Keystone Microtech Corporation

Financial Statements for the
Years Ended December 31, 2022 and 2021 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Keystone Microtech Corporation

Opinion

We have audited the accompanying financial statements of Keystone Microtech Corporation (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and 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, 2022 and 2021, 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 and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the 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, 2022. 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 matters identified in the Company's financial statements for the year ended December 31, 2022 are stated below:

Validity of Occurrence of Operating Revenue

Since the Company is a listed company, it is expected that the management will be under pressure to achieve the expected operating income target, and besides, the overall operating revenue in 2022 has increased compared with 2021. We identified revenue recognition related to the validity occurrence of the sales transaction form customers whose individual growth rates exceeded the overall growth rates and whose total transaction amounts for the whole year were significant as a key audit matter. The accounting policies for the recognition of relevant revenue are disclosed in Note 4(10).

In response, we performed the following audit procedures:

1. We obtained an understanding of the internal controls related to the aforementioned sales and assessed the operating effectiveness of the design and implementation of these controls.

2. We selected samples from the revenue sub-ledger from the customers mentioned above, verified them against the original sales orders, and inspected documents of customers qualifications and received payments to verify the occurrence of the transactions.

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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of 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 Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Standards on Auditing of 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.

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, 2022 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 Chung Chen Chen and Chiang Hsun Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 6, 2023

<u>*Notice to Readers*</u>

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.

KEYSTONE MICROTECH CORPORATION

BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)

	2022		2021	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 1,181,605	48	$ 967,597	42
Financial assets at amortized cost - current (Notes 4 and 7)	-	-	21,720	1
Notes receivable (Notes 4 , 8 and 18)	-	-	322	-
Trade receivables (Notes 4 , 8 and 18)	214,902	9	183,571	8
Current tax assets (Notes 4 and 20)	-	-	244	-
Inventories (Notes 4 and 9)	540,455	22	581,362	26
Prepayments (Note 13)	9,746	-	7,746	-
Total current assets	1,946,708	79	1,762,562	77
NON-CURRENT ASSETS				
Property, plant and equipment (Notes 4, 10 and 27)	459,015	19	460,747	20
Right-of-use assets (Notes 4 and 11)	7,059	-	6,888	-
Other intangible assets (Notes 4 and 12)	9,046	-	15,798	1
Deferred tax assets (Notes 4 and 20)	17,387	1	21,219	1
Other non-current assets (Notes 4 and 13)	17,554	1	16,049	1
Total non-current assets	510,061	21	520,701	23
TOTAL	$ 2,456,769	100	$ 2,283,263	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities - current (Note 18)	$ 120,660	5	$ 100,046	5
Trade payables (Note 14)	80,252	3	110,012	5
Other payables (Notes 15 and 23)	145,194	6	142,201	6
Current tax liabilities (Notes 4 and 20)	36,416	2	63,386	3
Lease liabilities - current (Notes 4 and 11)	4,318	-	4,501	-
Other current liabilities (Note 15)	1,062	-	800	-
Total current liabilities	387,902	16	420,946	19
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 20)	4,815	-	-	-
Lease liabilities - non-current (Notes 4 and 11)	2,843	-	2,481	-
Total liabilities	395,560	16	423,427	19
EQUITY (Note 17)				
Share capital				
Ordinary shares	272,257	11	270,757	12
Capital surplus	325,166	13	298,616	13
Retained earnings				
Legal reserve	195,976	8	154,006	6
Unappropriated earnings	1,289,748	53	1,136,457	50
Total retained earnings	1,485,724	61	1,290,463	56
Other Equity	(21,938)	(1)	-	-
Total equity	2,061,209	84	1,859,836	81
TOTAL	$ 2,456,769	100	$ 2,283,263	100

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

KEYSTONE MICROTECH CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2022		2021	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE				
Sales (Notes 4 and 18)	$ 1,529,234	100	$ 1,481,720	100
OPERATING COSTS				
Cost of goods sold (Notes 9, 12 and 19)	(781,294)	(51)	(676,197)	(46)
GROSS PROFIT	747,940	49	805,523	54
OPERATING EXPENSES (Notes 12 and 19)				
Selling and marketing expenses	46,776	3	37,008	3
General and administrative expenses	55,219	4	51,710	3
Research and development expenses	196,300	13	183,392	12
Expected credit loss (gain) (Note 8)	2,808	-	(7,309)	-
Total operating expenses	301,103	20	264,801	18
PROFIT FROM OPERATIONS	446,837	29	540,722	36
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 19)				
Interest income	3,545	1	1,755	-
Other income	410	-	61	-
Other gains and losses	62,361	4	(15,613)	(1)
Finance costs	(195)	-	(201)	-
Total non-operating income and expenses	66,121	5	(13,998)	(1)
PROFIT BEFORE INCOME TAX	512,958	34	526,724	35
INCOME TAX EXPENSE (Notes 4 and 20)	(106,507)	(7)	(107,024)	(7)
NET PROFIT FOR THE YEAR	406,451	27	419,700	28
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 406,451	27	$ 419,700	28
EARNINGS PER SHARE (Note 21)				
Basic	$ 15.01		$ 15.50	
Diluted	$ 14.80		$ 15.38	

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

KEYSTONE MICROTECH CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)

			Retained Earnings			
	Ordinary Shares Capital	Capital Surplus	Legal Reserve	Unappropriated Earnings	Other Equity	Total Equity
BALANCE AT JANUARY 1, 2021	$ 270,757	$ 286,140	$ 120,606	$ 899,073	$ -	$ 1,576,576
Appropriation of 2020 earnings (Note 17)						
Legal reserve	-	-	33,400	(33,400)	-	-
Cash dividends distributed by the Company	-	-	-	(148,916)	-	(148,916)
Other changes in capital surplus						
Disgorgement exercise	-	12,476	-	-	-	12,476
Net profit for the year ended December 31, 2021	-	-	-	419,700	-	419,700
Total comprehensive income for the year ended December 31, 2021	-	-	-	419,700	-	419,700
BALANCE AT DECEMBER 31, 2021	270,757	298,616	154,006	1,136,457	-	1,859,836
Appropriation of 2021 earnings (Note 17)						
Legal reserve	-	-	41,970	(41,970)	-	-
Cash dividends distributed by the Company	-	-	-	(211,190)	-	(211,190)
Share-based payment transactions (Notes 17 and 22)	1,500	26,550	-	-	(21,938)	6,112
Net profit for the year ended December 31, 2022	-	-	-	406,451	-	406,451
Total comprehensive income for the year ended December 31, 2022	-	-	-	406,451	-	406,451
BALANCE AT DECEMBER 31, 2022	$ 272,257	$ 325,166	$ 195,976	$ 1,289,748	$ (21,938)	$ 2,061,209

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

KEYSTONE MICROTECH CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 512,958	$ 526,724
Adjustments for:		
Depreciation expense	50,943	41,847
Amortization expense	18,547	16,255
Expected credit loss recognized (reversed) on trade receivables	2,808	(7,309)
Finance costs	195	201
Interest income	(3,545)	(1,755)
Compensation costs of employee share options	6,112	-
Write-downs of inventories	15,458	18,408
Net (gain) on foreign currency exchange	(59,915)	(45,395)
Changes in operating assets and liabilities		
Notes receivable	322	(322)
Trade receivables	(30,916)	70,425
Other receivables	-	28
Inventories	25,449	(12,818)
Prepayments	(2,000)	11,838
Contract liabilities	20,614	(115,892)
Notes payable	-	(500)
Trade payables	(29,661)	(60,210)
Other payables	4,199	16,961
Other current liabilities	262	(45)
Cash generated from operations	531,830	458,441
Interest received	3,545	1,755
Interest paid	(195)	(201)
Income tax paid	(124,586)	(111,596)
Net cash generated from operating activities	410,594	348,399
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of financial assets at amortized cost	21,940	251,580
Payments for property, plant and equipment	(34,009)	(60,696)
Increase in refundable deposits	(753)	-
Decrease in refundable deposits	41	67
Payments for intangible assets	(10,551)	(8,616)
Increase in prepayments for equipment	(12,722)	(5,648)
Net cash (used in) generated from investing activities	(36,054)	176,687
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of the principal portion of lease liabilities	(5,715)	(4,306)
Cash dividends	(211,190)	(148,916)
Disgorgement exercise	-	12,476
Net cash used in financing activities	(216,905)	(140,746)

(Continued)

KEYSTONE MICROTECH CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)

	2022	2021
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	$ 56,373	$ 28,985
NET INCREASE IN CASH AND CASH EQUIVALENTS	214,008	413,325
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	967,597	554,272
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,181,605	$ 967,597

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

KEYSTONE MICROTECH CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Keystone Microtech Corporation (the "Company"), which was established under the Company Law on September 4, 2006, is engaged in the manufacture and sale of various circuit testing solutions for semiconductors, including IC front-end test solutions (probe cards and substrates), IC back-end test solutions (load boards and burn-in boards) and other related testing boards.

The Company's shares have been listed on the Taipei Exchange since April 2019.

On March 9, 2020, the Company's board of directors approved a short-form merger with Relight Technology Corporation, a 100%-owned subsidiary of the Company, in accordance with the provisions of the Business Mergers and Acquisitions Act with the Company as the surviving company and Relight Technology Corporation as the dissolved company. Relight Technology Corporation's main business is the wholesale of electronic materials while its legal rights and obligations are assumed by the Company after the merger.

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 board of directors on March 6, 2023.

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)

IFRSs
"Annual Improvements to IFRS Standards 2018-2020"
Amendments to IFRS 3 "Reference to the Conceptual Framework"
Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"
Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"

The application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the accounting policies of the Company.

b. The IFRSs endorsed by the FSC for application starting from 2023

New IFRSs	Effective Date Announced by IASB
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 1)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 2)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 3)

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

Note 2: The amendments will be 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 3: Except for deferred taxes that were recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments were applied prospectively to transactions that occurred on or after January 1, 2022.

As of the date the financial statements were authorized for issue, the Company has assessed that the application of the above standards and interpretations will not have a material impact on the Company's financial position and financial performance.

c. The 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
Amendments to IFRS 16 "Leases Liability in a Sale and Leaseback"	January 1, 2024 (Note 2)
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, 2024
Amendments to IAS 1 "Non-current Liabilities with Covenants"	January 1, 2024

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: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact of the application of other standards and interpretations on the Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail.

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The financial statements have been prepared on a historical cost basis. Historical costs are generally determined by the fair value of the payment for asset acquisition.

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 Company’s financial statements, 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 arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

e. Inventories

Inventories consist of raw materials, supplies, work in progress and finish goods are stated at the lower of cost and net realizable value. Inventory write-downs are made by item, except where it may be appropriate to Company 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.

f. 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.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation on 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 method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for prospectively.

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.

g. Intangible assets

1) Intangible assets acquired separately

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 life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for prospective basis.

2) Derecognition of intangible assets

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.

h. Impairment of property, plant and equipment, right-of-use asset, intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets 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 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 (CGU) to which the asset belongs.

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 CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU 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 asset or CGU 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 CGU in prior years. A reversal of an impairment loss is recognized in profit or loss.

i. Financial instruments

Financial assets and financial liabilities are recognized when a Company entity 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 as financial assets at amortized cost.

Financial assets at amortized cost

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

i. The financial asset is 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 asset 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, financial assets at amortized cost, notes receivable, trade receivables and refundable deposits 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 in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events occur: Significant financial difficulty of the issuer or the borrower, breach of contract, it is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization or 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.

b) Impairment of financial assets

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

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 determines that the following situations indicate 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. When a financial asset is more than 180 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, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

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.

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 a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

j. Revenue recognition

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

<u>Revenue from the sale of goods</u>

Revenue from the sale of goods comes from sales of semiconductor testing boards and related components. Sales of semiconductor testing boards and related components are recognized as revenue after the goods are delivered to the customer's specific location and qualified, which is 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.

k. Leasing

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

<u>The Company as lessee</u>

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 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 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 and variable lease payments which depend on an index or a rate. 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 Company uses the lessee's incremental borrowing rate.

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 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. Lease liabilities are presented on a separate line in the balance sheets.

l. 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 an expense when employees have rendered services entitling them to the contributions.

m. Share-based payment arrangements

<u>Restricted shares granted to employees</u>

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefits. It is recognized as an expense in full at the grant date if vested immediately. The company issued shares to increase cash in order to retain employees' subscriptions, and the date on which the number of shares acquired by employees was confirmed as the grant date.

When restricted shares for employees are issued, other equity - unearned employee benefits are recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees. If restricted shares for employees are granted for consideration and the considerations received should be returned if employees resign in the vesting period, the amounts expected to be returned are recognized as payables.

n. 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.

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 asset 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 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.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company’s accounting policies, management is required to make judgments, estimations, and assumptions on 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 Company considers the possible impact of the recent development of COVID-19 and its economic environment implications when making its critical accounting estimates on 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.

The Company’s accounting policies, estimates and underlying assumptions have already been evaluated by the management of the Company, and no critical accounting judgments and key sources of estimation uncertainty were discovered.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2022	**2021**
Checking accounts and demand deposits	$ 713,795	$ 967,597
Cash equivalents (investments with original maturities of 3 months or less)		
Time deposits	467,810	-
	$ 1,181,605	$ 967,597

The market interest rates intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2022	2021
Demand deposits and time deposits	0.001%-4.500%	0.001%-0.200%

7. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT

	December 31	
	2022	2021
Current		
Time deposits with original maturities of more than 3 months	$ -	$ 21,720

The market interest rates intervals of time deposits with original maturities of more than 3 months at the end of the reporting period were as follows:

	December 31	
	2022	2021
Time deposits with original maturities of more than 3 months	-	2.550%

8. NOTES RECEIVABLE AND TRADE RECEIVABLES

	December 31	
	2022	2021
Notes receivable		
At amortized cost		
Gross carrying amount - operating	$ -	$ 322
Trade receivables		
At amortized cost		
Gross carrying amount	$ 218,304	$ 184,165
Less: Allowance for impairment loss	(3,402)	(594)
	$ 214,902	$ 183,571

Notes Receivable

At amortized cost

The Company measures the loss allowance for notes receivable at an amount equal to lifetime expected credit losses (ECLs). The ECLs on notes receivable are estimated by reference to the past default experience of the customer and economic conditions of the industry in which the customer operates. As of December 31, 2022 and 2021, the Company evaluated that no allowance for impairment loss was needed for notes receivable.

The following table details the aging analysis of notes receivable:

	December 31 2022	December 31 2021
1 to 60 days	$ -	$ 322

The above aging analysis of notes receivable is based on the journal date.

Trade Receivables

The average credit period for sales of goods is 30 to 120 days after the end of the month.

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 reporting period 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 trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are estimated using a provision matrix approach considering past experiences, current market conditions, and forward-looking information. As the Company’s historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company’s different customer base.

The Company writes off a 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 trade receivables based on the Company’s provision matrix.

December 31, 2022

	Not Past Due	Past Due Less than 30 Days	Past Due 31 to 60 Days	Past Due 61 to 90 Days	Past Due 91 to 120 Days	Past Due 121 to 150 Days	Past Due 151 to 180 Days	Past Due Over 180 Days	Total
Expected credit loss rate	0.02%	0.11%	0.50%	1.35%	2.55%	6.82%	26.91%	100%	
Gross carrying amount	$ 164,755	$ 27,037	$ 14,573	$ -	$ 8,894	$ -	$ -	$ 3,045	$ 218,304
Loss allowance (Lifetime ECLs)	(27)	(30)	(73)	-	(227)	-	-	(3,045)	(3,402)
Amortized cost	$ 164,728	$ 27,007	$ 14,500	$ -	$ 8,667	$ -	$ -	$ -	$ 214,902

December 31, 2021

	Not Past Due	Past Due Less than 30 Days	Past Due 31 to 60 Days	Past Due 61 to 90 Days	Past Due 91 to 120 Days	Past Due 121 to 150 Days	Past Due 151 to 180 Days	Past Due Over 180 Days	Total
Expected credit loss rate	0.05%	0.53%	1.64%	3.13%	5.06%	9.07%	28.67%	100%	
Gross carrying amount	$ 160,633	$ 16,942	$ 2,962	$ 744	$ 2,035	$ -	$ 849	$ -	$ 184,165
Loss allowance (Lifetime ECLs)	(87)	(89)	(49)	(23)	(103)	-	(243)	-	(594)
Amortized cost	$ 160,546	$ 16,853	$ 2,913	$ 721	$ 1,932	$ -	$ 606	$ -	$ 183,571

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

	For the Year Ended December 31	
	2022	2021
Balance at January 1	$ 594	$ 7,903
Increase: Net remeasurement of loss allowance	2,808	-
Less: Net impairment losses reversed	-	(7,309)
Balance at December 31	$ 3,402	$ 594

9. INVENTORIES

	December 31	
	2022	2021
Finished goods (including storage inventories awaiting acceptance)	$ 406,932	$ 385,762
Work in progress	19,385	14,457
Semi-finished goods	9,077	43,093
Raw materials	105,061	138,050
	$ 540,455	$ 581,362

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

	For the Year Ended December 31	
	2022	2021
Cost of inventories sold	$ 765,836	$ 657,789
Inventory write-downs	15,458	18,408
	$ 781,294	$ 676,197

10. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2022	2021
Assets used by the Company	$ 459,015	$ 460,747

Assets Used by the Company

	Freehold Land	Buildings	Machinery and Equipment	Office Equipment	Transportation	Other Equipment	Property under Construction	Total
Cost								
Balance at January 1, 2022	$ 217,232	$ 166,164	$ 178,504	$ 25,795	$ 500	$ 1,898	$ -	$ 590,093
Additions	-	2,471	22,464	6,624	-		-	31,559
Disposals	-	-	-	(450)	-	-	-	(450)
Reclassified (Note)	-	-	11,929	-	-	-	-	11,929
Transfers from investment properties	-	-	-	-	-	-	-	-
Balance at December 31, 2022	$ 217,232	$ 168,635	$ 212,897	$ 31,969	$ 500	$ 1,898	$ -	$ 633,131
Accumulated depreciation								
Balance at January 1, 2022	$ -	$ 23,466	$ 84,764	$ 19,370	$ 500	$ 1,246	$ -	$ 129,346
Depreciation expense	-	7,452	31,845	5,618	-	305	-	45,220
Disposals	-	-	-	(450)	-	-	-	(450)
Balance at December 31, 2022	$ -	$ 30,918	$ 116,609	$ 24,538	$ 500	$ 1,551	$ -	$ 174,116
Carrying amount at December 31, 2022	$ 217,232	$ 137,717	$ 96,288	$ 7,431	$ -	$ 347	$ -	$ 459,015
Cost								
Balance at January 1, 2021	$ 130,661	$ 152,736	$ 117,719	$ 20,543	$ 500	$ 1,333	$ 8,790	$ 432,282
Additions	-	5,295	47,549	5,413	-	740	-	58,997
Disposals	-	(657)	-	(161)	-	(175)	-	(993)
Reclassified (Note)	-	8,790	13,236	-	-	-	(8,790)	13,236
Transfers from investment properties	86,571	-	-	-	-	-	-	86,571
Balance at December 31, 2021	$ 217,232	$ 166,164	$ 178,504	$ 25,795	$ 500	$ 1,898	$ -	$ 590,093
Accumulated depreciation								
Balance at January 1, 2021	$ -	$ 17,085	$ 58,945	$ 15,204	$ 500	$ 1,116	$ -	$ 92,850
Depreciation expense	-	7,038	25,819	4,327	-	305	-	37,489
Disposals	-	(657)	-	(161)	-	(175)	-	(993)
Balance at December 31, 2021	$ -	$ 23,466	$ 84,764	$ 19,370	$ 500	$ 1,246	$ -	$ 129,346
Carrying amount at December 31, 2021	$ 217,232	$ 142,698	$ 93,740	$ 6,425	$ -	$ 652	$ -	$ 460,747

Note: Reclassified from prepayments for equipment to property, plant and equipment.

For the years ended December 31, 2022 and 2021, no impairment assessment was performed since there was no indication of impairment.

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

Buildings	
Main buildings	50 years
Construction appurtenance	10-20 years
Machinery and equipment	1-9 years
Office equipment	1-5 years
Transportation	5 years
Other equipment	3 years

11. LEASE ARRANGEMENTS

a. Right-of-use assets

	December 31	
	2022	2021
Carrying amount		
Buildings	$ 3,968	$ 1,381
Transportation equipment	3,091	5,507
	$ 7,059	$ 6,888

	For the Year Ended December 31	
	2022	2021
Additions to right-of-use assets	$ 5,894	$ 6,483
Depreciation charge for right-of-use assets		
Buildings	$ 2,415	$ 1,382
Transportation equipment	3,308	2,976
	$ 5,723	$ 4,358

For the years ended December 31, 2022 and 2021, no impairment assessment was performed since there was no indication of impairment.

b. Lease liabilities

	December 31	
	2022	2021
Carrying amount		
Current	$ 4,318	$ 4,501
Non-current	$ 2,843	$ 2,481

Range of discount rates for lease liabilities was as follows:

	December 31	
	2022	2021
Buildings	2.366%-2.741%	2.366%
Transportation equipment	2.366%-2.616%	2.366%-2.616%

c. Material lease-in activities and terms

The Company leases buildings for the use of offices with lease term of 2 years. The Company does not have bargain purchase options to acquire buildings at the end of the lease term. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor’s consent.

The Company also leases transportation equipment for use in operations with lease term of 3 years. The Company does not have bargain purchase options to acquire vehicles at the end of the lease term. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

	For the Year Ended December 31	
	2022	**2021**
Expenses relating to short-term leases	$ 186	$ 295
Expenses relating to low-value asset leases	$ 295	$ 239
Total cash outflow for leases	$ (6,391)	$ (5,041)

The Company leases certain buildings which qualify as short-term leases and certain office equipment which qualify as low-value asset leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

As of December 31, 2022 and 2021, the amount of short-term lease commitments for which the recognition exemption was applied was $107 thousand and $150 thousand, respectively.

12. OTHER INTANGIBLE ASSETS

	Computer Software
Cost	
Balance at January 1, 2022	$ 86,939
Additions	11,795
Disposal	(924)
Balance at December 31, 2022	$ 97,810
Accumulated amortization and impairment	
Balance at January 1, 2022	$ 71,141
Amortization expense	18,547
Disposal	(924)
Balance at December 31, 2022	$ 88,764
Carrying amount at December 31, 2022	$ 9,046

(Continued)

	Computer Software
Cost	
Balance at January 1, 2021	$ 89,447
Additions	8,616
Disposals	(11,124)
Balance at December 31, 2021	$ 86,939
Accumulated amortization and impairment	
Balance at January 1, 2021	$ 66,010
Amortization expense	16,255
Disposals	(11,124)
Balance at December 31, 2021	$ 71,141
Carrying amount at December 31, 2021	$ 15,798

(Concluded)

The computer software is amortized on a straight-line basis over their estimated useful lives of 1 to 6 years.

	For the Year Ended December 31	
	2022	2021
An analysis of amortization by function		
Operating costs	$ 704	$ 622
General and administrative expenses	2,344	2,124
Research and development expenses	15,499	13,509
	$ 18,547	$ 16,255

13. OTHER ASSETS

	December 31	
	2022	2021
Current		
Prepayments	$ 9,746	$ 7,746
Non-current		
Prepayments for equipment	$ 12,722	$ 11,929
Refundable deposits	4,832	4,120
	$ 17,554	$ 16,049

14. TRADE PAYABLES

	December 31	
	2022	2021
Trade payables		
Operating	$ 80,252	$ 110,012

The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

15. OTHER LIABILITIES

	December 31	
	2022	2021
Current		
Other payables		
Payables for salaries or bonuses	$ 128,276	$ 124,596
Payables for purchases of equipment	1,998	4,448
Payables for purchases of computer software	1,244	-
Payables for pensions	2,915	2,650
Payables for insurance	4,168	3,729
Others	6,593	6,778
	$ 145,194	$ 142,201
Other liabilities		
Receipts under custody	$ 1,062	$ 800

16. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

The Company has a pension plan under the Labor Pension Act (LPA), 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.

17. EQUITY

a. Share capital

	December 31	
	2022	2021
Number of shares authorized (in thousands)	36,000	36,000
Shares authorized	$ 360,000	$ 360,000
Number of shares issued and fully paid (in thousands)	27,226	27,076
Shares issued	$ 272,257	$ 270,757

On August 2, 2021, the shareholders approved a restricted share plan for employees consisting of 150 thousand shares, with a par value of NT$10. The subscription base date of July 27, 2022 was determined by the Company's board of directors on July 21, 2022.

A reconciliation of the number of shares outstanding was as follows:

	Number of Shares (In Thousands)	**Share Capital**
Balance at January 1, 2022	27,076	$ 270,757
Issued employee restricted shares (Note 22)	150	1,500
Balance at December 31, 2022	27,226	$ 272,257
Balance at January 1, 2021	27,076	$ 270,757
Balance at December 31, 2021	27,076	$ 270,757

b. Capital surplus

	December 31	
	2022	**2021**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note 1)		
Premium from issuance ordinary shares	$ 277,535	$ 277,535
Treasury share transactions	6,923	6,923
Conversion of employee share options premium	1,682	1,682
May be used to offset a deficit (Note 2)		
Disgorgement exercise	12,476	12,476
May not be used for any purpose		
Employee restricted shares	26,550	-
	$ 325,166	$ 298,616

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 to once a year.

Note 2: Such capital surplus arises when the right of disgorgement is exercised that may be used to offset a deficit.

A reconciliation of the capital surplus was as follows:

	Premium from Ordinary Shares	Treasury Stock Transactions	Premium from Converting Employee Share Option	Employee Restricted Shares	Disgorgement	Total
Balance at January 1, 2021	$ 277,535	$ 6,923	$ 1,682	$ -	$ -	$ 286,140
Disgorgement exercise	-	-	-	-	12,476	12,476
Balance at December 31, 2021	$ 277,535	$ 6,923	$ 1,682	$ -	$ 12,476	$ 298,616
Balance at January 1, 2022	$ 277,535	$ 6,923	$ 1,682	$ -	$ 12,476	$ 298,616
Issued employee restricted shares	-	-	-	26,550	-	26,550
Balance at December 31, 2022	$ 277,535	$ 6,923	$ 1,682	$ 26,550	$ 12,476	$ 325,166

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the Articles, where the Company made a profit in a fiscal year, the profits shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit unless accumulated legal capital reserves have already reached the total capital of the company, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. Refer to employees' compensation and remuneration of directors in Note 19 (f) for details.

As set forth in the Articles, the Company's policy on the distribution of dividends to shareholders is subject to the Company's current and future investment environment, future investment plans, financial structure and operating performance, with the interests of shareholders taken into account. The distribution of dividends shall not be less than 20% of the current total earnings (not including accumulated undistributed earnings) unless the current total earnings (not including unappropriated earnings) is less than 10% of the Company's paid-in capital. Dividends may be distributed in cash or shares, and cash dividends shall not be less than 10% of the total dividends distributed to shareholders in the current year.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve can be used to offset deficit. 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 2021 and 2020, which were approved in the shareholders' meeting on June 27, 2022 and August 2, 2021, respectively, were as follows:

	For the Year Ended December 31	
	2021	**2020**
Legal reserve	$ 41,970	$ 33,400
Cash dividends	$ 211,190	$ 148,916
Cash dividends per share (NT$)	$ 7.8	$ 5.5

The appropriation of earnings for 2022, which were proposed by the Company's board of directors on March 6, 2023, were as follows:

	For the Year Ended December 31, 2022
Legal reserve	$ 40,645
Cash dividends	$ 204,192
Cash dividends per share (NT$)	$ 7.5

The appropriation of earnings for 2022 will be resolved by the shareholders in their meeting to be held on June 26, 2023.

d. Other equity

Employee unearned benefits

In the shareholders' meetings on August 2, 2021, the shareholders approved the issuance of restricted shares to employees (refer to Note 22).

	For the Year Ended December 31, 2022
Balance at January 1	$ -
Issuance of shares	(28,050)
Share-based payment expenses recognized	6,112
Balance at December 31	$ (21,938)

18. REVENUE

	For the Year Ended December 31	
	2022	2021
Revenue from contracts with customers		
Revenue from sale of goods	$ 1,529,234	$ 1,481,720

a. Contract balances

	December 31, 2022	December 31, 2021	January 1, 2021
Notes receivable (Note 8)	$ -	$ 322	$ -
Trade receivables (Note 8)	$ 214,902	$ 183,571	$ 245,886
Contract liabilities - current			
Sale of goods	$ 120,660	$ 100,046	$ 215,938

The change in contract liabilities is mainly due to the difference between the point at which the performance obligation is satisfied and the point at which the customer pays.

Revenue recognized in the current reporting period from contract liabilities at the beginning of the year was as follows:

	For the Year Ended December 31	
	2022	**2021**
Contract liabilities at the beginning of the year		
Sale of goods	$ 98,153	$ 215,938

b. Sales details of customer contracts

Sales details are disclosed in Note 31.

19. NET PROFIT

a. Interest income

	For the Year Ended December 31	
	2022	**2021**
Bank deposits	$ 3,429	$ 272
Financial assets at amortized cost	92	1,460
Others	24	23
	$ 3,545	$ 1,755

b. Other gains and (losses)

	For the Year Ended December 31	
	2022	**2021**
Net foreign exchange gains (losses)	$ 62,610	$ (15,301)
Others	(249)	(312)
	$ 62,361	$ (15,613)

c. Finance costs

	For the Year Ended December 31	
	2022	**2021**
Interest on lease liabilities	$ 195	$ 201

d. Depreciation and amortization

	For the Year Ended December 31	
	2022	2021
An analysis of depreciation by function		
Operating costs	$ 32,176	$ 27,162
Operating expenses	18,767	14,685
	$ 50,943	$ 41,847
An analysis of amortization by function		
Operating costs	$ 704	$ 622
Operating expenses	17,843	15,633
	$ 18,547	$ 16,255

e. Employee benefits expense

	For the Year Ended December 31	
	2022	2021
Short-term benefits	$ 287,517	$ 271,595
Post-employment benefits		
Defined contribution plans	10,071	9,307
Other employee benefits	33,371	31,250
Equity-settled share-based payments	6,112	-
Total employee benefits expense	$ 337,071	$ 312,152
An analysis of employee benefits expense by function		
Operating costs	$ 161,677	$ 150,917
Operating expenses	175,394	161,235
	$ 337,071	$ 312,152

f. Compensation of employees and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued compensation of employees and remuneration of directors at rates no less than 10% and no higher than 1%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors. The appropriations of compensation of employees and remuneration of directors for 2022 and 2021 that were resolved by the board of directors on March 6, 2023 and March 7, 2022, respectively, are as shown below:

Accrual rate

	For the Year Ended December 31	
	2022	2021
Compensation of employees	10.46%	10.39%
Remuneration of directors	0.24%	0.25%

Amount

	For the Year Ended December 31			
	2022		2021	
	Cash	Shares	Cash	Shares
Compensation of employees	$ 60,105	$ -	$ 61,230	$ -
Remuneration of directors	$ 1,400	$ -	$ 1,470	$ -

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

There is no difference between the actual amounts of compensation of employees and remuneration of directors paid and the amounts recognized in the financial statements for the years ended December 31, 2021 and 2020.

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

g. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2022	2021
Foreign exchange gains	$ 92,394	$ 4,229
Foreign exchange losses	(29,784)	(19,530)
Net gains (losses)	$ 62,610	$ (15,301)

20. INCOME TAX EXPENSE

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Year Ended December 31	
	2022	2021
Current tax		
In respect of the current period	$ 87,634	$ 105,291
Income tax on unappropriated earnings	5,563	4,203
Adjustments for prior year	4,663	2,433
	97,860	111,927
Deferred tax		
In respect of the current period	8,647	(4,903)
	8,647	(4,903)
Income tax expense recognized in profit or loss	$ 106,507	$ 107,024

A reconciliation of accounting profit and income tax expense was as follows:

	For the Year Ended December 31	
	2022	**2021**
Profit before tax	$ 512,958	$ 526,724
Income tax expense calculated at the statutory rate	$ 102,592	$ 105,345
Income tax on unappropriated earnings	5,563	4,203
Adjustments to prior years' tax	4,663	2,433
Deductible research expense in current period	(6,311)	(4,957)
Income tax expense recognized in profit or loss	$ 106,507	$ 107,024

b. Current tax assets and liabilities

	December 31	
	2022	**2021**
Current tax assets		
Tax refund receivable	$ -	$ 244
Current tax liabilities		
Income tax payable	$ 36,416	$ 63,386

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2022

	Opening Balance	**Recognized in Profit or Loss**	**Closing Balance**
Deferred tax assets			
Temporary differences			
Unrealized loss on write-down of inventories	$ 14,051	$ 3,092	$ 17,143
Unrealized exchange losses	7,168	(7,168)	-
Loss on allowance of accounts receivables	-	244	244
	$ 21,219	$ (3,832)	$ 17,387
Deferred tax liabilities			
Temporary differences			
Unrealized exchange gains	$ -	$ 4,815	$ 4,815

For the year ended December 31, 2021

	Opening Balance	Recognized in Profit or Loss	Closing Balance
Deferred tax assets			
Temporary differences			
Unrealized loss on write-down of inventories	$ 10,369	$ 3,682	$ 14,051
Unrealized exchange losses	4,874	2,294	7,168
Loss on allowance of accounts receivables	1,073	(1,073)	-
	$ 16,316	$ 4,903	$ 21,219

d. Income tax assessments

The Company's income tax returns through 2020 have been assessed by the tax authorities. As of December 31, 2022, the Company has no unsettled tax litigation.

21. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2022	**2021**
Basic earnings per share	$ 15.01	$ 15.50
Diluted earnings per share	$ 14.80	$ 15.38

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share are as follows:

	For the Year Ended December 31	
	2022	**2021**
Net profit for the period	$ 406,451	$ 419,700

Number of Shares

Unit: Thousand Shares

	For the Year Ended December 31	
	2022	**2021**
Weighted average number of ordinary shares used in the computation of basic earnings per share (in thousands)	27,076	27,076
Effect of potentially dilutive ordinary shares		
Employees' compensation or bonuses issued to employees	380	216
Restricted employee share options	15	-
Weighted average number of ordinary shares used in the computation of diluted earnings per share (in thousands)	27,471	27,292

The Company may settle the compensation of employees in cash or shares; therefore, the Company assumes that the entire amount of the compensation will be settled in shares, and the resulting potential shares will be 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.

22. SHARE-BASED PAYMENT ARRANGEMENTS - RESTRICTED SHARE PLAN FOR EMPLOYEES

On August 2, 2021, the shareholders approved a restricted share plan for employees with a total amount of $1,500 thousand, consisting of 150 thousand shares. The subscription base date of July 27, 2022 was determined by the board of directors on July 21, 2022. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

a. The employees who acquire the restricted shares (including share dividends) under the Regulation but have not met the vesting conditions should provide the shares to the agency designated by the company acting as the trust custodian and cooperate in complying with all related procedures and preparing the required documents.

b. In addition to the restrictions stipulated in the custody of the preceding paragraph, the employees who acquire the restricted shares (including share dividends) under the Regulation but have not met the vesting conditions except occurrence of inheritance due to this Regulation shall not sell, mortgage, transfer, donate, pledge or, in any other way, dispose of these shares (including share dividends).

c. Employees who acquire the restricted shares but have not met the vesting conditions have other rights the same as those of ordinary shareholders of the Company, including but not limited to the rights to receive dividends, bonuses and capital surplus in shares and to vote on cash increases by share issuance.

d. The attendance proposals, speeches, voting rights and other equity-related matters at the shareholders' meeting of the company are delegated to trust custody agencies before the vesting conditions are met.

e. During the vested period, if the company handles capital reduction not due to statutory capital reduction, the new shares with restricted employee rights shall be canceled according to the capital reduction ratio. If the company is handling cash capital reduction, the cash returned by the company must be delivered to the trust and can only be delivered to the employees after the vested conditions are met. However, if the employees do not meet the vested conditions, the Company will recover such cash.

The vesting conditions of restricted shares are lift restrictions according to the following timeline and the proportion of restricted shares granted to the employees:

Still employed after one-year anniversary of the grant can obtain the following proportion of shares: 25%
Still employed after two-year anniversary of the grant can obtain the following proportion of shares: 25%
Still employed after three-year anniversary of the grant can obtain the following proportion of shares: 25%
Still employed after four-year anniversary of the grant can obtain the following proportion of shares: 25%

If an employee fails to meet the vesting conditions, the Company will withdraw the restricted shares (including share dividends).

The fair value of NT$187 per share of the newly issued restricted shares was priced using the market-price-based method. The unearned employee benefit of $28,050 thousand was recognized on the basis of vesting conditions and expensed on a straight-line base over the vesting period. Compensation costs of $6,112 thousand were recognized, respectively, within the vesting period for the year ended December 31, 2022.

Information on the restricted share plan for employees was as follows:

	For the Year Ended December 31, 2022
Balance at January 1	-
Issuance of shares	150
Balance at December 31	150

23. CASH FLOWS INFORMATION

a. Non-cash transactions

In addition to those disclosed in other notes, the Company entered into the following non-cash investing activities which were not reflected in the statements of cash flows for the years ended December 31, 2022 and 2021:

1) As of December 31, 2022 and 2021, the unsettled payments for purchases of property, plant and equipment were $1,998 thousand and $4,448 thousand, respectively, and were recorded as other payables in the financial statements.

2) As of December 31, 2022 and 2021, the unsettled payments for purchases of intangible assets were $1,244 thousand and $0 thousand, respectively, and were recorded as other payables in the financial statements.

b. Changes in liabilities arising from financing activities

For the year ended December 31, 2022

			Non-cash Changes			
	Opening Balance	**Cash Flows**	**New Leases**	**Interest Expense**	**Others**	**Closing Balance**
Lease liabilities	$ 6,982	$ (5,715)	$ 5,894	$ 195	$ (195)	$ 7,161

For the year ended December 31, 2021

			Non-cash Changes			
	Opening Balance	**Cash Flows**	**New Leases**	**Interest Expense**	**Others**	**Closing Balance**
Lease liabilities	$ 4,805	$ (4,306)	$ 6,483	$ 201	$ (201)	$ 6,982

24. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities of the Company will be able to continue as going concerns while considering operating risks and maximizing the returns to shareholders through the optimization of the debt and equity balance. There were no significant changes in the Company's overall strategy.

The capital structure of the Company consists of equity of the Company (comprising share capital, capital reserve and retained earnings).

The Company is not subject to any externally imposed capital requirements.

Under the recommendations of the key management, to balance the overall capital structure, the Company may distribute dividends and adjust the number of new shares issued.

25. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

Management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements which are not measured at fair value approximate their fair values.

b. Categories of financial instruments

	December 31	
	2022	**2021**
Financial assets		
Financial assets at amortized cost (1)	$ 1,401,339	$ 1,177,330
Financial liabilities		
Financial liabilities at amortized cost (2)	90,087	121,238

1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost - current, notes receivables, trade receivable, and refundable deposits (included in other non-current assets).

2) The balances include financial liabilities at amortized cost, which comprise trade payables and other payables (not including payables for salaries and bonuses, pensions, insurance and dividends) that are measured at amortized cost.

c. Financial risk management objectives and policies

The Company's major financial instruments included trade receivables, trade payables and lease liabilities. The Company's corporate treasury function provides services to the business, coordinates access to financial markets, and 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 (currency risk and interest rate risk), credit risk and liquidity risk.

The corporate treasury function reports regularly to the board of directors, who monitors risks and policies implemented to mitigate risk exposures.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk.

The carrying amounts of the Company's foreign currency-denominated monetary assets and monetary liabilities are set out in Note 29.

Sensitivity analysis

The Company was mainly exposed to the fluctuations in the USD and the RMB.

The following table shows the Company's sensitivity to a 1% increase and decrease in the functional currencies of the entities of the Company against the relevant foreign currencies (the USD and RMB). A sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency-denominated monetary items, and their translation was adjusted at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicated an increase in pretax profit when the functional currencies of the entities of the Company weakened by 1% against the relevant foreign currency. For a 1% strengthening of the functional currencies of the entities of the Company against the relevant foreign currency, there would be an equal and opposite impact on pretax profit and the balances below would be negative.

	USD Impact		**RMB Impact**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2022	**2021**	**2022**	**2021**
Profit or loss	$ 4,981	$ 4,751	$ 3,457	$ 1,332

The above impact on profit and loss was mainly attributable to the exposure to USD bank deposits, USD receivables, USD payables, RMB bank deposits, RMB receivables at the end of the reporting period.

The Company's sensitivity to the USD increased during the current period mainly because of an increase in USD receivable. The Company's sensitivity to the RMB increased during the current period mainly because of an increase in RMB bank deposits.

b) Interest rate risk

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rate risks at the end of the reporting period were as follows:

	December 31	
	2022	**2021**
Interest rate risk on fair value		
Financial assets	$ 467,810	$ 21,720
Financial liabilities	7,161	6,982
Interest rate risk on cash flow		
Financial assets	711,881	966,730

Sensitivity analysis

The sensitivity analysis in the next paragraph was based on the exposure of the Company's non-derivative instruments to interest rate risks at the end of the reporting period. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates been 100 basis points higher/lower and all other variables been held constant, the Company's pretax profit for the years ended December 31, 2022 and 2021 would have increased/decreased by $7,119 thousand and $9,667 thousand, respectively, which was mainly attributable to the Company's exposure to interest rate risks on its floating-rate bank deposits.

The Company's sensitivity to interest rates decreased during the current period mainly because of the decrease in floating-rate bank deposits.

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. As of the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure of counterparties to discharge an obligation pertaining to financial assets recognized in the balance sheets.

The Company adopted a policy of only dealing with creditworthy counterparties.

The Company's concentration of credit risk of 53% and 85% of total amounts of trade receivables as of December 31, 2022 and 2021, respectively, was attributable to the Company's ten largest customers.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

a) Liquidity and interest rate risk table for non-derivative financial liabilities

The following tables show the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed-upon repayment periods. The tables were based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables included both interest and principal cash flows.

December 31, 2022

	Less than 3 Months	**3 Months to 1 Year**	**Over 1 Year to 5 Years**	**More than 5 Years**
Non-derivative financial liabilities				
Non-interest bearing	$ 89,149	$ 938	$ -	$ -
Lease liabilities	1,396	3,050	2,892	-
	$ 90,545	$ 3,988	$ 2,892	$ -

December 31, 2021

	Less than 3 Months	3 Months to 1 Year	Over 1 Year to 5 Years	More than 5 Years
Non-derivative financial liabilities				
Non-interest bearing	$ 118,826	$ 2,412	$ -	$ -
Lease liabilities	1,155	3,466	2,514	-
	$ 119,981	$ 5,878	$ 2,514	$ -

b) Financing facilities

	December 31	
	2022	2021
Unsecured bank loan facilities:		
Amount used	$ -	$ -
Amount unused	110,556	-
	$ 110,556	$ -

26. TRANSACTIONS WITH RELATED PARTIES

In addition to those disclosed in other notes, details of transactions between the Company and other related parties are disclosed below.

Compensation of Key Management Personnel

	For the Year Ended December 31	
	2022	2021
Short-term employee benefits	$ 36,265	$ 37,203

The remunerations of directors and key executives were determined by the remuneration committee on the basis of individual performance and market trends.

27. UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Company as of the end of the reporting period were as follows:

Unrecognized commitments are as follows:

	December 31	
	2022	2021
Acquisition of property, plant and equipment	$ 5,946	$ 4,068

28. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

In the meeting on March 6, 2023, the board of directors approved a restricted shares plan of 180 thousand shares with a par value of NT$10, the estimated recognition of compensation costs in the vesting period is $36,657 thousand. The Board authorizes the chairman to determine the issuance date for shares after The shareholders' resolution in the meeting.

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information is expressed in aggregate in foreign currencies other than the functional currency of the Company, and the exchange rates disclosed refer to the rates at which such foreign currencies are converted to the functional currency. Information on foreign currency assets and liabilities with significant effect is as follows:

December 31, 2022

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
Financial assets			
Monetary items			
USD	$ 17,557	30.71	$ 539,161
RMB	78,436	4.408	345,745
Financial liabilities			
Monetary items			
USD	1,337	30.71	41,070

December 31, 2021

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
Financial assets			
Monetary items			
USD	$ 18,599	27.68	$ 514,816
RMB	30,652	4.344	133,153
Financial liabilities			
Monetary items			
USD	1,436	27.68	39,748

The significant realized and unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2022		2021	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gain	Exchange Rate	Net Foreign Exchange Loss
USD	29.805 (USD:NTD)	$ 60,614	28.009 (USD:NTD)	$ (14,570)
RMB	4.422 (RMB:NTD)	1,697	4.341 (RMB:NTD)	(853)
		$ 62,311		$ (15,423)

30. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions:

1) Financing provided to others: None

2) Endorsements/guarantees provided: None

3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): None

4) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None

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: None

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None

9) Trading in derivative instruments: None

10) Intercompany relationships and significant intercompany transactions: None

b. Information on investees: None

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: None

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: None

   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 1)

31. SEGMENT INFORMATION

a. Financial information

The Company is mainly an important operating department engaged in the manufacture and sale of various circuit testing solutions for semiconductors, including IC front-end test solutions (probe cards and substrates), IC back-end test solutions (load boards and burn-in boards) and other related testing boards. The financial report is the measurement basis for the chief operating decision maker of the Company to allocate resources and evaluate performance, thus reporting single-related segment operating information is not necessary.

b. Geographical information

The Company's major operating department is located in Taiwan; therefore, reporting non-current assets is not necessary. The Company's revenue information from external customers by location is shown below.

	Revenue from External Customers	
	For the Year Ended December 31	
	2022	**2021**
Taiwan	$ 1,100,503	$ 1,136,693
China	386,961	299,892
Others	41,770	45,135
	$ 1,529,234	$ 1,481,720

c. Information on major customers

The information on customers who contributed 10% or more to the Company's revenue is as follows:

	Revenue from External Customers For the Year Ended December 31	
	2022	**2021**
Customer B	$ 202,457	NA*
Customer O	169,640	$ 274,680

* Revenue amount did not reach 10 % of the Company's revenue

TABLE 1

KEYSTONE MICROTECH CORPORATION

INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2022

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Kuan Yi Investment Corporation	3,097,490	11.37

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

KEYSTONE MICROTECH CORPORATION

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

KEYSTONE MICROTECH CORPORATION

STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item	Summary	Amount
Cash		
Demand deposits	New Taiwan dollars	$ 265,324
Foreign currency deposit	Including US$4,149 thousand, RMB70,209 thousand, JPY10,520 thousand, EUR220 thousand	446,557
Checking accounts		1,914
Cash equivalents		
Deposits account	The expiry dates are 2023.1.7, 2023.1.14 and 2023.3.15, respectively, and the interest rates are 1.15%, 3.60% and 4.50%, respectively, including NT$130,000 thousand and US$11,000 thousand	467,810
		$ 1,181,605

Note: Exchange rate US$1=NT$30.71, RMB1=NT$4.408, JPY1=NT$0.232 and EUR1=NT$32.72

KEYSTONE MICROTECH CORPORATION

STATEMENT OF TRADE RECEIVABLES, NET
DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Client Name	Summary	Amount
Non-related parties		
Customer O	Revenue	$ 31,349
Customer A	〃	29,086
Customer S	〃	19,206
Customer L	〃	17,566
Customer Z	〃	16,796
Customer B	〃	16,034
Customer J	〃	14,554
Customer N	〃	12,365
Others (Note)	〃	61,348
Less: Allowance for impairment loss		(3,402)
		$ 214,902

Note: The balance of each individual client included in others does not exceed 5% of the account balance.

STATEMENT 3

KEYSTONE MICROTECH CORPORATION

STATEMENT OF INVENTORIES, NET
DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item	Cost	Net Realizable Value
Finished goods	$ 417,845	$ 406,932
Work-in-progress	19,385	19,385
Semi-finished goods	12,119	9,077
Raw material	176,659	105,061
	626,008	$ 540,455
Less: Allowance to reduce inventory to market	(85,553)	
	$ 540,455	

STATEMENT 4

KEYSTONE MICROTECH CORPORATION

STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item	Balance at January 1, 2022	Additions	Decrease	Balance at December 31, 2022	Note
Buildings	$ 4,562	$ 5,002	$ (1,799)	$ 7,765	-
Transportation equipment	14,440	892	(5,185)	10,147	-
	$ 19,002	$ 5,894	$ (6,984)	$ 17,912	

STATEMENT 5

KEYSTONE MICROTECH CORPORATION

STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT OF CHANGES IN RIGHT-OF-USE ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item	Balance at January 1, 2022	Additions	Decrease	Balance at December 31, 2022	Note
Buildings	$ 3,181	$ 2,415	$ (1,799)	$ 3,797	-
Transportation equipment	8,933	3,308	(5,185)	7,056	-
	$ 12,114	$ 5,723	$ (6,984)	$ 10,853	

KEYSTONE MICROTECH CORPORATION

STATEMENT OF TRADE PAYABLES
DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Vendor Name	Summary	Amount
Non-related parties		
Vendor B	Payments	$ 11,152
Vendor P	〃	8,869
Vendor K	〃	7,185
Vendor H	〃	6,833
Vendor Q	〃	4,669
Others (Note)	〃	41,544
		$ 80,252

Note: The balance of each individual vendor included in others does not exceed 5% of the account balance.

KEYSTONE MICROTECH CORPORATION

STATEMENT OF LEASE LIABILITIES - NON-CURRENT
DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item	Summary	Time	Discount Rates	Amount	Note
Buildings	Offices	2021.01.01-2025.8.14	2.366%-2.741%	$ 4,005	Note
Transportation equipment	Transportation	2020.06.18-2025.4.29	2.366%-2.616%	3,156	Note
				$ 7,161	

Note: The lease liabilities include current $4,318 thousand and non-current $2,843 thousand.

STATEMENT 8

KEYSTONE MICROTECH CORPORATION

STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item	Summary	Amount
Sale of goods	Sales revenue from test components	$ 1,529,234

STATEMENT 9

KEYSTONE MICROTECH CORPORATION

STATEMENT OF COST OF GOODS SOLD
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item		Amount
Raw material, beginning of year		$ 195,210
Additions:	Raw material purchased	446,847
	Gain on physical inventory	142
Deductions:	Raw material end of year	(176,659)
	Raw material sold	(69,174)
	Raw material scraped	(1,309)
	Reclassified operating expenses	(10,143)
	Reclassified manufacturing expense	(4,921)
Direct material consumed		379,993
Direct labor		162,551
Manufacturing expense		112,689
Manufacturing cost		655,233
Additions:	Work-in-progress, beginning of year	63,042
	Work-in-progress purchased	59,071
Deductions:	Work-in-progress, end of year	(31,504)
	Work-in-progress sold	(110,302)
	Inventory scraped	(745)
	Reclassified operating expenses	(4,223)
	Reclassified manufacturing expense	(294)
Cost of work-in-progress		630,278
Additions:	Finished goods, beginning of year	393,205
Deductions:	Finished goods, end of year	(417,845)
	Inventory scraped	(1,471)
	Reclassified operating expenses	(15,697)
	Reclassified manufacturing expense	(5,493)
Cost of goods sold, total (a)		582,977
Raw material sold (b)		69,174
Work-in-progress sold (c)		110,302
Loss on inventory scraped (d)		3,525
Loss on inventory valuation loss and obsolescence (e)		15,458
Gain on physical inventory (f)		(142)
Cost of goods sold, total (g)=(a)+(b)+(c)+(d)+(e)+(f)		$ 781,294

Note: Beginning and ending balances of inventories are listed at their acquisition costs.

KEYSTONE MICROTECH CORPORATION

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)

Item	Selling and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Expected Credit Gain
Payroll and related expense (including pension expenses)	$ 26,747	$ 23,558	$ 108,887	$ -
Entertainment expenses	3,117	2,556	515	-
Travel expenses	2,476	97	2,808	-
Depreciation	894	5,378	12,495	-
Amortizations	-	2,344	15,499	-
Commissioned research expense	-	-	35,251	-
Professional service expense	-	7,379	501	-
Expected credit loss	-	-	-	2,808
Others (Note)	13,542	13,907	20,344	-
	$ 46,776	$ 55,219	$ 196,300	$ 2,808

Note: The balance of each individual item included in others does not exceed 5% of the account balance.

KEYSTONE MICROTECH CORPORATION

STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)

	2022			2021		
Item	**Classified as Cost of Goods Sold**	**Classified as Operating Expenses**	**Total**	**Classified as Cost of Goods Sold**	**Classified as Operating Expenses**	**Total**
Labor cost						
Salary and bonus	$ 139,085	$ 151,394	$ 290,479	$ 130,075	$ 136,866	$ 266,941
Labor and health insurance	11,720	10,630	22,350	10,721	10,030	20,751
Pension	5,423	4,648	10,071	5,009	4,298	9,307
Director's remuneration	-	3,150	3,150	-	4,654	4,654
Others	5,449	5,572	11,021	5,112	5,387	10,499
	$ 161,677	$ 175,394	$ 337,071	$ 150,917	$ 161,235	$ 312,152
Depreciation expense	$ 32,176	$ 18,767	$ 50,943	$ 27,162	$ 14,685	$ 41,847
Amortization expense	$ 704	$ 17,843	$ 18,547	$ 622	$ 15,633	$ 16,255

Note 1: The average numbers of the Company's employees were 310 and 282, respectively, of which 5 directors are not concurrently serving as employees in 2022 and 2021, respectively.

Note 2: As of December 31, 2022, the average employee benefits expense was $1,095 thousand. ("The total employee benefits expense in current period - total director's remuneration"/"Headcount - The population of directors not concurrently serving as employees in current period").

As of December 31, 2021, the average employee benefits expense was $1,110 thousand. ("The total employee benefits expense in current period - total director's remuneration"/"Headcount - The population of directors not concurrently serving as employees in current period").

Note 3: As of December 31, 2022, the average employee's salary and bonus was $952 thousand ("The total employee's salary and bonus in current period"/"Headcount - The population of directors not concurrently serving as employees in current period").

As of December 31, 2021, the average employee's salary and bonus was $964 thousand ("The total employee's salary and bonus in current period"/"Headcount - The population of directors not concurrently serving as employees in current period").

Note 4: The change in average employee salaries and bonuses was (1.24%) ("The average of employee's salary and bonus in current period - The average of employee's salary and bonus in the previous period"/"The average of employee's salary and bonus in the previous period").

Note 5: The Company has set the audit committee. Consequently, there is no payment to supervisors' remuneration.

Note 6: The Company's compensation policies.

Principles of salary policy formulation

a) Employees' compensation: Employees' compensation mainly includes basic salary (including base salary and meal allowance), annual salary adjustment and year-end bonus, etc. Salaries are determined based on the market salary in the same industry, job category, academic experience, professional knowledge and skills, professional years of experience; and the overall economic environment of the year.

b) Remuneration of managers is determined based on the Company's profitability and business strategy as well as the performance and contribution of the managers with reference to the market salary and is reviewed by the compensation committee and submitted to the board of directors for approval.

(Continued)

c) Employees' bonuses: Bonuses are issued based on the Company's operating performance and the individual performance of the employees.

<u>Employees' compensation and remuneration of directors and supervisors (including directors, managers and employees)</u>

If the company makes a profit in a year, it shall be paid by not less than 10% of the profit status of the year and should be rewarded by no higher than 1% of the profit status of the year. However, if the Company has accumulated losses, it shall reserve the amount of compensation in advance, and then allocate the compensation of employees and remuneration of directors in accordance with the aforementioned ratio.

The profit status of the current year referred to the aforementioned refers to the profit before tax of the current year after deducting the distribution of employee remuneration and director remuneration.

The method of distributing employees' compensation for stocks or cash is allowed. The method, amount, and number of shares issued shall be followed by the board of directors more than two-thirds of the directors to attend and attend the resolution of more than half of the directors' consent, and report the shareholders' meeting.

Directors (including independent directors) are issued by the payment of cash. The board of directors authorized the board of directors, with more than two-thirds of the directors' decisions of attending and attending more than half of the directors within the upper limit range, and reported to the shareholders' meeting.

Employee payments are subject to employment or employment by the company, and the employees who are formally appointed and enjoyed labor insurance benefits, include subordinate employees who meet certain conditions, without temporary and trial personnel.

(Concluded)