Due | 31 to 60 Days Past Due | 61 to 90 Days Past Due | 91 to 180 Days Past Due | Over 180 Days Past Due | Total |
|-----------------------------------|-------------------|-----------------------|------------------------|------------------------|-------------------------|------------------------|-------------------|
| Expected credit loss rate | 1%-4% | 5% | 10% | 20% | 50% | 100% | |
| Gross carrying amount | \$ 564,100 | \$ 9,143 | \$ 713 | \$ - | \$ - | \$ - | \$ 573,956 |
| Loss allowance (Lifetime ECLs) | <u>(21,971)</u> | <u>(457)</u> | <u>(71)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(22,499)</u> |
| Amortized cost | <u>\$ 542,129</u> | <u>\$ 8,686</u> | <u>\$ 642</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 551,457</u> |

The movements of the loss allowance of notes receivable and trade receivables were as follows:

| | <u>December 31</u> | |
|-----------------------------|--------------------|------------------|
| | <u>2021</u> | <u>2020</u> |
| Balance at January 1 | \$ 22,499 | \$ 22,499 |
| Less: Valuation differences | <u>(65)</u> | <u>-</u> |
| Balance at December 31 | <u>\$ 22,434</u> | <u>\$ 22,499</u> |

10. INVENTORIES

| | <u>December 31</u> | |
|----------------------|--------------------|-------------------|
| | <u>2021</u> | <u>2020</u> |
| Finished goods | \$ 217,754 | \$ 167,958 |
| Semi-finished goods | 68,796 | 60,396 |
| Work in progress | 121,327 | 132,859 |
| Raw materials | 355,841 | 184,666 |
| Inventory in transit | <u>1,608</u> | <u>2,922</u> |
| | <u>\$ 765,326</u> | <u>\$ 548,801</u> |

The nature of the cost of goods sold is as follows:

| | <u>December 31</u> | |
|--------------------------------|---------------------|---------------------|
| | 2021 | 2020 |
| Cost of inventories sold | \$ 3,719,447 | \$ 3,207,036 |
| Inventory write-downs reversed | <u>(7,385)</u> | <u>(14,238)</u> |
| | <u>\$ 3,712,062</u> | <u>\$ 3,192,798</u> |

The reversal of inventory write-downs is due to the removal of the inventory that was previously recognized as inventory write-downs.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in Equity Instruments

| | <u>December 31</u> | |
|--|---------------------|---------------------|
| | 2021 | 2020 |
| <u>Non-current</u> | | |
| Domestic investments - listed shares | \$ 1,448,999 | \$ 1,109,357 |
| Domestic investments - unlisted shares | 158,075 | 118,910 |
| Foreign investments - unlisted shares | <u>-</u> | <u>18,997</u> |
| | <u>\$ 1,607,074</u> | <u>\$ 1,247,264</u> |

Investments in Equity Instruments at FVTOCI

| | <u>December 31</u> | |
|--|---------------------|---------------------|
| | 2021 | 2020 |
| <u>Non-current</u> | | |
| Domestic investments - listed shares | | |
| Walton Advanced Engineering Inc. | \$ 601,608 | \$ 440,434 |
| Walsin Lihwa Corporation | 185,500 | 135,100 |
| HannStar Board Corporation | 257,342 | 245,722 |
| Singatron Enterprise Co., Ltd. | 329,642 | 246,717 |
| APAQ Technology Co., Ltd. | 44,857 | 41,384 |
| Fubon Financial Holding Co., Ltd. - preferred shares C | 30,050 | - |
| Domestic investments - unlisted shares | | |
| Chin-Xin Investment Co., Ltd. | 158,075 | 118,910 |
| Foreign investments - unlisted shares | | |
| Union Technology Corp. | <u>-</u> | <u>18,997</u> |
| | <u>\$ 1,607,074</u> | <u>\$ 1,247,264</u> |

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | <u>December 31</u> | |
|-----------------------------|---------------------|---------------------|
| | 2021 | 2020 |
| Investments in subsidiaries | \$ 1,744,111 | \$ 1,768,432 |
| Investments in associates | <u>147,157</u> | <u>112,170</u> |
| | <u>\$ 1,891,268</u> | <u>\$ 1,880,602</u> |

a. Investment in subsidiaries

| | <u>December 31</u> | |
|-----------------------------------|---------------------|---------------------|
| | 2021 | 2020 |
| Unlisted shares | | |
| PDC Prime Holdings Limited | \$ 1,616,933 | \$ 1,313,574 |
| Frontec International Corporation | <u>127,178</u> | <u>454,858</u> |
| | <u>\$ 1,744,111</u> | <u>\$ 1,768,432</u> |

Share of profit (loss) of investments accounted for using the equity method for the years ended December 31, 2021 and 2020 was summarized as follows:

| | <u>For the Year Ended December 31</u> | |
|-----------------------------------|---------------------------------------|-------------------|
| | 2021 | 2020 |
| PDC Prime Holdings Limited | \$ 311,007 | \$ 192,688 |
| Frontec International Corporation | <u>(14,534)</u> | <u>(9,870)</u> |
| | <u>\$ 296,473</u> | <u>\$ 182,818</u> |

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Company was as follows:

| | <u>December 31</u> | |
|-----------------------------------|--------------------|-------------|
| | 2021 | 2020 |
| PDC Prime Holdings Limited | 100% | 100% |
| Frontec International Corporation | 100% | 100% |

b. Investment in associates

| | <u>December 31</u> | |
|--------------------------|--------------------|-------------------|
| | 2021 | 2020 |
| Unlisted shares | | |
| Walsin Color Corporation | \$ 104,364 | \$ 112,170 |
| Joyin Co., Ltd. | <u>42,793</u> | <u>-</u> |
| | <u>\$ 147,157</u> | <u>\$ 112,170</u> |

Share of profit (loss) of associates for the years ended December 31, 2021 and 2020 was summarized as follows:

| | For the Year Ended December 31 | |
|----------------------------|---------------------------------------|-----------------|
| | 2021 | 2020 |
| Walsin Color Corporation | \$ (588) | \$ 1,832 |
| Joyin Co., Ltd. | (4,753) | - |
| INPAQ Technology Co., Ltd. | <u>-</u> | <u>(460)</u> |
| | <u>\$ (5,341)</u> | <u>\$ 1,372</u> |

At the end of the reporting period, the proportion of ownership and voting rights in associates held by the Company was as follows:

| | December 31 | |
|--------------------------|--------------------|-------------|
| | 2021 | 2020 |
| Walsin Color Corporation | 3.36% | 3.36% |
| Joyin Co., Ltd. | 4.09% | - |

Even though the Company holds less than 20% of the voting rights each in Walsin Color Corporation, INPAQ Technology Co., Ltd. and Joyin Co., Ltd., its parent company, Walsin Technology Corporation, exercises significant influence over those companies; therefore, they are accounted for using the equity method.

In July 2020, the Company sold 0.05% of its interest in INPAQ Technology Co., Ltd. to a third party for proceeds of \$2,616 thousand. This transaction resulted in the recognition of a loss of \$58 thousand.

The share of profit or loss and other comprehensive income of the investments in associates accounted for using the equity method for the years ended December 31, 2021 and 2020 was recognized based on the associates' audited financial statements for the same years.

13. PROPERTY, PLANT AND EQUIPMENT

| <u>Cost</u> | Land | Buildings | Machinery and Equipment | Office Equipment | Other Equipment | Property under Construction and Prepayments for Equipment | Total |
|--|-------------------|-------------------|--------------------------------|-------------------------|------------------------|--|---------------------|
| Balance at January 1, 2020 | \$ 302,220 | \$ 619,398 | \$ 1,740,772 | \$ 27,747 | \$ 140,652 | \$ 53,561 | \$ 2,884,350 |
| Additions | - | 114 | 6,826 | - | 1,066 | 531,448 | 539,454 |
| Disposals | - | (527) | (45,582) | (70) | (4,214) | - | (50,393) |
| Reclassifications | <u>-</u> | <u>106,540</u> | <u>359,730</u> | <u>8,727</u> | <u>29,837</u> | <u>(505,084)</u> | <u>(250)</u> |
| Balance at December 31, 2020 | <u>\$ 302,220</u> | <u>\$ 725,525</u> | <u>\$ 2,061,746</u> | <u>\$ 36,404</u> | <u>\$ 167,341</u> | <u>\$ 79,925</u> | <u>\$ 3,373,161</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | | | |
| Balance at January 1, 2020 | \$ - | \$ 387,202 | \$ 928,750 | \$ 15,225 | \$ 111,059 | \$ - | \$ 1,442,236 |
| Depreciation expenses | - | 57,784 | 205,204 | 4,426 | 10,998 | - | 278,412 |
| Disposals | - | (451) | (36,973) | (70) | (3,701) | - | (41,195) |
| Reversals of impairment losses | - | (6,011) | (59) | - | - | - | (6,070) |
| Reclassifications | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,767</u> | <u>-</u> | <u>1,767</u> |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>\$ 438,524</u> | <u>\$ 1,096,922</u> | <u>\$ 19,581</u> | <u>\$ 120,123</u> | <u>\$ -</u> | <u>\$ 1,675,150</u> |
| Carrying amount at December 31, 2020 | <u>\$ 302,220</u> | <u>\$ 287,001</u> | <u>\$ 964,824</u> | <u>\$ 16,823</u> | <u>\$ 47,218</u> | <u>\$ 79,925</u> | <u>\$ 1,698,011</u> |

(Continued)

| | Land | Buildings | Machinery and Equipment | Office Equipment | Other Equipment | Property under Construction and Prepayments for Equipment | Total |
|--|-------------------|-------------------|-------------------------|------------------|-------------------|---|---------------------|
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2021 | \$ 302,220 | \$ 725,525 | \$ 2,061,746 | \$ 36,404 | \$ 167,341 | \$ 79,925 | \$ 3,373,161 |
| Additions | - | 19 | 4,931 | - | - | 738,596 | 743,546 |
| Disposals | - | (4,966) | (81,045) | - | (625) | (3,270) | (89,906) |
| Reclassifications | - | 110,542 | 558,629 | 8,699 | 28,826 | (700,717) | 5,979 |
| Balance at December 31, 2021 | <u>\$ 302,220</u> | <u>\$ 831,120</u> | <u>\$ 2,544,261</u> | <u>\$ 45,103</u> | <u>\$ 195,542</u> | <u>\$ 114,534</u> | <u>\$ 4,032,780</u> |
| <u>Accumulated depreciation and impairment</u> | | | | | | | |
| Balance at January 1, 2021 | \$ - | \$ 438,524 | \$ 1,096,922 | \$ 19,581 | \$ 120,123 | \$ - | \$ 1,675,150 |
| Depreciation expenses | - | 75,047 | 251,037 | 5,743 | 15,583 | - | 347,410 |
| Disposals | - | (4,965) | (79,778) | - | (626) | - | (85,369) |
| Reversals of impairment losses | - | (5,703) | (516) | - | - | - | (6,219) |
| Reclassifications | - | 5,703 | 308 | - | 1,904 | - | 7,915 |
| Balance at December 31, 2021 | <u>\$ -</u> | <u>\$ 508,606</u> | <u>\$ 1,267,973</u> | <u>\$ 25,324</u> | <u>\$ 136,984</u> | <u>\$ -</u> | <u>\$ 1,938,887</u> |
| Carrying amount at December 31, 2021 | <u>\$ 302,220</u> | <u>\$ 322,514</u> | <u>\$ 1,276,288</u> | <u>\$ 19,779</u> | <u>\$ 58,558</u> | <u>\$ 114,534</u> | <u>\$ 2,093,893</u> |

(Concluded)

- The above items of property, plant and equipment used by the Company are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings

| | |
|---|-------------|
| Main buildings | 15-41 years |
| Electrical mechanical and power equipment | 2-21 years |
| Engineering system | 2-25 years |
| Others | 2-35 years |
| Machinery and equipment | 2-12 years |
| Office equipment | 3-5 years |
| Other equipment | 2-10 years |

14. LEASE ARRANGEMENTS

a. Right-of-use assets

| | <u>December 31</u> | |
|--------------------------|--------------------|-------------------|
| | 2021 | 2020 |
| <u>Carrying amount</u> | | |
| Land | \$ 155,598 | \$ 166,366 |
| Buildings | 5,860 | 7,848 |
| Transportation equipment | <u>1,250</u> | <u>1,014</u> |
| | <u>\$ 162,708</u> | <u>\$ 175,228</u> |

| | For the Year Ended December 31 | |
|---|---------------------------------------|------------------|
| | 2021 | 2020 |
| Additions to right-of-use assets | \$ <u>13,946</u> | \$ <u>859</u> |
| Depreciation charge for right-of-use assets | | |
| Land | \$ 19,778 | \$ 19,909 |
| Buildings | 5,779 | 5,540 |
| Transportation equipment | <u>560</u> | <u>439</u> |
| | <u>\$ 26,117</u> | <u>\$ 25,888</u> |

Except for the recognized depreciation, the Company did not have significant sublease or impairment of right-of-use assets for the years ended December 31, 2021 and 2020.

b. Lease liabilities

| | December 31 | |
|------------------------|--------------------|-------------------|
| | 2021 | 2020 |
| <u>Carrying amount</u> | | |
| Current | \$ <u>23,972</u> | \$ <u>24,804</u> |
| Non-current | \$ <u>149,620</u> | \$ <u>160,190</u> |

The discount rates for lease liabilities were as follows:

| | December 31 | |
|--------------------------|--------------------|-------------|
| | 2021 | 2020 |
| Land | 1% | 1% |
| Buildings | 1% | 1% |
| Transportation equipment | 1% | 1% |

15. BORROWINGS

a. Short-term borrowings

| | December 31 | |
|---------------------------|--------------------|------------------|
| | 2021 | 2020 |
| Unsecured borrowings | | |
| Line of credit borrowings | \$ <u>-</u> | \$ <u>20,000</u> |
| Interest rate | - | 0.9% |

b. Long-term borrowings

| | <u>December 31</u> | |
|--|--------------------|-------------------|
| | <u>2021</u> | <u>2020</u> |
| E.Sun Commercial Bank | | |
| Line of credit borrowings: The loan limit is NT\$600,000 thousand. Repayment of the principal will be made in 24 equal monthly payments starting 2 years before the maturity date. | | |
| Loan period | | |
| 2019.12.26-2024.12.15 | \$ 197,980 | \$ 197,005 |
| 2020.04.09-2024.12.15 | 98,990 | 98,502 |
| 2020.07.09-2025.06.15 | 78,996 | 78,608 |
| 2020.08.07-2025.06.15 | 98,746 | 98,260 |
| 2021.11.09-2025.06.15 | 59,247 | - |
| Taishin International Bank | | |
| Line of credit borrowings: The loan limit is NT\$600,000 thousand. Repayment of the principal will be made in 24 equal monthly payments starting 2 years before the maturity date. | | |
| Loan period | | |
| 2019.12.10-2024.12.10 | 99,033 | 98,546 |
| 2020.04.29-2024.12.10 | 99,033 | 98,546 |
| First Commercial Bank | | |
| Line of credit borrowings: The loan limit is NT\$900,000 thousand. Repayment of the principal will be made in 24 equal monthly payments starting 2 years before the maturity date. | | |
| Loan period | | |
| 2020.03.02-2025.03.02 | 93,964 | 93,502 |
| Less: Current portion | <u>(8,333)</u> | <u>-</u> |
| Long-term borrowings | <u>\$ 817,656</u> | <u>\$ 762,969</u> |
| Interest rate | 0.45%-0.6% | 0.45%-0.6% |

16. OTHER LIABILITIES

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | <u>2021</u> | <u>2020</u> |
| <u>Current</u> | | |
| Payables expense | \$ 400,971 | \$ 335,507 |
| Payables for purchases of equipment | 230,240 | 216,308 |
| Payables for annual leave | 7,304 | 9,498 |
| Payables for remuneration of directors and supervisors and employee bonuses | 50,832 | 34,681 |
| Payables for dividends | <u>500</u> | <u>500</u> |
| | <u>\$ 689,847</u> | <u>\$ 596,494</u> |
| <u>Non-current</u> | | |
| Deferred revenue | | |
| Arising from government grants | <u>\$ 9,011</u> | <u>\$ 12,031</u> |

17. PROVISIONS - CURRENT

| | <u>December 31</u> | |
|---|--------------------|-----------------|
| | <u>2021</u> | <u>2020</u> |
| Employee benefits (presented in other payables) | \$ <u>7,304</u> | \$ <u>9,498</u> |

The provision for employee benefits represents the accrual of employees' vested service leave entitlement.

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Act is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

| | <u>December 31</u> | |
|---|--------------------|------------------|
| | <u>2021</u> | <u>2020</u> |
| Present value of defined benefit obligation | \$ 58,278 | \$ 106,216 |
| Fair value of plan assets | <u>(6,887)</u> | <u>(58,106)</u> |
| Deficit | <u>51,391</u> | <u>48,110</u> |
| Net defined benefit liabilities | \$ <u>51,391</u> | \$ <u>48,110</u> |

Movements in net defined benefit liabilities (assets) were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities |
|---|--|--|--|
| Balance at January 1, 2020 | <u>\$ 102,103</u> | <u>\$ (57,305)</u> | <u>\$ 44,798</u> |
| Service cost | | | |
| Current service cost | 117 | - | 117 |
| Prior service cost | 533 | - | 533 |
| Net interest expense (income) | <u>766</u> | <u>(438)</u> | <u>328</u> |
| Recognized in profit or loss | <u>1,416</u> | <u>(438)</u> | <u>978</u> |
| Remeasurement | | | |
| Actuarial loss - changes in demographic assumptions | 359 | - | 359 |
| Actuarial loss - changes in financial assumptions | 2,668 | - | 2,668 |
| Actuarial loss - experience adjustments | 1,547 | - | 1,547 |
| Return on the plan assets | <u>-</u> | <u>(1,850)</u> | <u>(1,850)</u> |
| Recognized in other comprehensive income | <u>4,574</u> | <u>(1,850)</u> | <u>2,724</u> |
| Contributions from the employer | <u>-</u> | <u>(2,332)</u> | <u>(2,332)</u> |
| Benefits paid from the plan assets | (3,819) | 3,819 | - |
| Other | <u>1,942</u> | <u>-</u> | <u>1,942</u> |
| Balance at December 31, 2020 | <u>(106,216)</u> | <u>(58,106)</u> | <u>48,110</u> |
| Service cost | | | |
| Current service cost | 64 | - | 64 |
| Net interest expense (income) | <u>531</u> | <u>(296)</u> | <u>235</u> |
| Recognized in profit or loss | <u>595</u> | <u>(296)</u> | <u>299</u> |
| Remeasurement | | | |
| Actuarial loss - changes in demographic assumptions | 1,507 | - | 1,507 |
| Actuarial loss - changes in financial assumptions | (818) | - | (818) |
| Actuarial loss - experience adjustments | 4,980 | - | 4,980 |
| Return on the plan assets | <u>-</u> | <u>(567)</u> | <u>(567)</u> |
| Recognized in other comprehensive income | <u>5,669</u> | <u>(567)</u> | <u>5,102</u> |
| Contributions from the employer | <u>-</u> | <u>(2,120)</u> | <u>(2,120)</u> |
| Benefits paid from the plan assets | <u>(54,202)</u> | <u>54,202</u> | <u>-</u> |
| Balance at December 31, 2021 | <u>\$ 58,278</u> | <u>\$ (6,887)</u> | <u>\$ 51,391</u> |

Through the defined benefit plans under the Labor Standards Act, the Company is exposed to the following risks:

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated using the future salaries of plan participants. As such, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation of the Company were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations are as follows:

| | December 31 | |
|----------------------------------|--------------------|-------------|
| | 2021 | 2020 |
| Discount rate | 0.625% | 0.5% |
| Expected rate of salary increase | 2% | 2% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation will increase (decrease) as follows:

| | December 31 | |
|---|--------------------|-------------------|
| | 2021 | 2020 |
| Discount rate | | |
| 0.25% increase | <u>\$ (1,623)</u> | <u>\$ (2,716)</u> |
| 0.25% decrease | <u>\$ 1,689</u> | <u>\$ 2,818</u> |
| Expected rate of salary increase/decrease | | |
| 0.25% increase | <u>\$ 1,635</u> | <u>\$ 2,725</u> |
| 0.25% decrease | <u>\$ (1,579)</u> | <u>\$ (2,641)</u> |

The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions will occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|--|--------------------|-----------------|
| | 2021 | 2020 |
| Expected contributions to the plan for the next year | <u>\$ 2,091</u> | <u>\$ 2,330</u> |
| Average duration of the defined benefit obligation | 11.2 years | 10.3 years |

19. EQUITY

a. Share capital

Common shares

| | <u>December 31</u> | |
|---|---------------------|---------------------|
| | <u>2021</u> | <u>2020</u> |
| Authorized shares (in thousands of shares) | <u>220,000</u> | <u>220,000</u> |
| Authorized capital | <u>\$ 2,200,000</u> | <u>\$ 2,200,000</u> |
| Issued and paid shares (in thousands of shares) | <u>172,000</u> | <u>172,000</u> |
| Issued capital | <u>\$ 1,720,000</u> | <u>\$ 1,720,000</u> |

Shares issued with par value of \$10 carry one vote per share and the right to dividends.

b. Capital surplus

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | <u>2021</u> | <u>2020</u> |
| <u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note 1)</u> | | |
| Issuance of common shares | \$ 402,192 | \$ 402,192 |
| Conversion of bonds | 55,484 | 55,484 |
| Treasury share transactions | 28,889 | 28,889 |
| Difference between consideration and carrying amount of subsidiaries acquired | 1,456 | - |
| <u>May only be used to offset a deficit</u> | | |
| Share of changes in capital surplus of associates accounted for using the equity method | 10,501 | 10,501 |
| Arising from changes in percentage of ownership interest in subsidiary (Note 2) | <u>26</u> | <u>-</u> |
| | <u>\$ 498,548</u> | <u>\$ 497,066</u> |

Note 1: Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

Note 2: Such capital surplus arises from the effect of changes in ownership interest in a subsidiary that resulted from equity transactions other than actual disposal or acquisition, or from changes in the capital surplus of subsidiaries accounted for using the equity method.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the Company’s articles of incorporation (the “Articles”), where the Company made a profit in a fiscal year, the profit shall be first used to offset losses of previous years, setting aside as legal reserve 10% of the remaining profit until the legal reserve equals the Company’s paid-in capital. After setting aside or reversing a special reserve in accordance with the law and regulations, additional appropriations may be made to the special reserve depending on business needs. Any remaining profit together with any undistributed retained earnings shall be used by the Company’s board of directors as the basis of proposing a distribution plan, which should be resolved in the shareholders’ meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of the compensation of employees and remuneration of directors and supervisors, refer to compensation of employees and remuneration of directors and supervisors in Note 20-b.

In addition to the distribution of dividends in accordance with the Articles, cash dividends are limited to 50% of the total dividends distributed. The remaining retained earnings shall be distributed in the form of share dividends. However, should the Company obtain sufficient funds to meet its capital requirements during the current year, the cash distribution ratio can be raised to 100%. The Company should decide on the most appropriate dividend distribution policy and the form of payment based on the current year’s actual operating condition, taking into consideration the following year’s capital budget plans.

Appropriation of earnings to the legal reserve shall be made until the legal reserve equals the Company’s paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2020 and 2019, which were approved in the shareholders’ meetings on July 6, 2021 and June 17, 2020, respectively, were as follows:

| | <u>For the Year Ended December 31</u> | |
|---------------------------------|--|-------------|
| | 2020 | 2019 |
| Legal reserve | \$ 79,086 | \$ 77,159 |
| Cash dividends | 344,000 | 309,600 |
| Cash dividends per share (NT\$) | 2 | 1.8 |

The appropriation of earnings for 2021 will be resolved by the shareholders in their meeting to be held in 2022.

d. Special reserve

The movements of special reserve were as follows:

| | <u>For the Year Ended December 31</u> | |
|------------------------|--|------------------|
| | 2021 | 2020 |
| Balance at January 1 | \$ 69,489 | \$ 69,489 |
| Reversal | | |
| Disposal of subsidiary | <u>(1,725)</u> | <u>-</u> |
| Balance at December 31 | <u>\$ 67,764</u> | <u>\$ 69,489</u> |

On the first-time adoption of IFRSs, a proportionate share of special reserve relating to exchange differences on translation of the financial statements of foreign operations (including the subsidiaries of the Company) will be reversed on the Company's disposal of foreign operations; on the Company's loss of significant influence, however, the entire special reserve will be reversed. Additional special reserve should be appropriated for the amount equal to the difference between net debit balance reserves and the special reserve appropriated on the first-time adoption of IFRSs. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses; the reversed amount may be distributed.

e. Other equity items

| | For the Year Ended December 31, 2021 | | |
|---|--|---|-------------------|
| | Exchange Differences on the Translation of the Financial Statements of Foreign Operations | Unrealized Valuation Gain/(Loss) on Financial Assets at FVTOCI | Total |
| Balance at January 1 | \$ (185,087) | \$ 577,039 | \$ 391,952 |
| Unrealized valuation gain on investments in equity instruments at FVTOCI | - | 372,570 | 372,570 |
| Share from associates accounted for using the equity method | 4,188 | (6,367) | (2,179) |
| Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal | - | (23,600) | (23,600) |
| Disposal of foreign operations | <u>64,376</u> | <u>-</u> | <u>64,376</u> |
| Balance at December 31 | <u>\$ (116,523)</u> | <u>\$ 919,642</u> | <u>\$ 803,119</u> |
| | For the Year Ended December 31, 2020 | | |
| | Exchange Differences on the Translation of the Financial Statements of Foreign Operations | Unrealized Valuation Gain/(Loss) on Financial Assets at FVTOCI | Total |
| Balance at January 1 | \$ (170,337) | \$ 301,321 | \$ 130,984 |
| Unrealized valuation gain on investments in equity instruments at FVTOCI | - | 269,154 | 269,154 |
| Share from associates accounted for using the equity method | (14,750) | 8,831 | (5,919) |
| Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal | <u>-</u> | <u>(2,267)</u> | <u>(2,267)</u> |
| Balance at December 31 | <u>\$ (185,087)</u> | <u>\$ 577,039</u> | <u>\$ 391,952</u> |

f. Treasury shares

1) Movements of the treasury shares for the year ended December 31, 2021 were as follows:

Unit: In Thousands of Shares

| Purpose of Buy-back | For the Year Ended December 31, 2021 | | | |
|---------------------------------|--|---|---|--|
| | Number of Shares at January 1, 2021 | Increase During the Period | Decrease During the Period | Number of Shares at December 31, 2021 |
| Shares transferred to employees | - | 800 | - | 800 |

- 2) The buy-back shares shall be transferred to employees at one time or in installments within 5 years from the date of purchase. All employees of the Company and employees of the Company's subsidiaries in which the Company directly or indirectly holds more than 50% of the voting shares on the subscription date are eligible to subscribe.
- 3) The Securities and Exchange Act stipulates that the proportion of the number of shares that a company can buy back must not exceed 10% of the company's total issued shares. The total amount of shares purchased must not exceed retained earnings plus the amount of issued share premium and realized capital surplus. For the year ended December 31, 2021, the Company held a maximum of 800 thousand shares as treasury shares, and the total amount of shares purchased was \$54,371 thousand, which complies with the provisions of the Securities and Exchange Act.
- 4) Treasury shares held by PDC shall not be pledged in accordance with the provisions of the Securities and Exchange Act, and shall not enjoy shareholder rights.

20. OPERATING REVENUE

Disaggregation of revenue based on customer segments by geographical region

| Region | December 31 | |
|---------------|---------------------|---------------------|
| | 2021 | 2020 |
| Asia | \$ 4,451,058 | \$ 3,758,933 |
| America | 397,810 | 267,028 |
| Europe | 254,933 | 217,590 |
| | \$ 5,103,801 | \$ 4,243,551 |

The customer's location of operations is the basis for calculating the disaggregation of revenue based on customer segments by geographical region.

21. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION

- a. The employee benefits expense, depreciation and amortization incurred in the current period are summarized according to their functions as follows:

| | For the Year Ended December 31 | | | | | |
|------------------------------|--------------------------------|--------------------|------------|-----------------|--------------------|------------|
| | 2021 | | | 2020 | | |
| | Operating Costs | Operating Expenses | Total | Operating Costs | Operating Expenses | Total |
| Short-term employee benefits | | | | | | |
| Salaries and wages | \$ 448,672 | \$ 162,192 | \$ 610,864 | \$ 366,812 | \$ 146,021 | \$ 512,833 |
| Labor/health insurance | 37,973 | 10,323 | 48,296 | 30,120 | 9,545 | 39,665 |
| Pension | 14,922 | 4,304 | 19,226 | 12,863 | 4,412 | 17,275 |
| Directors' remuneration | - | 15,093 | 15,093 | - | 9,607 | 9,607 |
| Other employee benefits | 25,346 | 4,904 | 30,250 | 21,781 | 5,113 | 26,894 |
| Depreciation | 345,924 | 27,603 | 373,527 | 279,757 | 24,543 | 304,300 |
| Amortization | 2,046 | 1,179 | 3,225 | 1,972 | 1,359 | 3,331 |

The number of employees of the Company for the years ended December 31, 2021 and 2020 was 790 and 692, respectively. Among them, the number of directors who did not serve as employees was 5 for both years. The basis of calculation is consistent with that of employee benefits.

The average employee benefits for the years ended December 31, 2021 and 2020 were \$903 thousand and \$869 thousand, respectively.

The average salaries and wages for the years ended December 31, 2021 and 2020 were \$778 thousand and \$746 thousand, respectively. The difference between the two years is 4%.

The Company established the audit committee to replace supervisors. The supervisors' remuneration for the years ended December 31, 2021 and 2020 were \$0 thousand and \$915 thousand, respectively.

The Company's salary policies of directors, independent directors, managers and employees are as follows:

1) Directors and independent directors

a) Fixed remuneration:

The fixed remuneration is based on the transportation allowances resolved monthly by the board of directors.

b) Floating remuneration:

Based on the Articles of the Company, no more than 2% of net income is distributed as remuneration of directors.

2) Remuneration of managers is based on KPIs such as corporate performance, department performance and individual performance.

3) Compensation of employees is based on the Company's salary policies. Based on the Articles of the Company, 2%-10% of the net income is distributed as compensation of employees.

4) Remuneration of directors and managers is assessed regularly and determined by the compensation committee.

b. Compensation of employees and remuneration of directors and supervisors

According to the Company's Articles, the Company accrues compensation of employees and remuneration of directors and supervisors at rates of 2%-10% and no higher than 2%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors and supervisors. The compensation of employees and the remuneration of directors and supervisors for the years ended December 31, 2021 and 2020 which were approved by the Company's board of directors on February 22, 2022 and February 25, 2021, respectively, are as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------|
| | 2021 | 2020 |
| <u>Accrual rate</u> | | |
| Compensation of employees | 2.5% | 2.5% |
| Remuneration of directors and supervisors | 1% | 1% |

| | For the Year Ended December 31 | | | |
|---|---------------------------------------|---------------|-------------|---------------|
| | 2021 | | 2020 | |
| | Cash | Shares | Cash | Shares |
| <u>Amount</u> | | | | |
| Compensation of employees | \$ 36,309 | \$ - | \$ 24,772 | \$ - |
| Remuneration of directors and supervisors | 14,523 | - | 9,909 | - |

If there is a change in the amounts after the annual financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019, which were approved by the Company's board of directors and paid on February 26, 2020 and February 21, 2019, respectively, are as follows. The differences were adjusted to profit and loss for the years ended December 31, 2021 and 2020, respectively.

| | For the Year Ended December 31 | | | |
|---|---------------------------------------|---------------|-------------|---------------|
| | 2020 | | 2019 | |
| | Cash | Shares | Cash | Shares |
| Compensation of employees | | | | |
| Amounts approved in the board of directors meeting | \$ 24,772 | \$ - | \$ 24,396 | \$ - |
| Actual amounts paid | 24,743 | - | 24,376 | - |
| Remuneration of directors and supervisors | | | | |
| Amounts approved in the board of directors' meeting | 9,909 | - | 9,759 | - |
| Actual amounts paid | 9,909 | - | 9,759 | - |

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2022 and 2021 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

22. INCOME TAXES

- a. The details of income tax expense for the years ended December 31, 2021 and 2020 are as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2021 | 2020 |
| Current tax | | |
| In respect of the current year | \$ 273,279 | \$ 171,879 |
| Adjustments for prior year | <u>(15,405)</u> | <u>(6,991)</u> |
| Income tax expense recognized in profit or loss | <u>\$ 257,874</u> | <u>\$ 164,888</u> |

- b. The components of deferred income tax assets and liabilities are as follows:

| | December 31 | |
|--|---------------------|---------------------|
| | 2021 | 2020 |
| Deferred tax assets (liabilities) | | |
| Unrealized loss from inventory devaluation | \$ 7,709 | \$ 9,186 |
| Unrealized loss from bad debt | 2,386 | 3,161 |
| Impairment loss on assets | 14,692 | 15,936 |
| Reserve for land value increment tax | (13,734) | (13,734) |
| Retained earnings unappropriated of subsidiaries | (158,808) | (86,533) |
| Others | <u>(1,419)</u> | <u>(3,627)</u> |
| Deferred tax, net | (149,174) | (75,611) |
| Deferred tax assets | <u>(29,344)</u> | <u>(31,485)</u> |
| Deferred tax liabilities | <u>\$ (178,518)</u> | <u>\$ (107,096)</u> |

- c. The reconciliation of accounting profit and taxable income for the years ended December 31, 2021 and 2020 is as follows:

| | For the Year Ended December 31 | |
|--|---------------------------------------|------------------|
| | 2021 | 2020 |
| Profit before tax | | |
| Income tax expense calculated at the statutory rate | \$ 280,303 | \$ 191,241 |
| Tax effect of reconciled items: | | |
| Gain on disposal of investments | - | (308) |
| Loss (gain) on investments accounted for using the equity method | 1,068 | (274) |
| Other adjustments | <u>(8,092)</u> | <u>(18,780)</u> |
| Income tax expense for the current year | 273,279 | 171,879 |
| Recognition (reversal) of deferred tax assets (liabilities) | | |
| Unrealized gain from price recovery of inventory | (1,477) | (2,847) |
| Unrealized (gain) loss from bad debt | (775) | (979) |
| Gain on investments accounted for using the equity method | (72,275) | (36,564) |
| Other adjustments | (8,733) | (1,468) |
| Less: Withholding tax and provisional tax | (63,291) | (72,323) |
| Add: The prior years' balance of tax payable | <u>-</u> | <u>-</u> |
| Current income tax liabilities | <u>\$ 126,728</u> | <u>\$ 57,698</u> |

Since the Company offered to settle the compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonus will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

24. DISPOSAL OF SUBSIDIARIES

In order to focus on its core technologies and strengthen its competitiveness, the Company's board of directors approved to sell 100% of its share capital in Hunan Frontier Electronics Co., Ltd. to INPAQ Technology (Suzhou) Co., Ltd. at the price of RMB 94,800 thousand on January 27, 2021. The transaction price was based on the latest audited financial statements and appraisal report, and the independent expert has issued reasonableness opinion of the price. Registration transfer and payment of shares have been completed in April and May 2021. The transaction was an organizational restructuring and did not affect the profit or loss, and the Company chose not to recompile the consolidated financial statements for the prior period.

a. Consideration received from disposals

Hunan Frontier Electronics Co., Ltd.

| | |
|---|-------------------|
| Consideration received in cash and cash equivalents | \$ <u>409,726</u> |
|---|-------------------|

b. Analysis of assets and liabilities on the date control was lost

Hunan Frontier Electronics Co., Ltd.

| | |
|--|-------------------|
| Current assets | |
| Cash and cash equivalents | \$ 52,881 |
| Financial assets at amortized cost - current | 64,830 |
| Trade receivables | 101,082 |
| Other receivables | 1,032 |
| Inventories | 52,236 |
| Other current assets | 4,416 |
| Non-current assets | |
| Property, plant and equipment | 171,665 |
| Right-of-use assets | 1,932 |
| Refundable deposits | 1 |
| Current liabilities | |
| Trade payables | (46,424) |
| Other payables | (40,253) |
| Current tax liabilities | (1,866) |
| Other current liabilities | (2,749) |
| Non-current liabilities | |
| Guarantee deposits received | <u>(177)</u> |
| Net assets disposed of | \$ <u>358,606</u> |

c. Loss on disposal of subsidiary

| | Hunan Frontier Electronics Co., Ltd. |
|---|---|
| Consideration received | \$ 409,726 |
| Net assets disposed of | (358,606) |
| Accumulated exchange differences from the reclassification of the subsidiaries' net assets from equity to profit or loss due to loss of control of subsidiaries | <u>(64,376)</u> |
| Retained earnings | <u>\$ (13,256)</u> |

The loss of \$13,256 thousand from the disposal of Hunan Frontier Electronics Co., Ltd. was recognized in May 2021. The transaction was an organizational restructuring; therefore, it did not affect the profit or loss and was presented as deduction of the retained earnings.

d. Net cash inflow on disposals of subsidiary

| | Hunan Frontier Electronics Co., Ltd. |
|---|---|
| Consideration received in cash and cash equivalents | \$ 409,726 |
| Less: Cash and cash equivalent balance disposed of | <u>(52,881)</u> |
| | <u>\$ 356,845</u> |

25. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company has the essential financial resources and operating plans to meet the needs of working capital, capital expenditures, research and development expenses, debt repayment and dividend expenditures in the next 12 months.

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

1) Fair value of financial instruments that are not measured at fair value

The management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements as approximate fair values. There were no major differences between the carrying amounts and fair values as of December 31, 2021 and 2020.

2) Fair value of financial instruments that are measured at fair value on a recurring basis

December 31, 2021

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|---------------------|-------------|-------------------|---------------------|
| Financial assets at FVTPL | | | | |
| Domestic listed shares | \$ 389,047 | \$ - | \$ - | \$ 389,047 |
| Financial assets at FVTOCI | | | | |
| Domestic listed shares | \$ 1,448,999 | \$ - | \$ - | \$ 1,448,999 |
| Domestic unlisted shares | - | - | 158,075 | 158,075 |
| | <u>\$ 1,448,999</u> | <u>\$ -</u> | <u>\$ 158,075</u> | <u>\$ 1,607,074</u> |

December 31, 2020

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------|---------------------|-------------|-------------------|---------------------|
| Financial assets at FVTPL | | | | |
| Domestic listed shares | \$ 315,229 | \$ - | \$ - | \$ 315,229 |
| Financial assets at FVTOCI | | | | |
| Domestic listed shares | \$ 1,109,357 | \$ - | \$ - | \$ 1,109,357 |
| Domestic unlisted shares | - | - | 118,910 | 118,910 |
| Foreign unlisted shares | - | - | 18,997 | 18,997 |
| | <u>\$ 1,109,357</u> | <u>\$ -</u> | <u>\$ 137,907</u> | <u>\$ 1,247,264</u> |

There were no transfers between Levels 1 and 2 for the years ended December 31, 2021 and 2020.

3) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of unlisted equity securities were determined using the market approach or asset-based approach. The significant unobservable inputs are the liquidity discount of multiplier of price-book ratio and value of net assets. An increase in price-book ratio would result in an increase in the fair value. An increase in liquidity discount would result in a decrease in the fair value.

b. Categories of financial instruments

| | <u>December 31</u> | |
|---|--------------------|------------|
| | 2021 | 2020 |
| <u>Financial assets</u> | | |
| FVTPL | | |
| Mandatorily classified as at FVTPL | \$ 389,047 | \$ 315,229 |
| Financial assets at amortized cost (Note 1) | 1,908,548 | 1,638,232 |
| Financial assets at FVTOCI | | |
| Equity instruments | 1,607,074 | 1,247,264 |
| <u>Financial liabilities</u> | | |
| Amortized cost (Note 2) | 1,982,039 | 1,937,415 |

Note 1: The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, other receivables and refundable deposits.

Note 2: The balances include financial liabilities at amortized cost, which comprise short-term borrowings, trade payables, other payables, long-term borrowings and guarantee deposits received.

c. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, borrowings, trade receivables and trade payables. The Company's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Company utilizes derivatives based on the procedures for the handling of derivative financial instrument transactions, which had been approved by the board of directors, to hedge against foreign currency risk. The internal auditor reviews compliance with policies and risk limits on an ongoing basis.

1) Market risk

The Company is exposed primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Company's exposure to market risk in financial instruments and its management and measurement of such exposure has not changed since the last period.

a) Foreign currency risk

The Company manages the risk of exchange rate fluctuations arising from foreign currency transactions by using forward exchange contracts to the extent permitted by the regulations governing the procedures for the handling of derivative financial instrument transactions.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the year are set out in Note 30.

| | USD Impact | |
|----------------|---------------------------------------|-------------|
| | For the Year Ended December 31 | |
| | 2021 | 2020 |
| Profit or loss | \$ 16,391 | \$ 18,727 |
| Equity | 52,323 | 53,053 |

| | RMB Impact | |
|----------------|---------------------------------------|-------------|
| | For the Year Ended December 31 | |
| | 2021 | 2020 |
| Profit or loss | \$ 1,636 | \$ 693 |

The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusted their translation at the end of the year for a 3% change in foreign currency rates. A negative number indicates an decrease in post-tax profit and equity associated with the New Taiwan dollar strengthening 3% against the relevant currency. For a 3% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on post-tax profit and equity.

b) Interest rate risk

The Company was exposed to interest rate risk arising from both fixed and floating interest rate deposits, and repurchase agreements collateralized by bonds and borrowings.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the year were as follows:

| | December 31 | |
|------------------------------|--------------------|-------------|
| | 2021 | 2020 |
| Cash flow interest rate risk | | |
| Financial assets | \$ 531,365 | \$ 675,158 |
| Financial liabilities | 825,989 | 782,969 |

The Company's sensitivity analysis of interest rate risk mainly focuses on changes in fair value of the financial assets and liabilities at fixed interest rate at the end of the reporting period. If interest rates were lower by 1% and all other variables were held constant, the Company's variable-rate financial assets for the years ended December 31, 2021 and 2020 would have resulted in cash inflows by \$2,946 thousand and \$1,078 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

The management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Company reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowance is made for irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced.

3) Liquidity risk

The Company's working capital is sufficient to meet its obligations; therefore, there is no liquidity risk arising from the inability to raise funds to meet its contractual obligations.

The following table details the Company's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods:

December 31, 2021

| | Less than 1 Year | 2-3 Years | 3+ Years | Total |
|---------------------------------------|-----------------------------|-------------------|-------------------|---------------------|
| Non-interest bearing | \$ 1,156,050 | \$ - | \$ - | \$ 1,156,050 |
| Variable interest rate liabilities | 8,333 | 749,832 | 67,824 | 825,989 |
| Lease liabilities | <u>23,972</u> | <u>43,816</u> | <u>105,804</u> | <u>173,592</u> |
| | <u>\$ 1,188,355</u> | <u>\$ 793,648</u> | <u>\$ 173,628</u> | <u>\$ 2,155,631</u> |

December 31, 2020

| | Less than 1 Year | 2-3 Years | 3+ Years | Total |
|---------------------------------------|-----------------------------|-------------------|-------------------|---------------------|
| Non-interest bearing | \$ 1,154,446 | \$ - | \$ - | \$ 1,154,446 |
| Variable interest rate liabilities | 20,000 | 332,223 | 430,746 | 782,969 |
| Lease liabilities | <u>24,804</u> | <u>41,932</u> | <u>118,258</u> | <u>184,994</u> |
| | <u>\$ 1,199,250</u> | <u>\$ 374,155</u> | <u>\$ 549,004</u> | <u>\$ 2,122,409</u> |

27. TRANSACTIONS WITH RELATED PARTIES

Besides as disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed as follows.

Related party name and category

| <u>Related Party Name</u> | <u>Related Party Category</u> |
|--|---|
| Walsin Technology Corporation | Parent company |
| Frontier Components Co., Limited | Subsidiary |
| Prosperity Frontier Electronics (Shenzhen) Co., Ltd. | Subsidiary |
| PDC Electronics (Suzhou) Co., Ltd. | Subsidiary |
| Pan Overseas (Guangzhou) Electronic Co., Ltd. | Sister company |
| Dongguan Walsin Technology Electronics Co., Ltd. | Sister company |
| Walsin Technology Corporation (HK) Limited | Sister company |
| Kamaya Electric (M) Sdn. Bhd. | Sister company |
| INPAQ Technology Co., Ltd. | Sister company (associate before July 2020) |
| INPAQ Technology (Suzhou) Co., Ltd. | Sister company (associate before July 2020) |
| Taiwan INPAQ Electronics Co., Ltd. | Sister company (associate before July 2020) |
| Hunan Frontier Electronics Co., Ltd. | Sister company (subsidiary before April 2021) |
| Walsin Color Corporation | Associate |
| Walsin Lihwa Corporation | Other related party |
| Falcon Automation Equipment Corporation | Other related party |
| Info-Tek Corp. | Other related party |
| Global Brands Manufacture Ltd. | Other related party |
| VVG Inc. | Other related party |
| Winbond Electronics Corp. | Other related party |

Transactions

| Related Party Category/Name | Sales of Goods | | Purchases of Goods | |
|---|-----------------------------------|---------------------|-----------------------------------|---------------------|
| | For the Year Ended December 31 | | For the Year Ended December 31 | |
| | 2021 | 2020 | 2021 | 2020 |
| Parent company | <u>\$ 1,020,648</u> | <u>\$ 650,952</u> | <u>\$ 631,675</u> | <u>\$ 688,557</u> |
| Subsidiaries | | | | |
| Frontier Components Co., Limited | 1,050,313 | 1,058,621 | 18,188 | 32,919 |
| Hunan Frontier Electronics Co., Ltd. | 52 | 183 | 81,884 | 209,931 |
| Others | <u>2,457</u> | <u>2,107</u> | <u>79,235</u> | <u>52,168</u> |
| | <u>1,052,822</u> | <u>1,060,911</u> | <u>179,307</u> | <u>295,018</u> |
| Sister companies | | | | |
| Dongguan Walsin Technology Electronics Co., Ltd. | - | - | 188,949 | 80,651 |
| Others | <u>79,458</u> | <u>81,354</u> | <u>71,452</u> | <u>18,488</u> |
| | <u>79,458</u> | <u>81,354</u> | <u>260,401</u> | <u>99,139</u> |
| Other related parties | <u>437</u> | <u>445</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 2,149,365</u> | <u>\$ 1,793,662</u> | <u>\$ 1,071,383</u> | <u>\$ 1,082,714</u> |

The selling prices between the Company and related parties were not significantly different from that of general transactions. The collection terms of general transactions are within 0 to 120 days. The collection terms of related parties were not significantly different from that of general customers. Among them, trade receivables (payables) of Walsin Technology Corporation are directly offset by its respective counterparty's trade receivables (payables), and the remaining receivables are collected (paid) under the usual collection (payment) terms.

The prices of the purchase transactions between the Company and related parties were not significantly different from that of general transactions, and the payment terms of general transactions are within 0 to 120 days. The payment terms of related parties were not significantly different from that of general suppliers.

| Related Party Category/Name | Acquisition of Assets | |
|---|--------------------------------|------------------|
| | For the Year Ended December 31 | |
| | 2021 | 2020 |
| Parent company | \$ 22,000 | \$ 174 |
| Other related parties | | |
| Walsin Lihwa Corporation | - | 295 |
| Falcon Automation Equipment Corporation | <u>87,733</u> | <u>19,450</u> |
| | <u>\$ 109,733</u> | <u>\$ 19,919</u> |

| Disposal of Assets | | | | |
|---------------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|
| For the Year Ended December 31 | | | | |
| Related Party Category/Name | 2021 | | 2020 | |
| | Proceeds | Gain (Loss) on Disposal | Proceeds | Gain (Loss) on Disposal |
| Parent company | \$ - | \$ - | \$ 8,991 | \$ 381 |
| Sister companies | <u>7,832</u> | <u>3,262</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 7,832</u> | <u>\$ 3,262</u> | <u>\$ 8,991</u> | <u>\$ 381</u> |

Lease arrangements as lessee

| Item | Related Party Category | December 31 | |
|-------------------|-------------------------------|--------------------|-----------------|
| | | 2021 | 2020 |
| Lease liabilities | Parent company | \$ 2,559 | \$ 8,019 |
| | Other related parties | <u>12,333</u> | <u>-</u> |
| | | <u>\$ 14,892</u> | <u>\$ 8,019</u> |

| Item | Related Party Category | For the Year Ended December 31 | |
|------------------|-------------------------------|---------------------------------------|---------------|
| | | 2021 | 2020 |
| Interest expense | Parent company | \$ 53 | \$ 106 |
| | Other related parties | <u>20</u> | <u>-</u> |
| | | <u>\$ 73</u> | <u>\$ 106</u> |
| Rental expense | Parent company | <u>\$ 55</u> | <u>\$ 96</u> |

Lease arrangements as lessor

Lease income was summarized as follows:

| Related Party Category | For the Year Ended December 31 | |
|-------------------------------|---------------------------------------|-----------------|
| | 2021 | 2020 |
| Parent company | \$ 2,743 | \$ 2,870 |
| Sister companies | 170 | 84 |
| Associates | 47 | 131 |
| Other related parties | <u>2,387</u> | <u>2,189</u> |
| | <u>\$ 5,347</u> | <u>\$ 5,274</u> |

For the year ended December 31, the remaining balances were as follows:

| Related Party Category/Name | Trade Receivables | | Trade Payables | |
|---|--------------------|-------------------|--------------------|-------------------|
| | For the Year Ended | | For the Year Ended | |
| | December 31 | | December 31 | |
| | 2021 | 2020 | 2021 | 2020 |
| Parent company | \$ 194,407 | \$ - | \$ - | \$ 53,233 |
| Subsidiaries | | | | |
| Frontier Components Co., Limited | 224,408 | 87,619 | 36,236 | 14,842 |
| Hunan Frontier Electronics Co., Ltd. | - | 103 | - | 84,432 |
| Others | 2,038 | - | 21,967 | 19,185 |
| | <u>226,446</u> | <u>87,722</u> | <u>58,203</u> | <u>118,459</u> |
| Sister companies | <u>25,927</u> | <u>13,901</u> | <u>16,131</u> | <u>9,558</u> |
| Other related parties | <u>-</u> | <u>3</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 446,780</u> | <u>\$ 101,626</u> | <u>\$ 74,334</u> | <u>\$ 181,250</u> |
| Related Party Category/Name | Other Receivables | | Other Payables | |
| | For the Year Ended | | For the Year Ended | |
| | December 31 | | December 31 | |
| | 2021 | 2020 | 2021 | 2020 |
| Parent company | <u>9,871</u> | <u>-</u> | <u>-</u> | <u>25,289</u> |
| Subsidiaries | | | | |
| Frontier Components Co., Limited | - | 380 | - | - |
| PDC Electronics (Suzhou) Co., Ltd. | 837 | 47 | - | - |
| Hunan Frontier Electronics Co., Ltd. | - | 1,609 | - | - |
| Others | <u>28</u> | <u>37</u> | <u>-</u> | <u>-</u> |
| | <u>865</u> | <u>2,073</u> | <u>-</u> | <u>-</u> |
| Sister companies | 1,119 | 1 | 348 | - |
| Associates | 12 | 12 | - | - |
| Other related parties | | | | |
| Falcon Automation Equipment Corporation | - | - | 12,882 | 360 |
| Walsin Lihwa Corporation | - | - | 8,534 | 383 |
| Others | <u>619</u> | <u>659</u> | <u>166</u> | <u>421</u> |
| | <u>619</u> | <u>659</u> | <u>21,582</u> | <u>1,164</u> |
| | <u>\$ 12,486</u> | <u>\$ 2,745</u> | <u>\$ 21,930</u> | <u>\$ 26,453</u> |

Other receivables are the uncollected amounts from the Company's lease income, selling of raw materials, spare parts, and the collections and payments on behalf of others.

Other payables are the payments that have not been made for the acquisition of equipment and the collections and payments on behalf of others.

The remaining trade payables - related parties were not guaranteed and would be paid off by cash, and trade receivables - related parties were also not guaranteed. There was no bad debt expense for trade receivables - related parties as of December 31, 2021 and 2020.

Equity transactions

Refer to Note 24.

Remuneration of key management personnel

Remuneration of the board of directors and other key management personnel for the years ended December 31, 2021 and 2020 was as follows:

| | <u>For the Year Ended December 31</u> | |
|------------------------------|--|-------------------------|
| | 2021 | 2020 |
| Short-term employee benefits | \$ 20,495 | \$ 11,438 |
| Post-employment benefits | <u>108</u> | <u>66</u> |
| | <u>\$ 20,603</u> | <u>\$ 11,504</u> |

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant contingencies and unrecognized commitments of the Company as of December 31, 2021 and 2020 were as follows:

a. Significant unrecognized commitments

Unrecognized commitments were as follows:

| | <u>December 31</u> | |
|--|---------------------------|-------------------|
| | 2021 | 2020 |
| Acquisition of property, plant and equipment | <u>\$ 442,600</u> | <u>\$ 250,322</u> |

b. Contingencies

As of December 31, 2021, outstanding letters of credit of the Company were summarized as follows:

| | Unit: Dollars | |
|-----------------|------------------------|----------------------|
| Currency | Carrying Amount | Deposits Paid |
| USD | US\$ 36,600 | US\$ - |
| JPY | JPY 387,628,000 | JPY - |

As of December 31, 2020, outstanding letters of credit of the Company were summarized as follows:

| | Unit: Dollars | |
|-----------------|------------------------|----------------------|
| Currency | Carrying Amount | Deposits Paid |
| JPY | JPY 116,840,000 | JPY - |

29. OTHER ITEMS

Despite the impact of the Covid-19 pandemic which has evolved globally and currently in Taiwan, the Company's revenue was barely affected by this pandemic. Instead, revenue grew under this tough environment due to strong market demand during the year ended December 31, 2021. Currently, all of the subsidiaries have resumed operations.

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between the foreign currencies and their respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

| | December 31 | | | | | |
|--|---------------------------------------|------------------|--------------------------------------|---------------------------------------|------------------|--------------------------------------|
| | 2021 | | | 2020 | | |
| | Foreign Currency (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) | Foreign Currency (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) |
| <u>Financial assets</u> | | | | | | |
| Monetary items | | | | | | |
| USD | \$ 22,972 | 27.69 | \$ 636,095 | \$ 24,674 | 28.1 | \$ 693,339 |
| RMB | 12,546 | 4.3476 | 54,545 | 5,357 | 4.3131 | 23,105 |
| Non-monetary items | | | | | | |
| Investments accounted for using the equity method | | | | | | |
| USD | 62,987 | 27.69 | 1,744,111 | 62,934 | 28.1 | 1,768,432 |
| <u>Financial liabilities</u> | | | | | | |
| Monetary items | | | | | | |
| USD | 3,241 | 27.69 | 89,743 | 2,459 | 28.1 | 69,098 |

For the years ended December 31, 2021 and 2020, net realized and unrealized foreign exchange losses were \$9,132 thousand and \$61,004 thousand, respectively. It is impractical to disclose net foreign exchange (losses) gains by each significant foreign currency due to the variety of the foreign currency transactions.

31. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees and information about reinvestment:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (None)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 1)
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (Table 2)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)

- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
 - 9) Trading in derivative instruments (None)
 - 10) Information on investees (Table 5)
- c. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 6)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 6):
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes
 - e) The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds
 - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services
- d. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 7)

32. SEGMENT INFORMATION

The Company has disclosed segment information in the consolidated financial statements and thus does not disclose segment information in these parent company only financial statements.

PROSPERITY DIELECTRICS CO., LTD.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2021 | | | | Note |
|---|--|--|--|---|-----------------|-----------------------------|------------|---------|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| Prosperity Dielectrics Co., Ltd. | <u>Listed shares</u> Walton Advanced Engineering Inc. | The chairman of the securities issuer is the same as the Company's | Financial assets at fair value through other comprehensive income - non-current | 31,915,536 | \$ 601,608 | 6.12 | \$ 601,608 | |
| | Walsin Lihwa Corporation | The chairman of the securities issuer is the second degree of kinship of the Company | " | 7,000,000 | 185,500 | 0.20 | 185,500 | |
| | HannStar Board Corporation | The chairman of the securities issuer is the same as the Company's | " | 5,668,332 | 257,342 | 1.07 | 257,342 | |
| | Singatron Enterprise Co., Ltd. | None | " | 10,301,314 | 329,642 | 8.39 | 329,642 | |
| | APAQ Technology Co., Ltd. | " | " | 739,000 | 44,857 | 0.83 | 44,857 | |
| | Fubon Financial Holding Co., Ltd. Preferred Shares C | " | " | 500,000 | 30,050 | - | 30,050 | |
| | APAQ Technology Co., Ltd. | " | Financial assets at fair value through profit or loss - current | 4,541,000 | 275,639 | 5.10 | 275,639 | |
| | Singatron Enterprise Co., Ltd. | " | " | 723,717 | 23,159 | 0.59 | 23,159 | |
| | Chunghwa Telecom Co., Ltd. | " | " | 400,000 | 46,600 | 0.01 | 46,600 | |
| | E.Sun Financial Holding Company Ltd. | " | " | 318,333 | 8,929 | - | 8,929 | |
| | Yuanta Financial Holding Co., Ltd. | " | " | 400,000 | 10,120 | - | 10,120 | |
| | Mega Financial Holding Co., Ltd. | " | " | 400,000 | 14,220 | - | 14,220 | |
| | CTBC Financial Holding Co., Ltd. | " | " | 400,000 | 10,380 | - | 10,380 | |
| | | <u>Shares</u> Chin-Xin Investment Co., Ltd. | The chairman of the securities issuer is the second degree of kinship of the Company | Financial assets at fair value through other comprehensive income - non-current | 3,500,000 | 158,075 | 0.72 | 158,075 |
| Dongguan Frontier Electronics Co., Ltd. | <u>Treasury bonds</u> 2021 Book-entry 6th Treasury Coupon Bonds | None | Financial assets at fair value through profit or loss - current | 198,000 | 86,085 | - | 86,085 | |
| PDC Electronics (Suzhou) Co., Ltd. | <u>Mutual funds</u> GF Money Market Fund B | " | " | 5,000,000 | 21,936 | - | 21,936 | |
| | CCB Principal Profit Raise Money Market ETF Fund A | " | " | 8,000,000 | 34,998 | - | 34,998 | |

PROSPERITY DIELECTRICS CO., LTD.

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Company Name | Type and Name of Marketable Securities | Financial Statement Account | Counterparty | Relationship | Beginning Balance | | Acquisition | | Disposal | | | Ending Balance | | |
|-----------------------------------|--|---|-------------------------------------|----------------|-------------------|------------|------------------|------------------------|------------------|---------------|-----------------|-------------------------|------------------|--------|
| | | | | | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Selling Price | Carrying Amount | Gain (Loss) on Disposal | Number of Shares | Amount |
| Frontec International Corporation | Hunan Frontier Electronics Co., Ltd. | Investments accounted for using the equity method | INPAQ Technology (Suzhou) Co., Ltd. | Sister company | - | \$ 364,674 | - | \$ (6,068) (Note 1) | - | \$ 409,726 | \$ 358,606 | \$ - (Note 2) | - | \$ - |

Note 1: The investment loss recognized in the current period was \$6,883 thousand and the exchange differences on the translation of the financial statements of foreign operations increased by \$815 thousand.

Note 2: It is an organizational restructuring, therefore, after excluding the exchange differences on the translation of the financial statements of foreign operations \$(64,376) thousand, the current period disposal loss of \$13,256 thousand was presented as deduction of the retained earnings.

PROSPERITY DIELECTRICS CO., LTD.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Buyer | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|---|--|---|---------------------|----------------|------------|--|----------------------|---------------|-------------------------------------|------------|------|
| | | | Purchases/Sales | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total | |
| Prosperity Dielectrics Co., Ltd. | Frontier Components Co., Limited | Indirectly owned second-tier subsidiary | Sales | \$ (1,050,313) | (21) | No significant difference with third parties | - | - | Trade receivables \$ 224,408 | 22 | |
| | Walsin Technology Corporation | Owns 43.13% of the Company's shares | Sales | (1,020,648) | (20) | " | - | - | Trade receivables 194,407 | 19 | |
| | Walsin Technology Corporation | Owns 43.13% of the Company's shares | Purchases | 631,675 | 24 | " | - | - | Trade payables - | - | |
| | Hunan Frontier Electronics Co., Ltd. | Parent company indirectly owned second-tier subsidiary (subsidiary before April 2021) | Purchases | 122,775 | 5 | " | - | - | Trade payables - | - | |
| Frontier Components Co., Limited | Prosperity Dielectrics Co., Ltd. | Parent company | Purchases | 1,050,313 | 67 | " | - | - | Trade payables (224,408) | (76) | |
| | Dongguan Frontier Electronics Co., Ltd. | 100% owned subsidiary | Sales | (1,059,091) | (64) | " | - | - | Trade receivables 161,611 | 55 | |
| Dongguan Frontier Electronics Co., Ltd. | Frontier Components Co., Limited | Parent company | Purchases | 1,050,091 | 91 | " | - | - | Trade payables (161,611) | (66) | |
| Frontier Components Co., Limited | Dongguan Walsin Technology Electronics Co., Ltd. | PDC's parent company indirectly owned second-tier subsidiary | Sales | (359,627) | (22) | " | - | - | Trade receivables 63,415 | 21 | |
| | Dongguan Walsin Technology Electronics Co., Ltd. | PDC's parent company indirectly owned second-tier subsidiary | Purchases | 446,815 | 28 | " | - | - | Trade payables (67,409) | (23) | |
| Prosperity Dielectrics Co., Ltd. | Dongguan Walsin Technology Electronics Co., Ltd. | Sister company | Purchases | 188,949 | 7 | " | - | - | Trade payables - | - | |
| PDC Electronics (Suzhou) Co., Ltd. | INPAQ Technology (Suzhou) Co., Ltd. | PDC's parent company indirectly owned second-tier subsidiary | Sales | (101,352) | (98) | " | - | - | Trade receivables 42,165 | 97 | |

PROSPERITY DIELECTRICS CO., LTD.

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amount Received in Subsequent Period | Allowance for Impairment Loss | |
|----------------------------------|---|---|-------------------|---------------|---------|---------------|--------------------------------------|-------------------------------|------|
| | | | | | Amount | Actions Taken | | | |
| Prosperity Dielectrics Co., Ltd. | Frontier Components Co., Limited Walsin Technology Corporation | Indirectly owned second-tier subsidiary Parent company | Trade receivables | \$ 224,408 | 6.73 | \$ - | - | \$ 76,276 | \$ - |
| | | | Trade receivables | 194,407 | 10.50 | - | - | 106,498 | - |
| Frontier Components Co., Limited | Dongguan Frontier Electronics Co., Ltd. | 100% owned subsidiary | Trade receivables | 161,611 | 5.16 | - | - | - | - |

PROSPERITY DIELECTRICS CO., LTD.
INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | As of December 31, 2021 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) | Note |
|---|---|------------------------|--|----------------------------|---------------------|-------------------------|------|-----------------|-----------------------------------|------------------------|------|
| | | | | December 31, 2021 | December 31, 2020 | Number of Shares | % | Carrying Amount | | | |
| Prosperity Dielectrics Co., Ltd. | PDC Prime Holdings Limited | Samoa | Investment holding | \$ 728,456 | \$ 728,456 | 23,464,538 | 100 | \$ 1,616,933 | \$ 311,007 | \$ 311,007 | |
| | Frontec International Corporation | British Virgin Islands | Overseas investment | 327,140 | 695,113 | 8,221,615 | 100 | 127,178 | (14,534) | (14,534) | |
| | Walsin Color Corporation | Taiwan | Investment holding | 51,928 | 51,928 | 4,934,995 | 3.36 | 104,364 | (17,475) | (588) | |
| | Joyin Co., Ltd. | Taiwan | Manufacturing of electronic components | 47,073 | - | 2,659,517 | 4.09 | 42,793 | (71,222) | (4,753) | |
| PDC Prime Holdings Limited | PDC Success Investments Ltd. | Republic of Mauritius | Investment holding | 387,932 | 387,932 | 12,009,000 | 100 | 837,607 | 161,591 | 161,591 | |
| | Frontier Components Co., Limited | Hong Kong | International trade | 249,238 (Note 2) | 249,238 (Note 2) | 70,036,752 | 100 | 729,015 | 145,176 | 145,176 | |
| | Prosperity International Development (HK) Co., Ltd. | Hong Kong | Investment holding | 66,484 (Note 2) | 66,484 (Note 2) | 2,401,000 | 100 | 62,352 | 4,324 | 4,324 | |
| Prosperity International Development (HK) Co., Ltd. | GHPW Enterprise Corporation (HK) Limited | Hong Kong | Investment holding | 66,456 (Note 2) | 66,456 (Note 2) | 2,400,000 | 10 | 62,330 | 43,237 | 4,324 | |

Note 1: For the information on investees in mainland China, refer to Table 6.

Note 2: The closing exchange rate as of December 31, 2021 was used to convert the foreign currencies into New Taiwan dollars. The closing exchange rate as of December 31, 2021 was US\$ to NT\$ = 1:27.69

PROSPERITY DIELECTRICS CO., LTD.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA OF PROSPERITY DIELECTRICS CO., LTD.
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. The names of investee companies in mainland China, their main businesses and products, total amount of paid-in capital, method of investment, remittance of funds, percentage of ownership in investment, investment gain or loss, carrying amount, and accumulated repatriation of investment income were as follows:

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2021 | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2021 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Amount as of December 31, 2021 (Note 3) | Accumulated Repatriation of Investment Income as of December 31, 2021 |
|---|--|---|----------------------|---|----------------------------|------------------------------|---|-----------------------------------|--|---------------------------------|--|---|
| | | | | | Outward | Inward | | | | | | |
| PDC Electronics (Suzhou) Co., Ltd. | Manufacturing of electronic parts and ceramic components | \$ 332,280 (US\$ 12,000,000) | Note 1 | \$ 332,280 (US\$ 12,000,000) | \$ - | \$ - | \$ 332,280 (US\$ 12,000,000) | \$ 161,594 | 100 | \$ 161,594 | \$ 837,356 | \$ 70,253 (US\$ 2,537,141) |
| Dongguan Frontier Electronics Co., Ltd. | Selling of electronic components | 168,909 (US\$ 6,100,000) | Note 1 | 168,909 (US\$ 6,100,000) | - | - | 168,909 (US\$ 6,100,000) | 82,397 | 100 | 82,397 | 395,298 | 90,801 (US\$ 3,279,186) |
| Hunan Frontier Electronics Co., Ltd. | Manufacturing and selling of transformer, coils and magnetic component | 443,040 (US\$ 16,000,000) (Note 6) | Note 1 | 443,040 (US\$ 16,000,000) | - | 412,563 (US\$ 14,899,335) | 30,477 (US\$ 1,100,665) | (11,809) | - | (6,883) | - | - |
| Chongqing Shuohong Investment Co., Ltd. | Investment management, investment consultation services | 2,304,228 (RMB530,000,000) (Note 4) | Note 1 | - | - | - | - | 656,629 | 20.43 | 134,163 | 580,006 | - |
| Chongqing Xincheng Electronic Co., Ltd. | Selling of electronic components, real estate investment and leasing | 235,301 (RMB 54,122,000) (Note 5) | Note 1 | - | - | - | - | 144,647 | 13.04 | 18,856 | 44,730 | - |
| GHPW Enterprise Corporation (Chongqing) Limited | Business consultations, business management, consultation services and property management | 664,560 (US\$ 24,000,000) | Note 1 | 66,456 (US\$ 2,400,000) | - | - | 66,456 (US\$ 2,400,000) | 43,468 | 10 | 4,347 | 62,253 | - |
| Prosperity Frontier Electronics (Shenzhen) Co., Ltd. | Manufacturing and selling of chip components, power electronic devices and new electronic components | 166,140 (US\$ 6,000,000) | Note 1 | 116,298 (US\$ 4,200,000) | 39,923 (US\$ 1,441,768) | - | 156,221 (US\$ 5,641,768) | (6,789) | 100 | (7,652) | 129,534 | - |
| Prosperity Frontier Electronics (Guangzhou) Co., Ltd. | Manufacturing and selling of chip components, power electronic devices and new electronic components | 4,348 (RMB 1,000,000) (Note 7) | Note 1 | - | - | - | - | (767) | 100 | (767) | 3,580 | - |

Note 1: Investment in mainland China companies through an existing company established in a third region.

Note 2: Based on the financial statements of the investee companies reviewed by the attesting CPA of the parent company in Taiwan.

Note 3: The average exchange rate as of December 31, 2021 is used to convert the foreign currencies into New Taiwan dollars except for the investment gains and losses of the current period (converted at the average exchange rate of the year ended December 31, 2021) if the relevant figures in this table involve foreign currencies.

Note 4: Investment amount of RMB 108,290,000 was made using PDC Electronics (Suzhou) Co., Ltd.'s own capital.

Note 5: Investment amount of RMB 7,055,500 was made using Frontier Electronic (Chong Qing) Co., Ltd.'s own capital, which has been transferred to Dongguan Frontier Electronics Co., Ltd. in December 2017.

Note 6: Hunan Frontier Electronics Co., Ltd. was sold to INPAQ Technology (Suzhou) Co., Ltd. in May 2021 and the share prices of RMB 94,800,000, equivalent to US\$14,899,335, was repatriated.

Note 7: Investment amount of RMB 1,000,000 was made using Dongguan Frontier Electronics Co., Ltd.'s own capital.

(Concluded)

2. Investment quota for mainland China:

| Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2021 | Investment Amount Authorized by the Investment Commission, MOEA | Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA |
|--|---|--|
| \$ 886,627 (US\$ 32,019,762) | \$ 1,354,570 (US\$ 48,919,097) | (Note 2) |

Note 1: The average exchange rates as of December 31, 2021 are as follows:

US\$ to NT\$ = 1:27.69
RMB to NT\$ = 1:4.3476

The average exchange rates for the year ended December 31, 2021 are as follows:

US\$ to NT\$ = 1:28.009
RMB to NT\$ = 1:4.3417

Note 2: The Company has obtained the operational headquarters certification document approved by the Industrial Development Bureau of the Ministry of Economic Affairs and is exempt from the “Regulations Governing the Examination of Investment or Technical Cooperation in mainland China”.

3. Significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: Table 3
4. Circumstances in which investee mainland China companies in provide endorsements, guarantees or collaterals directly or indirectly through third-region enterprises: None.
5. Circumstances of financing provided with investee mainland China companies directly or indirectly through a third region: None.
6. Other transactions that have a material effect on the current profit and loss or financial status: None.

(Concluded)

TABLE 7**PROSPERITY DIELECTRICS CO., LTD.****INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2021**

| Name of Major Shareholder | Shares | |
|----------------------------------|-------------------------|------------------------------------|
| | Number of Shares | Percentage of Ownership (%) |
| Walsin Technology Corporation | 74,186,468 | 43.13 |

PROSPERITY DIELECTRICS CO., LTD.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

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| Major Accounting Items in Profit or Loss | |
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PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Item | Description | Amount |
|-------------------------------------|---------------------------|-------------------|
| Cash on hand | | \$ 167 |
| Demand deposits | | 110,651 |
| Checking accounts | | 2,844 |
| Foreign currency deposits (Note) | US\$6,377,936 | 201,635 |
| | HK\$71,852 | |
| | JPY24,111,322 | |
| | EUR463,084 | |
| | RMB1,027,050 | |
| Time deposits | Interest rate 2.35%-2.4% | 49,997 |
| Cash equivalents (short-term notes) | Interest rate 0.23%-0.24% | <u>436,056</u> |
| | | <u>\$ 801,350</u> |

Note: Exchange rate on December 31, 2021:

US\$:NT\$ = 1:27.69

HK\$:NT\$ = 1:3.5509

JPY:NT\$ = 1:0.2406

EUR:NT\$ = 1:31.3306

RMB:NT\$ = 1:4.3476

PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF FINANCIAL ASSETS AT AMORTIZED COST - CURRENT
DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)

| Item | Interest Rate | Amount |
|--------------------------------|----------------------|------------------|
| Far Eastern International Bank | 0.8% | \$ 30,500 |
| Taishin International Bank | 0.22% | <u>14,812</u> |
| | | <u>\$ 45,312</u> |

PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF TRADE RECEIVABLES

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

| Item | Description | Amount |
|-------------------------------------|-----------------------|-------------------|
| Client A | Receivables for goods | \$ 76,816 |
| Client B | " | 74,701 |
| Client C | " | 35,766 |
| Client D | " | 34,083 |
| Others (Note) | " | <u>331,586</u> |
| | | 552,952 |
| Less: Allowance for impairment loss | | <u>(22,434)</u> |
| | | <u>\$ 530,518</u> |

Note: The amount receivable from each individual client included under "Others" does not exceed 5% of the account balance.

PROSPERITY DIELECTRICS CO., LTD.**STATEMENT OF INVENTORIES****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

| Item | Description | Amount | |
|--|-------------|-------------------|------------------------|
| | | Cost | Market Value (Note) |
| Finished goods | | \$ 228,609 | \$ 217,754 |
| Semi-finished products | | 72,285 | 68,796 |
| Work in process | | 127,480 | 121,327 |
| Raw materials | | 373,888 | 355,841 |
| Inventory in transit | | 1,608 | 1,608 |
| Less: Allowance for inventory valuation and obsolescence losses | | <u>(38,544)</u> | <u>-</u> |
| | | <u>\$ 765,326</u> | <u>\$ 765,326</u> |

Note: Net realizable value is taken as the market value.

PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars, Other Than Unit Price, Which Is in New Taiwan Dollars)

| Name | Balance, January 1, 2021 | | Increase (Note 1) | | Decrease (Note 2) | | Gain (Loss) | Balance, December 31, 2021 | | | Market Value (Note 3) | | Collateral |
|--|--------------------------|---------------------|-------------------|-------------------|-------------------|---------------------|-------------------|----------------------------|------|---------------------|-----------------------|---------------------|------------|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | Number of Shares | % | Amount | Unit Price (NT\$) | Total Amount | |
| PDC Prime Holdings Limited | 23,464,538 | \$ 1,313,574 | - | \$ - | - | \$ (7,648) | \$ 311,007 | 23,464,538 | 100 | \$ 1,616,933 | - | \$ 1,616,933 | Nil |
| Frontec International Corporation | 21,679,182 | 454,858 | 1,441,768 | 96,580 | (14,899,335) | (409,726) | (14,534) | 8,221,615 | 100 | 127,178 | - | 127,178 | " |
| Walsin Color Corp. | 4,934,995 | 112,170 | - | - | - | (7,218) | (588) | 4,934,995 | 3.36 | 104,364 | - | 104,364 | " |
| Joyin Co., Ltd. | - | - | 2,659,517 | 47,546 | - | - | (4,753) | 2,659,517 | 4.09 | 42,793 | - | 42,793 | " |
| HannStar Board Corporation | 5,668,332 | 245,722 | - | 11,620 | - | - | - | 5,668,332 | 1.07 | 257,342 | 45.40 | 257,342 | " |
| Walton Advanced Engineering Inc. | 31,915,536 | 440,434 | - | 161,174 | - | - | - | 31,915,536 | 6.12 | 601,608 | 18.85 | 601,608 | " |
| Walsin Lihwa Corporation | 7,000,000 | 135,100 | - | 50,400 | - | - | - | 7,000,000 | 0.20 | 185,500 | 26.50 | 185,500 | " |
| Singatron Enterprise Co., Ltd. | 10,301,314 | 246,717 | - | 82,925 | - | - | - | 10,301,314 | 8.39 | 329,642 | 32.00 | 329,642 | " |
| APAQ Technology Co., Ltd. | 739,000 | 41,384 | - | 3,473 | - | - | - | 739,000 | 0.83 | 44,857 | 60.70 | 44,857 | " |
| Fubon Financial Holding Co., Ltd. Preferred Shares C. | - | - | 500,000 | 30,050 | - | - | - | 500,000 | - | 30,050 | 60.10 | 30,050 | " |
| Chin-Xin Investment Co., Ltd. | 3,500,000 | 118,910 | - | 39,165 | - | - | - | 3,500,000 | 0.72 | 158,075 | - | 158,075 | " |
| UNION TECHNOLOGY CORP. | 71,409 | 18,997 | - | - | (71,409) | (18,997) | - | - | - | - | - | - | " |
| | | <u>\$ 3,127,866</u> | | <u>\$ 522,933</u> | | <u>\$ (443,589)</u> | <u>\$ 291,132</u> | | | <u>\$ 3,498,342</u> | | <u>\$ 3,498,342</u> | |

Note 1: The increase in the number of shares include the initial investments, unrealized gain or loss and cumulative translation adjustments.

Note 2: The decrease in the number of shares include the initial investments, unrealized gain or loss and cumulative translation adjustments.

Note 3: The market value is the closing price on December 30, 2021; the net value was based on the financial statements of the investee and the shareholding ratio of the Company.

Note 4: This statement includes investments accounted for using the equity method and financial assets at fair value through other comprehensive income.

PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF RIGHT-OF-USE ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)

| | Land | Buildings | Transportation Equipment | Total |
|--|-------------------|------------------|-----------------------------|-------------------|
| <u>Cost</u> | | | | |
| Balance at January 1, 2021 | \$ 206,183 | \$ 18,622 | \$ 1,778 | \$ 226,583 |
| Additions | 9,010 | 3,862 | 1,074 | 13,946 |
| Disposals | <u>(213)</u> | <u>-</u> | <u>(918)</u> | <u>(1,131)</u> |
| Balance at December 31, 2021 | <u>\$ 214,980</u> | <u>\$ 22,484</u> | <u>\$ 1,934</u> | <u>\$ 239,398</u> |
| <u>Accumulated depreciation and impairment</u> | | | | |
| Balance at January 1, 2021 | \$ 39,817 | \$ 10,774 | \$ 764 | \$ 51,355 |
| Depreciation expenses | 19,778 | 5,779 | 560 | 26,117 |
| Disposals | (213) | - | (918) | (1,131) |
| Reclassifications | <u>-</u> | <u>71</u> | <u>278</u> | <u>349</u> |
| Balance at December 31, 2021 | <u>\$ 59,382</u> | <u>\$ 16,624</u> | <u>\$ 684</u> | <u>\$ 76,690</u> |
| Carrying amount at December 31, 2021 | <u>\$ 155,598</u> | <u>\$ 5,860</u> | <u>\$ 1,250</u> | <u>\$ 162,708</u> |

PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF TRADE PAYABLES

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

| Item | Description | Amount |
|---------------|--------------------|-------------------|
| Vendor A | Payment for goods | \$ 89,194 |
| Vendor B | " | 25,634 |
| Vendor C | " | 23,710 |
| Vendor D | " | 23,202 |
| Vendor E | " | 17,757 |
| Others (Note) | " | <u>173,496</u> |
| | | <u>\$ 352,993</u> |

Note: The amount payable to each individual vendor included under "others" does not exceed 5% of the account balance.

PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF LONG-TERM BORROWINGS
DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)

| Creditor | Description | Amount | Loan Term | Interest Rate (%) | Collateral |
|----------------------------|---|-------------------|-----------------------|-------------------|------------|
| E.Sun Commercial Bank | Line of credit borrowings: The loan limit is NT\$600,000 thousand. Repayment of the principal will be made in 24 equal monthly payments starting 2 years before the maturity date. | \$ 197,980 | 2019.12.26-2024.12.15 | 0.45 | Nil |
| | | 98,990 | 2020.04.09-2024.12.15 | | |
| | | 78,996 | 2020.07.09-2025.06.15 | | |
| | | 98,746 | 2020.08.07-2025.06.15 | | |
| | | 59,247 | 2021.11.09-2025.06.15 | | |
| Taishin International Bank | Line of credit borrowings: The loan limit is NT\$600,000 thousand. Repayment of the principal will be made in 24 equal monthly payments starting 2 years before the maturity date. | 99,033 | 2019.12.10-2024.12.10 | 0.6 | Nil |
| | | 99,033 | 2020.04.29-2024.12.10 | | |
| First Commercial Bank | Line of credit borrowings: The loan limit is NT\$900,000 thousand. Repayment of the principal will be made in 24 equal monthly payments starting 2 years before the maturity date. Less: Current portion | 93,964 | 2020.03.02-2025.03.02 | 0.5 | Nil |
| | | <u>(8,333)</u> | | | |
| | | <u>\$ 817,656</u> | | | |

PROSPERITY DIELECTRICS CO., LTD.

STATEMENT OF LEASE LIABILITIES
DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)

| Item | Description | Contract Term | Discount Rate (%) | Balance, End of Year. | Note |
|----------------------------------|---|-----------------------|-------------------|-----------------------|------|
| Land | No. 220-1, Sec 2, Nanshan Rd. Luzhu Dist., Taoyuan City etc. | 2012.07.01-2031.10.31 | 1 | \$ 166,316 | Nil |
| Buildings | Part of the plant area in No. 566, Gaoshi Rd., Yangmei Dist., Taoyuan City etc. | 2017.06.01-2026.10.31 | 1 | 6,020 | Nil |
| Transportation equipment | Cars including Chunghwa Zinger | 2020.08.28-2024.06.29 | 1 | 1,256 | Nil |
| Less: Leases due within one year | | | | <u>(23,972)</u> | |
| | | | | <u>\$ 149,620</u> | |

PROSPERITY DIELECTRICS CO., LTD.

**STATEMENT OF NET SALES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

| Name | Amount |
|---------------------|---------------------|
| Sales revenue | |
| Passive components | \$ 5,131,645 |
| Active components | <u>17,409</u> |
| | 5,149,054 |
| Less: Sales returns | (9,575) |
| Sales discounts | <u>(35,678)</u> |
| Net sales revenue | <u>\$ 5,103,801</u> |

PROSPERITY DIELECTRICS CO., LTD.**STATEMENT OF COST OF SALES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|--|---------------------|
| Raw material used | |
| Balance, beginning of year | \$ 200,664 |
| Raw material purchased | 1,411,369 |
| Raw material, end of year | (373,888) |
| Transferred to manufacturing or operating expenses | (100,737) |
| Sales of raw material | <u>(20,247)</u> |
| | 1,117,161 |
| Direct labor | 338,861 |
| Manufacturing expenses | <u>1,135,747</u> |
| Manufacturing cost | 2,591,769 |
| Work in process and semi-finished goods, beginning of year | 209,998 |
| Semi-finished goods purchased | 59,647 |
| Others | 1,337 |
| Work in process and semi-finished goods, end of year | (199,765) |
| Transferred to manufacturing or operating expenses | <u>(24,868)</u> |
| Cost of finished goods | 2,638,118 |
| Finished goods, beginning of year | 181,146 |
| Finished goods purchased | 1,125,382 |
| Others | 4,178 |
| Finished goods, end of year | (228,609) |
| Gain from price recovery of inventory | (7,385) |
| Sales deductions | <u>(768)</u> |
| | <u>\$ 3,712,062</u> |

PROSPERITY DIELECTRICS CO., LTD.

**STATEMENT OF SELLING AND MARKETING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|----------------------------------|---|-----------------------------|
| Salaries | | \$ 65,599 |
| Port surcharge and shipping fees | | 39,139 |
| Others | The amount of each individual account included under “others” does not exceed 5% of the account balance. | 36,459 |
| | | <u> </u> |
| | | <u>\$ 141,197</u> |

PROSPERITY DIELECTRICS CO., LTD.

**STATEMENT OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|--------------|---|-------------------|
| Salaries | | \$ 77,254 |
| Service fees | | 38,806 |
| Others | The amount of each individual account included under “others” does not exceed 5% of the account balance. | 24,705 |
| | | <hr/> |
| | | \$ <u>140,765</u> |

PROSPERITY DIELECTRICS CO., LTD.

**STATEMENT OF RESEARCH AND DEVELOPMENT EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|--------------------------|---|-----------------------------|
| Salaries | | \$ 34,432 |
| Materials for operations | | 15,802 |
| Depreciation expenses | | 15,324 |
| Research fees | | 6,199 |
| Others | The amount of each individual account included under “others” does not exceed 5% of the account balance. | 12,123 |
| | | <u> </u> |
| | | <u>\$ 83,880</u> |