# ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES

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

**REPRESENTATION LETTER**

The entities that are required to be included in the combined financial statements of Elite Advanced Laser Corporation as of and for the year ended December 31, 2022, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, “Consolidated Financial Statements”. In addition, the information required to be disclosed in the consolidated financial statements is included in the consolidated financial statements. Consequently, Elite Advanced Laser Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

ELITE ADVANCED LASER CORPORATION
By

Chu-Liang, Cheng
Chairman
March 23, 2023

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Elite Advanced Laser Corporation

### Opinion

We have audited the accompanying consolidated financial statements of Elite Advanced Laser Corporation and its subsidiaries (the "Group"), which comprise the consolidated balances sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Group's consolidated financial statements for the year ended December 31, 2022 is as follows:

<u>The veracity of the sales revenue of specific customers</u>

The Group's operating income in 2022 was NT$6,775,781 thousand, a decrease of 6% from 2021. Among them, customers with transaction of a material amount with on-going growth for 48% of the overall operating income, which has a significant impact on consolidated financial statements. Thus, we have considered sales authenticity related to the aforementioned specific customers as a key audit matter in the consolidated financial statements in 2022. Please refer to Note 4 (16) of the Consolidated Financial Statements for the description of the income recognition policy.

Our audit procedures for this include:

1. By understanding the relevant internal control systems and operating procedures of the sales transaction cycle, we design the internal control auditing procedures according to the veracity of the sales revenue and confirm and evaluate the relevant internal control procedure during the sales transactions for whether the design and implementation are effective.
2. We obtain the list of the above-mentioned customers in 2022, and evaluate whether their relevant background, transaction amount, credit line and company size are reasonable.
3. We select samples from the above-mentioned customer sales details, examine the sales slips, customs declarations, bills of lading, sales invoices, post-period collections, and post-period major sales returns to confirm the veracity of the sales revenue.

**Other Matter**

We have also audited the parent company only financial statements of Elite Advanced Laser Corporation as of and for the years ended December 31, 2022 and 2021, on which we have issued an unqualified audit opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

As part of an audit in accordance with 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit 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 most significance in the audit of the consolidated 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 reviews resulting in this independent auditors' review report are Keng-Hsi, Chang and Chien-Hsin, Hsieh.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2023

*Notice to Readers*

*The accompanying consolidated financial statements are intended only to present the consolidated 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 review such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' review report and the accompanying consolidated financial statements have been translated into English from 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' review report and consolidated financial statements shall prevail.*

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2022 AND 2021

(In Thousands of New Taiwan Dollars)

| | | December 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|---|
| Code | ASSETS | Amount | % | Amount | % |
| | CURRENT ASSETS | | | | |
| 1100 | Cash and cash equivalents (Notes 4 and 6) | $ 2,542,423 | 25 | $ 2,071,077 | 21 |
| 1136 | Financial assets at amortized cost - Current (Notes 4, 5, 7, 8 and 36) | 12,500 | - | - | - |
| 1140 | Current contract assets (Notes 4, 5 and 24) | 151,762 | 2 | 209,458 | 2 |
| 1150 | Notes receivable (Notes 4, 5, 9 and 24) | - | - | 20,245 | - |
| 1170 | Accounts receivable (Notes 4, 5, 9 and 24) | 986,290 | 10 | 1,328,772 | 13 |
| 1180 | Accounts receivable due from related parties (Notes 4, 5, 24 and 35) | 9,583 | - | 8,717 | - |
| 1200 | Other receivables (Notes 4, 5 and 9) | 164,211 | 2 | 177,486 | 2 |
| 1210 | Accounts receivable due from related parties (Notes 4, 5 and 35) | 43 | - | 110 | - |
| 1220 | Current tax asset (Notes 4 and 26) | 10,086 | - | 1,674 | - |
| 130X | Inventories (Notes 4 and 10) | 527,241 | 5 | 472,483 | 5 |
| 1410 | Prepayments (Note 18) | 222,693 | 2 | 305,960 | 3 |
| 11XX | Total current assets | 4,626,832 | 46 | 4,595,982 | 46 |
| | NON-CURRENT ASSETS | | | | |
| 1540 | Financial assets at amortized cost - Non-current (Notes 4, 5, 7, 8 and 36) | 741 | - | - | - |
| 1550 | Investments accounted for using equity method (Notes 4 and 12) | 101,489 | 1 | 88,869 | 1 |
| 1600 | Property, plant and equipment (Notes 4, 13, 29 and 36) | 4,670,386 | 46 | 4,362,364 | 44 |
| 1755 | Right-of-use assets (Notes 4 and 14) | 154,230 | 1 | 172,661 | 2 |
| 1760 | Investment property (Notes 4 and 15) | 57,214 | 1 | 64,529 | - |
| 1805 | Goodwill (Notes 4 and 16) | 32,577 | - | - | - |
| 1821 | Intangible assets (Notes 4 and 17) | 6,176 | - | 6,523 | - |
| 1840 | Deferred tax assets (Notes 4 and 26) | 96,860 | 1 | 67,985 | 1 |
| 1990 | Other non-current assets (Notes 4, 5, 9 and 18) | 423,071 | 4 | 572,954 | 6 |
| 15XX | Total non-current assets | 5,542,744 | 54 | 5,335,885 | 54 |
| 1XXX | TOTAL | $10,169,576 | 100 | $ 9,931,867 | 100 |
| Code | LIABILITIES AND EQUITY | | | | |
| | CURRENT LIABILITIES | | | | |
| 2100 | Short-term borrowings (Notes 4, 19 and 36) | $ 71,170 | 1 | $ - | - |
| 2130 | Current contract liabilities (Notes 4, 24 and 35) | 16,019 | - | 28,134 | - |
| 2170 | Accounts payable | 874,883 | 9 | 1,066,263 | 11 |
| 2180 | Accounts payable to related parties (Notes 4 and 35) | 1,907 | - | - | - |
| 2200 | Other payables (Notes 20 and 32) | 1,199,217 | 12 | 1,163,815 | 12 |
| 2220 | Other payable to related parties (Notes 4 and 35) | 15,014 | - | - | - |
| 2230 | Current tax liabilities (Notes 4 and 26) | 128,967 | 1 | 171,053 | 2 |
| 2250 | Current provisions (Notes 4 and 21) | 36,419 | - | 34,123 | - |
| 2280 | Current lease liabilities (Notes 4 and 14) | 42,745 | - | 35,670 | - |
| 2300 | Other current liabilities (Note 20) | 146,192 | 2 | 98,151 | 1 |
| 2320 | Long-term borrowings due within 1 year (Notes 4, 19 and 36) | 37,732 | - | 83,054 | 1 |
| 21XX | Total current liabilities | 2,570,265 | 25 | 2,680,263 | 27 |
| | NON-CURRENT LIABILITIES | | | | |
| 2540 | Long-term borrowings (Notes 4, 19 and 36) | 367,268 | 4 | 275,936 | 3 |
| 2570 | Deferred tax liabilities (Notes 4 and 26) | 348,313 | 4 | 325,885 | 3 |
| 2580 | Lease liabilities (Notes 4 and 14) | 73,709 | 1 | 96,164 | 1 |
| 2640 | Net defined benefit liabilities (Notes 4 and 22) | 31,562 | - | 37,712 | - |
| 2670 | Others (Notes 20, 32 and 35) | 540,041 | 5 | 455,279 | 5 |
| 25XX | Total non-current liabilities | 1,360,893 | 14 | 1,190,976 | 12 |
| 2XXX | Total liabilities | 3,931,158 | 39 | 3,871,239 | 39 |
| | EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 23) | | | | |
| | Capital stock | | | | |
| 3110 | Common stock | 1,456,814 | 14 | 1,456,814 | 15 |
| 3200 | Capital Surplus | 452,294 | 5 | 452,272 | 5 |
| | Retained earnings | | | | |
| 3310 | Legal reserve | 773,432 | 7 | 736,221 | 7 |
| 3320 | Special reserve | 65,301 | 1 | 66,339 | 1 |
| 3350 | Unappropriated earnings | 1,289,555 | 13 | 1,390,838 | 14 |
| 3300 | Total retained earnings | 2,128,288 | 21 | 2,193,398 | 22 |
| 3400 | Others | ( 67,718 ) | ( 1 ) | ( 65,301 ) | ( 1 ) |
| 31XX | Total equity attributable to owners of the Company | 3,969,678 | 39 | 4,037,183 | 41 |
| 36XX | NON-CONTROLLING INTERESTS (Notes 4, 23, 28 and 31) | 2,268,740 | 22 | 2,023,445 | 20 |
| 3XXX | Total equity | 6,238,418 | 61 | 6,060,628 | 61 |
| | TOTAL | $10,169,576 | 100 | $ 9,931,867 | 100 |

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

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

CONSOLIDATED 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 | |
|---|---|---|---|---|---|
| Code | | Amount | % | Amount | % |
| | OPERATING REVENUE (Notes 4, 24 and 35) | | | | |
| 4100 | Sales Revenue | $ 6,469,775 | 95 | $ 6,799,765 | 94 |
| 4800 | Other Operating revenue | 306,006 | 5 | 397,775 | 6 |
| 4000 | Total revenue | 6,775,781 | 100 | 7,197,540 | 100 |
| | OPERATING COSTS (Notes 10, 25, 29 and 35) | | | | |
| 5110 | Cost of goods sold | ( 5,449,641 ) | ( 80 ) | ( 5,456,380 ) | ( 76 ) |
| 5800 | Other operating costs | ( 34,151 ) | ( 1 ) | ( 48,494 ) | ( 1 ) |
| 5000 | Total operating costs | ( 5,483,792 ) | ( 81 ) | ( 5,504,874 ) | ( 77 ) |
| 5900 | GROSS PROFIT | 1,291,989 | 19 | 1,692,666 | 23 |
| | OPERATING EXPENSES (Notes 4, 9, 24, 25 and 28) | | | | |
| 6100 | Selling and distribution expense | ( 42,439 ) | ( 1 ) | ( 44,165 ) | ( 1 ) |
| 6200 | General and administrative | ( 440,494 ) | ( 7 ) | ( 376,568 ) | ( 5 ) |
| 6300 | Research and development | ( 142,626 ) | ( 2 ) | ( 149,862 ) | ( 2 ) |
| 6450 | Expected credit impairment loss | ( 26,458 ) | - | ( 8,674 ) | - |
| 6000 | Total operating expenses | ( 652,017 ) | ( 10 ) | ( 579,269 ) | ( 8 ) |
| 6500 | OTHER GAINS AND LOSSES (Notes 4, 13 and 25) | ( 31,481 ) | - | - | - |
| 6900 | INCOME FROM OPERATIONS | 608,491 | 9 | 1,113,397 | 15 |
| | NON-OPERATING INCOME AND EXPENSES (Notes 4, 12, 25 and 35) | | | | |
| 7100 | Interest income | 16,972 | 1 | 6,146 | - |
| 7010 | Other income | 15,030 | - | 12,956 | - |
| 7020 | Other gains and losses | 255,587 | 4 | ( 54,188 ) | - |
| 7050 | Finance costs | ( 8,039 ) | - | ( 4,252 ) | - |
| 7060 | Share of profit of associates accounted for using equity method | 14,635 | - | 10,964 | - |
| 7000 | Total non-operating income and expenses | 294,185 | 5 | ( 28,374 ) | - |
| 7900 | INCOME BEFORE INCOME TAX | $ 902,676 | 14 | $ 1,085,023 | 15 |
| 7950 | INCOME TAX EXPENSES (Notes 4 and 26) | ( 254,355 ) | ( 4 ) | ( 294,382 ) | ( 4 ) |
| 8200 | NET INCOME | 648,321 | 10 | 790,641 | 11 |

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| Code | | 2022 Amount | 2022 % | 2021 Amount | 2021 % |
|---|---|---|---|---|---|
| | OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 22, 23 and 26) | | | | |
| 8310 | Items that will not be reclassified subsequently to profit or loss: | | | | |
| 8311 | Remeasurement of defined benefit obligation | 6,615 | - | 2,400 | - |
| 8349 | Income tax expense related to item that will not be reclassified subsequently | ( 1,323 ) | - | ( 480 ) | - |
| 8360 | Items that will not be reclassified subsequently to profit or loss | | | | |
| 8361 | Exchange differences arising on translation of foreign operations | ( 5,925 ) | - | 2,544 | - |
| 8399 | Income tax profit (expense) related to items that will be reclassified subsequently | 604 | - | ( 259 ) | - |
| 8300 | Other comprehensive income(loss) for the period, net of income tax | ( 29 ) | - | 4,205 | - |
| 8500 | TOTAL COMPREHENSIVE INCOME | $ 648,292 | 10 | $ 794,846 | 11 |
| | NET INCOME ATTRIBUTABLE TO | | | | |
| 8610 | Owners of the Company | $ 191,824 | 3 | $ 371,053 | 5 |
| 8620 | Non-controlling interests | 456,497 | 7 | 419,588 | 6 |
| 8600 | | $ 648,321 | 10 | $ 790,641 | 11 |
| | TOTAL COMPREEHENSIVE INCOME ATTRIBUTABLE TO | | | | |
| 8710 | Owners of the Company | $ 194,699 | 3 | $ 374,011 | 5 |
| 8720 | Non-controlling interests | 453,593 | 7 | 420,835 | 6 |
| 8700 | | $ 648,292 | 10 | $ 794,846 | 11 |
| | EARNINGS PER SHARE (Note 27) | | | | |
| | From continuing operations | | | | |
| 9710 | Basic earnings per share | $ 1.32 | | $ 2.55 | |
| 9810 | Diluted earnings per share | $ 1.31 | | $ 2.51 | |

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

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands of New Taiwan Dollars)

| | | Equity attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Retained earnings | | | Other equity | | | |
| Code | | Capital stock | Capital surplus | Legal capital reserve | Special capital reserve | Unappropriated earnings | Foreign currency translation reserve | Total | Non-controlling interests | Total equity |
| A1 | BALANCE AT JANUARY 1, 2021 | $ 1,456,814 | $ 452,272 | $ 712,499 | $ 68,091 | $ 1,244,652 | ($ 66,339) | $ 3,867,989 | $ 1,944,026 | $ 5,812,015 |
| | Distribution of 2020 earnings (Note 23) | | | | | | | | | |
| B1 | Legal capital reserve | - | - | 23,722 | - | (23,722) | - | - | - | - |
| B3 | Special capital reserve | - | - | - | (1,752) | 1,752 | - | - | - | - |
| B5 | Cash dividends to shareholders | - | - | - | - | (203,954) | - | (203,954) | - | (203,954) |
| | | - | - | 23,722 | (1,752) | (225,924) | - | (203,954) | - | (203,954) |
| M5 | Difference between consideration received and the carrying amount of subsidiaries' net assets during actual acquisitions (Notes 23 and 31) | - | - | - | - | (863) | - | (863) | 863 | - |
| D1 | Net income in 2021 | - | - | - | - | 371,053 | - | 371,053 | 419,588 | 790,641 |
| D3 | Other comprehensive income (loss) in 2021, net of income tax | - | - | - | - | 1,920 | 1,038 | 2,958 | 1,247 | 4,205 |
| D5 | Total comprehensive income (loss) in 2021 | - | - | - | - | 372,973 | 1,038 | 374,011 | 420,835 | 794,846 |
| O1 | Cash dividends issued from subsidiaries (Note 23) | - | - | - | - | - | - | - | (284,571) | (284,571) |
| O1 | Decrease in non-controlling interests (Notes 23 and 31) | - | - | - | - | - | - | - | (57,708) | (57,708) |
| Z1 | BALANCE AT DECEMBER 31, 2021 | 1,456,814 | 452,272 | 736,221 | 66,339 | 1,390,838 | (65,301) | 4,037,183 | 2,023,445 | 6,060,628 |
| | Distribution of 2021 earnings (Note 23) | | | | | | | | | |
| B1 | Legal capital reserve | - | - | 37,211 | - | (37,211) | - | - | - | - |
| B3 | Special capital reserve | - | - | - | (1,038) | 1,038 | - | - | - | - |
| B5 | Cash dividends to shareholders | - | - | - | - | (262,226) | - | (262,226) | - | (262,226) |
| | | - | - | 37,211 | (1,038) | (298,399) | - | (262,226) | - | (262,226) |
| M7 | Changes in percentage of ownership interests in subsidiaries (Notes 23, 25 and 28) | - | 22 | - | - | - | - | 22 | - | 22 |
| D1 | Net income in 2022 | - | - | - | - | 191,824 | - | 191,824 | 456,497 | 648,321 |
| D3 | Other comprehensive income (loss) in 2022, net of income tax | - | - | - | - | 5,292 | (2,417) | 2,875 | (2,904) | (29) |
| D5 | Total comprehensive income (loss) in 2022 | - | - | - | - | 197,116 | (2,417) | 194,699 | 453,593 | 648,292 |
| O1 | Cash dividends issued from subsidiaries (Note 23) | - | - | - | - | - | - | - | (347,809) | (347,809) |
| O1 | Increase in non-controlling interests (Notes 23, 25 and 28) | - | - | - | - | - | - | - | 139,511 | 139,511 |
| Z1 | BALANCE AT DECEMBER 31, 2022 | $ 1,456,814 | $ 452,294 | $ 773,432 | $ 65,301 | $ 1,289,555 | ($ 67,718) | $ 3,969,678 | $ 2,268,740 | $ 6,238,418 |

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

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Thousands of New Taiwan Dollars)

| Code | | 2022 | 2021 |
|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES | | |
| A10000 | Income before income tax | $ 902,676 | $ 1,085,023 |
| A20010 | Adjustments for: | | |
| A20100 | Depreciation expense | 801,627 | 654,815 |
| A20200 | Amortization expense | 4,546 | 3,826 |
| A20300 | Expected credit impairment loss | 26,458 | 8,674 |
| A20900 | Finance costs | 8,039 | 4,252 |
| A21200 | Interest income | ( 16,972 ) | ( 6,146 ) |
| A21900 | Stock option compensation cost of subsidiary | 37 | - |
| A22300 | Share of profit of associates accounted for using the equity method | ( 14,635 ) | ( 10,964 ) |
| A22500 | Gains (losses) on disposal of property, plant and equipment | ( 2,846 ) | 4,597 |
| A23500 | Impairment loss on property, plant and equipment | 31,481 | - |
| A23700 | Impairment loss on non-financial assets | 32,241 | 33,682 |
| A24100 | Loss (gain) on foreign exchange, net | ( 158,510 ) | 38,113 |
| A29900 | Liability provisions | 2,962 | 5,916 |
| A29900 | Profit from lease modification | ( 19 ) | ( 25 ) |
| A29900 | Reversal of deferred revenue | - | ( 53,259 ) |
| A30000 | Changes in operating assets and liabilities | | |
| A31125 | Contract assets | 32,963 | ( 23,836 ) |
| A31130 | Notes receivables | 13,309 | ( 9,417 ) |
| A31150 | Accounts receivable | 303,786 | ( 157,216 ) |
| A31160 | Accounts receivable due from related parties | ( 734 ) | ( 701 ) |
| A31180 | Other receivables | 14,698 | ( 11,637 ) |
| A31200 | Inventories | 113,713 | ( 174,480 ) |
| A31230 | Prepayments | 100,192 | ( 118,925 ) |
| A32125 | Contract liabilities | ( 19,844 ) | ( 4,298 ) |
| A32150 | Accounts payable | ( 254,453 ) | 122,715 |
| A32160 | Accounts payable to related parties | 1,918 | - |
| A32180 | Other payables | ( 814 ) | 48,776 |
| A32200 | Liability provisions | ( 666 ) | ( 9,588 ) |
| A32230 | Other current liabilities | ( 1,157 ) | ( 3,864 ) |
| A32240 | Net defined benefit liabilities | 465 | 389 |

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| Code | | 2022 | 2021 |
|---|---|---|---|
| A33000 | Net cash generated by operating activities | 1,920,461 | 1,426,422 |
| A33100 | Interest received | 15,753 | 6,649 |
| A33300 | Interest paid | ( $ 8,061 ) | ( $ 4,064 ) |
| A33500 | Income taxes paid | ( 311,872 ) | ( 176,295 ) |
| AAAA | Net cash generated from operating activities | 1,616,281 | 1,252,712 |
| | CASH FLOWS FROM INVESTING ACTIVITIES | | |
| B02200 | Net cash inflow from acquisition of subsidiaries (Note 30) | 42,163 | - |
| B02700 | Acquisition of property, plant and equipment | ( 520,544 ) | ( 1,194,165 ) |
| B02800 | Disposal of property, plant and equipment | 12,302 | 40,169 |
| B03700 | Increase in refundable deposits | ( 355 ) | ( 933 ) |
| B03800 | Decrease in refundable deposits | 612 | 1,830 |
| B04400 | Decrease in other receivables - from related parties | 68 | 45 |
| B04500 | Acquisition of intangible assets | ( 1,336 ) | ( 4,389 ) |
| B05350 | Acquisition of right-of-use assets | - | ( 37 ) |
| B07100 | Increase in prepayments for equipment | ( 402,692 ) | ( 505,322 ) |
| B07600 | Dividends received | 3,398 | 3,376 |
| BBBB | Net cash used in investing activities | ( 866,384 ) | ( 1,659,426 ) |
| | CASH FLOWS FROM FINANCING ACTIVITIES | | |
| C01600 | Long-term loan | 405,000 | 300,000 |
| C01700 | Repay long-term loan | ( 358,990 ) | ( 38,010 ) |
| C03000 | Guarantee deposits received | 178,352 | 545,630 |
| C03100 | Guarantee deposits refunded | ( 89 ) | ( 1,172 ) |
| C04020 | Repayment of the principal portion of lease liabilities | ( 39,021 ) | ( 40,638 ) |
| C04500 | Dividends to owners of the Company | ( 262,226 ) | ( 203,954 ) |
| C05400 | Acquisition of the subsidiaries equity | - | ( 57,708 ) |
| C05800 | Cash dividends to non-controlling interests | ( 347,749 ) | ( 284,526 ) |
| C05800 | Cash-refunding capital reduction of non-controlling interest shares | ( 713 ) | - |
| CCCC | Net cash generated by (used in) financing activities | ( 425,436 ) | 219,622 |
| DDDD | EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS | 146,885 | ( 39,427 ) |
| EEEE | NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 471,346 | ( 226,519 ) |
| E00100 | CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 2,071,077 | 2,297,596 |
| E00200 | CASH AND CASH EQUIVALENTS, END OF YEAR | $ 2,542,423 | $ 2,071,077 |

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

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

1. GENERAL

   a. Elite Advanced Laser Corporation (the "Company" or "eLaser") was established in New Taipei City in September 2000 and started operation in September of the same year. The registered capital of establishment was $5,000 thousand. After years of capital increase and decrease, the current total capital is $1,456,814 thousand. eLaser's business affairs consists of 1. optical information and optical communication products; 2. power semiconductor packaging and testing.

   b. eLaser's stock has been listed on the Taiwan Stock Exchange since April 2006.

   c. eLaser has no ultimate parent company due to dispersed shareholding.

   d. The consolidated financial statements are expressed in New Taiwan Dollars, eLaser's functional currency.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

   The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors on March 23, 2023.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING

   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, "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

      The initial application of the amendments to the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on the accounting policies of eLaser and its subsidiaries (collectively as "the Group").

b. Applicable FSC - approved IFRSs in 2023

| New IFRS | Effective date issued 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: This amendment applies for annual reporting periods beginning after January 1, 2023.

Note 2: The amendment applies to changes in accounting estimates and changes in accounting policies that occur during annual reporting periods beginning after January 1, 2023.

Note 3: Except for the recognition of deferred tax on temporary differences in lease and decommissioning obligations on January 1, 2022, the amendment applies to transactions occurring after January 1, 2022.

1) Amendments to IAS 1 - Disclosure of Accounting Policies

The amendments stipulate that the Group should determine the material accounting policy information that should be disclosed according to the definition of materiality. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements The amendments and descriptions:

- The Group is not required to disclose accounting policy information related to immaterial transactions, other events or circumstances that is immaterial.
- The Group may judge the relevant accounting policy information to be material due to the nature of the transaction, other event or circumstance, even if the amount is immaterial.
- Not all accounting policies relating to material transactions, other events or conditions are themselves material.

In addition, an accounting policy is likely to be considered material to its financial statements if that accounting policy relates to material transactions, other events or conditions and:

(1) was changed during the reporting period because the entity was required to or chose to change its policy and this change resulted in a material change to the amounts included in the financial statements;

(2) was chosen from one or more alternatives in an IFRS Standard;

(3) was developed in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” in the absence of an IFRS Standard that specifically applies;

(4) relates to an area for which an entity is required to make significant judgments or assumptions in applying an accounting policy; or

(5) applies the requirements of an IFRS Standard in a way that reflects the entity’s specific circumstances, for example, by explaining how the requirements of a Standard are applied to the facts and circumstances of a material class of transactions, other events or conditions.

2) Amendments to IAS 8 - Definition of Accounting Estimates

The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. When applying accounting policies, the Group may be required to measure financial statement items by monetary amounts that cannot be directly observed but must be estimated, and therefore must use a measurement technique or to develop an accounting estimate for this purpose. The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

As of the date the accompanying consolidated financial statements were authorized for issue, the Group has assessed and concluded that no significant impact from the application of other standards and interpretations to the Group’s consolidated financial position and consolidated financial performance.

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

| New, revised or amended standards and interpretations | Effective date issued 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 | NA |
| Amendments to IFRS 16 - Lease 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 17 and IFRS 9 - 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/revised/amended standards or interpretations are effective for annual reporting periods beginning on their respective effective dates.

Note 2: A seller-lessee applies the amendments retrospectively to IFRS 16 to sale and leaseback transactions entered into after the date of initial application.

As of the date the consolidated financial statements were authorized, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group'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 consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. 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 consolidated financial statements shall prevail.

a. Statement of compliance

The consolidated financial statement has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed and issued by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the net defined benefit liability recognized at the present value of the defined benefit obligation less the fair value of the plan assets.

Fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value is observable and its significance:

1) Level 1 Inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
2) Level 2 Inputs: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly (including market-corroborated data).
3) Level 3 Inputs: unobservable inputs and are used when relevant observable inputs are not available.

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 exchange or used to settle a liability for at last 12months 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 Group 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. Basis of consolidation

This consolidated financial statement incorporate the financial statement of eLaser and the entities (subsidiaries) controlled by the Group. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into the Group. Transactions between entities, account balances, profit and losses have been fully eliminated in preparing the consolidated financial statements. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

For details of subsidiaries, shareholding ratio and business activities, please refer to Note 11 and Table 4 and Table 5 of Note 39.

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

As the measurement of the identifiable assets acquired and liabilities assumed due to the business combination has not been completed, it is recognized as provisions on the balance sheet date because the measurement of the identifiable assets acquired, and the liabilities assumed by the business combination has not yet been completed. Retrospective adjustments are made or additional assets or liabilities on acquisitions is recognized in subsequent measurement periods to reflect new information acquired about facts and circumstances existing at the acquisition date.

f. Foreign currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currency) 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 translated at the rates prevailing at that date. Exchange differences arising on monetary items or on translating monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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

For the purpose of presenting consolidated financial statements, the financial statements of the Company's foreign operations (including subsidiaries, associates or branches in other countries that use currencies that are different from the currency of the Company) that are prepared using functional currencies which are different from the currency of the Company are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

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

g. Inventories

Inventories include raw materials, supplies, work in progress and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The Group's inventory is recorded at standard cost during daily operation and adjusted to approximate weighted-average cost at the end of the reporting period.

h. Investments in associates

An associate is an entity over which the Group has significant influence and which is not subsidiary.

The Group adopts the equity method when accounting for investments in associates.

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

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

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

i. Property, plant and equipment

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately portion with a straight-line method over their useful lives. The Group shall review the estimated useful life, residual value and depreciation method at least at each financial year-end, and the impact of changes in accounting estimates shall be applied prospectively.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

j. Investment property

Investment property is property (including right-of-use assets that meet the definition of investment property) held to earn rentals or for capital appreciation or both.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method.

Property, plant and equipment and right-of-use assets is transferred to investment property at the carrying amount at the end of owner-occupation.

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

k. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating unit or groups of cash-generating units (referred to as cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

l. 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 lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) 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.

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

The Group assess at the date of statement property, plant and equipment, right-of-use assets, investment property and intangible assets (other than goodwill) for whether there is any indication of impairment. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs. If groups of assets can be allocated to cash-generating units on a reasonable and consistent basis, they will be allocated to individual cash-generating units; otherwise, they will be allocated to the smallest group of cash-generating units that can be allocated on a reasonable and consistent basis.

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

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. (net of amortization or depreciation) A reversal of an impairment loss is recognized immediately in profit or loss.

n. Financial instruments

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

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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

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

(1) Measurement categories

The types of financial assets held by the Group are financial assets at amortized cost.

Financial assets measured at amortized cost

Financial assets that meet the following conditions are subsequently 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, notes receivable at amortized cost, accounts receivable (including related parties), other receivables (including related parties; excluding income tax refund receivables), overdue receivables and refundable deposit, are measured at amortized cost, which equals to gross carrying amount determined by 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 asset, 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 asset that is not credit impaired on purchase or origination but has 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 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 and certificates of deposits investments 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.

(2) Impairment of financial assets and contract assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable, other receivables and deposits) and contract assets at amortized cost.

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables and contract assets. For all other financial instruments, the Group 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 Group 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 Group considers the following situations as indication that a financial asset is in default (without taking into account any collateral held by the Group):

(i) Internal or external information show that the debtor is unlikely to pay its creditors.

(ii) Financial asset is more than 180 days past due unless the Group 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 does not reduce the carrying amount of the financial asset.

(3) Derecognition of financial assets

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

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

(1) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest method, except where the recognition of interest on short-term payables is not material.

(2) Derecognition of financial liabilities

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

o. Provisions

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

<u>Warranties</u>

The warranty obligation to ensure that the product conforms to the agreed specifications is recognized when the relevant product is recognized as revenue based on the management's best estimate of the expense required to settle the obligations of the Group.

p. Revenue recognition

When a performance obligation is satisfied, the Group shall recognize as revenue the amount of the transaction price that is allocated to that performance obligation.

<u>Operating revenue</u>

1) Service revenue

<u>Revenue from packaging and testing</u>

The Group's packaging service creates or enhances an asset that the customer controls as the asset is created or enhanced; the customer simultaneously receives and consumes the benefits from the testing services provided by the Group's performance as the Group performs.

The relevant revenue will be transferred to the customer with the promised goods or services, and the sales revenue will be recognized when the performance obligations are met over time. The revenue received before meeting the above-mentioned performance obligations are recognized as contract liabilities.

2) other services revenue

Other service revenue is recognized as revenue when the service contract conditions are met in accordance with the relevant contract when the economic benefits are likely to flow into the Group and the revenue can be measured reliably. The revenue received before meeting the above-mentioned performance obligations are recognized as contract liabilities.

q. Lease

The Group assesses whether the contract is a lease on the contract establishment date.

1) The Group as lessor

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

When the Group subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Group, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Group as lessee

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

The right-of-use asset is initially measured at cost (including the original measurement amount of the lease liability and the lease payment paid before the lease commencement date), and subsequently measured at the cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets shall be recognized separately in the consolidated balance sheet.

The lessee shall depreciate the right-of-use asset on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group 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. liabilities shall be recognized separately in the consolidated balance sheet.

r. Borrowing costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

s. Government grant

A government grant is not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received.

Government grants related to income are recognized in other income on a systematic basis over the periods in which the Group recognizes as expenses the related costs that the grants intend to compensate. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as a deduction from the carrying amount of the related assets and recognized as a reduced depreciation or amortization charge in profit or loss over the contract period or useful lives of the related assets.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in profit or loss of the period in which it becomes receivable.

t. 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 rendered services.

2) Retirement benefits

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

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

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

u. Share-based payment arrangements

1) Employee stock options

Equity-settled share-based benefits to employees are measured by the fair value of the equity instrument on the grant date.

Employee stock options are based on the fair value of equity instruments on the grant date and the best estimated amount expected to be acquired. Expenses are recognized on a straight-line basis during the acquired period, and capital surplus - employee stock options is adjusted at the same time. If it is immediately acquired on the grant date, the full amount of the fee shall be recognized on the grant date. When the Group issues employee stock options at cash capital increase, the date of notification to the employees shall be the grant date.

The Group revises the estimated number of expected vested employee stock options on each balance sheet date. If there is a revision to the original estimated quantity, the influence number is recognized as profit and loss, so that the accumulated expenses reflect the revised estimate, and the capital surplus - employee stock options is relatively adjusted.

2) Option to vendor/consultant

Equity-settled share-based benefits to non-employees are measured by the fair value of the goods or services received. The fair value of goods or services received by the Group is recognized as an expense when the it obtains the goods or when the counterparty provides services where the capital surplus- stock options will be adjusted at the same time.

v. Taxation

Income tax expense is the sum of current income tax and deferred income tax.

1) Current income tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Act in the ROC, an additional tax on unappropriated earnings is provided for as income tax in the year the stockholders 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 and loss deductible that it is probable that taxable profits will be available against which those deductible temporary differences and loss deductible can be utilized.

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

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

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

Current and deferred taxes 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 AND UNCERTAINTY

When the Group adopts accounting policies, the management must make relevant judgments, estimates and assumptions based on experience and other relevant factors for the information that is not easily obtained from other sources. Actual results may differ from estimates.

The Group will take the recent global development of the COVID-19 epidemic and the possible impact on the economic environment into consideration of major accounting estimates such as cash flow estimates, growth rates, discount rates, and profitability. The management will continue to review the estimates and the basic assumptions. If the revision to the estimate affects only the current period, it will be revised and recognized in the current period; if the revision to the estimate affects both the current period and future periods, it will be revised and recognized in the current period and future periods.

Main sources of uncertainty in estimates and assumptions

Estimated impairment of financial assets and contract assets

The estimated impairment of notes receivable, accounts receivable, uncollectible receivables, other receivables, contract assets and Investments in debt instruments is based on the Group's assumptions about the loss given default and probability of default. The Company takes experience, current market conditions and forward-looking information into account to develop assumptions and inputs for impairment assessments. Please refer to Note 8, Note 9 and Note 24 for the key assumptions and inputs used. If the actual future cash flow is less than the Company's expectations, there may be significant impairment losses.

6. CASH AND CASH EQUIVALENTS

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Cash on hand and working fund | $ 1,519 | $ 427 |
| Demand deposit in banks | 2,004,046 | 1,716,170 |
| Cash equivalent (Investments with original maturities of less than 3 months) | | |
| Bank fixed deposit | 536,858 | 354,480 |
| | $ 2,542,423 | $ 2,071,077 |

As of December 31, 2022 and 2021, the interest rate ranges for bank deposits were 0.01% to 4.60%, and 0.001% to 0.34%, respectively.

7. FINANCIAL ASSETS AT AMORTIZED COSTS

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Current | | |
| Restricted assets – demand deposit (1) | $ 12,500 | $ - |
| Non-current | | |
| Restricted assets – time deposit (2) | $ 741 | $ - |

a. As of December 31, 2022, the restricted demand deposit interest rate was 0.425% per annum.

b. As of December 31, 2022, the restricted time deposit interest rate was 1.44% per annum.

c. For credit risk management and impairment assessment related to financial assets measured at amortized cost, please refer to Note 8.

d. For pledge of financial assets at amortized cost, please refer to Note 36.

e. The Group acquired subsidiaries on December 24, 2022, and transferred them to financial assets at amortized cost - current and non-current NT$12,500 thousand and NT$741 thousand, please refer to Note 30.

8. CREDIT RISK MANAGEMENT OF INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified at amortized cost (including current and non-current).

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| At amortized cost | | |
| Gross carrying amount | $ 13,241 | $ - |

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Loss allowances | - | - |
| Net carrying amount | $ 13,241 | $ - |

The Group adopts the policy to invest only in debt instruments issued by creditworthy entities. The Group continues to track changes in the credit risk of the invested debt instruments, and reviews other information such as significant information of the debtor to assess whether the credit risk of the debt instrument investment has increased significantly since the original recognition.

To mitigate credit risk, the management of the Group will collect relevant information to assess the default risk of debt instrument investment. The Group gives appropriate internal ratings with reference to publicly available financial information.

The Group considers the debtor's historical record, current market conditions and business outlook to measure the 12-month expected credit loss or lifetime expected credit loss of the debt investment paid. As of December 31, 2022, the Group assessed that it was not necessary to report expected credit losses for debt investment paid.

## 9. NOTES RECEIVABLES, ACCOUNT RECEIVABLES, UNCOLLECTIBLE RECEIVABLES AND OTHER RECEIVABLES

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Notes receivables | | |
| At amortized cost | | |
| Total amount | $ - | $ 20,245 |
| Less: Loss allowances | - | - |
| | $ - | $ 20,245 |
| Resulting from operating activities | $ - | $ 20,245 |
| Accounts receivable | | |
| At amortized cost | | |
| Total amount | $ 987,082 | $ 1,336,041 |
| Less: Loss allowances | ( 792 ) | ( 7,269 ) |
| | $ 986,290 | $ 1,328,772 |
| Uncollectible receivables | | |
| At amortized cost | | |
| Total amount | $ 6,936 | $ - |
| Less: Loss allowances | ( 6,936 ) | - |
| | $ - | $ - |
| Other receivables | | |

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| OEM collection and payment | $ 149,927 | $ 161,109 |
| Income tax refund receivable | 10,277 | 12,607 |
| Interest receivable | 1,271 | 52 |
| Scrap receivable | 13 | 920 |
| Others | 2,723 | 2,798 |
| | $ 164,211 | $ 177,486 |

a. Notes receivables

When determining the recoverability of notes receivable, the Group considers any changes in the quality of notes receivable from the original credit date to the balance sheet date. The Group continues to monitor and refer to the counterparty's past default records and analyze its current financial position to assess whether the credit risk of the notes receivables has increased significantly since the original recognition and to measure expected credit losses. In 2022, due to the default of the customer uSenlight Corporation, the Group set the customer's expected credit loss rate as 100%. As of December 31, 2022, the Group has recognized the full amount of $6,936 thousand for the aforesaid defaulted notes receivable and transferred to uncollectible receivable (accounted for other non-current assets).

The aging analysis of notes receivable is as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Not past due | $ - | $ 20,245 |

The above is an aging analysis based on days overdue.

Movement of the loss allowance for notes receivable

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ - | $ - |
| Impairment losses | 6,936 | - |
| Uncollectible receivable transferred | ( 6,936 ) | - |
| Balance, end of period | $ - | $ - |

b. Accounts receivable

The Group's average credit period for commodity sales is 30 to 90 days, and the collection policy does not add interest to overdue accounts receivable. When determining the recoverability of accounts receivable, the Group considers any changes in the quality of notes receivable from the original credit date to the balance sheet date. Experience shows that most accounts receivable are recovered well.

To mitigate credit risk, the management of the Group performs credit limit determination, credit approval and other monitoring procedures for each counterparty to ensure appropriate actions have been taken to recover overdue accounts receivable. In addition, the Group will review the recoverable amount of accounts receivable one by one on the balance sheet date to ensure the unrecoverable accounts receivable are recognized as impairment losses. Accordingly, the management of the Group believes that the credit risk of the Group has been significantly reduced.

The Group recognizes loss allowance for accounts receivable based on lifetime expected credit losses. Lifetime expected credit losses are calculated using a provision matrix, which considers experience, current market conditions and business outlook. As the Group's credit loss experience shows that there is no significant difference in the provision matrix of different customer groups, the provision matrix does not further differentiate customer groups, and only sets the expected credit loss rate based on the number of days overdue for accounts receivable.

If there is evidence that the counterparty is facing serious financial difficulties and the Group cannot reasonably expect the recoverable amount, the Group will write off the relevant accounts receivable, but will continue to pursue account recovery, and the amount recovered due to pursuit and recovery will be recognized in profit or loss.

The Group measures the loss allowance of accounts receivable according to the provision matrix as follows:

December 31, 2022

| | Not past due | Past due within 60 days | Past due 61~90 days | Past due 91~120 days | Past due Over 120 days | Total |
|---|---|---|---|---|---|---|
| Expected credit loss rate | 0%～0.72% | 0%～13.2% | 0%～9.29% | 0%～14.25% | 0%～100% | |
| Total amount | $ 923,273 | $ 58,949 | $ 4,306 | $ 4 | $ 550 | $ 987,082 |
| Loss allowance (lifetime expected credit losses) | ( 102 ) | ( 66 ) | ( 377 ) | ( 1 ) | ( 246 ) | ( 792 ) |
| Amortized cost | $ 923,171 | $ 58,883 | $ 3,929 | $ 3 | $ 304 | $ 986,290 |

December 31, 2021

| | Not past due | Past due within 60 days | Past due 61~90 days | Past due 91~120 days | Past due Over 120 days | Total |
|---|---|---|---|---|---|---|
| Expected credit loss rate | 0.0004%~0.04% | 0.0021%~11.3% | 0.04%~21.48% | 0.35%~29.72% | 32.35%~100% | |
| Total amount | $1,256,286 | $ 61,978 | $ 6,503 | $ 9,857 | $ 1,417 | $ 1,336,041 |
| Loss allowance (lifetime expected credit losses) | ( 618 ) | ( 336 ) | ( 423 ) | ( 4,873 ) | ( 1,019 ) | ( 7,269 ) |
| Amortized cost | $1,255,668 | $ 61,642 | $ 6,080 | $ 4,984 | $ 398 | $ 1,328,772 |

Movements of the loss allowance for accounts receivable

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ 7,269 | $ 15,366 |
| Provision | - | 4,641 |
| Acquired by business combinations (Note 1) | 77 | - |
| Write-offs (Note 2) | - | ( 12,739 ) |
| Reversal | ( 6,563 ) | - |
| Effect of exchange rate changes | 9 | 1 |
| Balance, end of period | $ 792 | $ 7,269 |

Note 1: The Group acquired the subsidiary on December 24, 2022, and transferred into accounts receivable of NT$7,210 thousand and loss allowance of NT$77 thousand, please refer to Note 30.

Note 2: In 2021, the Group assessed that the overdue accounts receivable could not be recovered, so it wrote off the relevant accounts receivable and loss allowance.

Uncollectible receivables

The Group recognizes loss allowance for uncollectible receivable based on lifetime expected credit losses. Lifetime expected credit losses considers experience, current market conditions and business outlook. As of December 31, 2022, all overdue receivables have exceeded 180 days, and the expected credit loss rate was 100%.

Movements of the loss allowance for uncollectible receivable

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ - | $ - |
| Transferred from notes receivable in the current period | 6,936 | - |
| Balance, end of period | $ 6,936 | $ - |

c. Other receivables

The Group accounts for other receivables such as OEM collection and payment, income tax refund receivable, interest receivable and unrecovered amount from the sale of scraps. The Group's policy is to only conduct business with customers with good credit. The Group continues to track and refer to the past default records of the counterparty and analyze its current financial position to assess whether the credit risk of other receivables has increased significantly since the original recognition and to measure the expected credit loss. If there is evidence that the counterparty has signs of default or the recoverable amount cannot be reasonably expected due to termination of the contract, the Group will write off the relevant other receivables, but will continue to pursue recovery where the amount recovered will be recognized in profit or loss.

Movements of the loss allowance for other receivables

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ - | $ 23,963 |
| Write-offs (Note) | - | ( 23,963 ) |
| Balance, end of period | $ - | $ - |

Note: In 2021, the Group assessed that other receivables overdue could not be recovered, so it wrote off related other receivables and loss allowance.

10. INVENTORIES

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Finished goods | $ 36,258 | $ 36 |
| Work in process | 75,334 | - |
| Raw materials | 410,051 | 456,474 |
| Inventory in transit | 5,598 | 15,973 |
| | $ 527,241 | $ 472,483 |

The nature of cost of goods sold is as follows:

| | 2022 | 2021 |
|---|---|---|
| Cost of inventories sold | $ 5,408,410 | $ 5,413,410 |
| Lease cost | 8,990 | 9,288 |
| Inventory loss (reversal of write-down of inventories) | 32,241 | 33,682 |
| | $ 5,449,641 | $ 5,456,380 |

The Group acquired the subsidiary on December 24, 2022, and transferred into the inventory of NT$273,721 thousand and the allowance for inventory valuation and obsolescence losses of NT$78,080 thousand, please refer to Note 30.

11. SUBSIDIARY COMPANY

a. Subsidiaries included in the consolidated financial statements

The subsidiaries included in the consolidated financial statements were as follows:

| | | | % of Ownership | | |
|---|---|---|---|---|---|
| Investment Company | Subsidiary | Main Activities | December 31, 2022 | December 31, 2021 | Remark |
| eLaser | eLaser Technologies Co., Ltd. | Manufacture and sales of electronic parts | 100% | 100% | Notes 3 and 5 |
| eLaser | Centera Photonics Inc. | Manufacture and sales of electronic parts | 57.97% | -% | Note 6 |
| eLaser | GEM Services, Inc. | Holding company business | 51% | 51% | Note 1 |
| GEM Services, Inc. | GEM Electronics Company Limited | Holding company business | 100% | 100% | Note 1 |
| GEM Services, Inc. | GEM Tech Ltd. | Sales of electronic parts | 100% | 100% | Note 1 |
| GEM Electronics Company Limited | GEM Electronics (Shanghai) Co., Ltd. | Manufacture and sales of electronic parts | 100% | 100% | Note 2 |
| GEM Electronics (Shanghai) Co., Ltd. | GEM Electronics (Hefei) Co., Ltd. | Manufacture and sales of electronic parts, factory leasing | 100% | 100% | Notes 2 and 4 |

Note 1: The main business risk is currency risk.

Note 2: The main business risks are political risks and currency risks faced by government decrees and the changes between Taiwan and Mainland China.

Note 3: On February 8, 2021, eLaser approved a resolution of the Board of Directors to acquire non-controlling interests of 1,805 thousand shares of eLaser Technologies Co., Ltd. at a transaction price of $57,708 thousand. The share ratio was increased to 100%, and the transaction was completed on March 12, 2021.

Note 4: GEM Electronics (Shanghai) Co., Ltd. was approved by the Board of Directors on February 17, 2021, to participate in the cash capital increase of GEM Electronics (Hefei) Co., Ltd. to invest RMB 50,000 thousand which was completed on March 11, 2021.

Note 5: eLaser Technologies Co., Ltd. was approved for dissolution and liquidation at the shareholders' meeting exercised by the Board of Directors on December 22, 2022, and completed the registration of cancellation on January 10, 2023, and is in the process of liquidation.

Note 6: The Company's Board of Directors approved on December 22, 2022, and purchased 57.97% of the shares of Centera Photonics Inc. for

NT$225,000 thousand, a total of 22,500,000 shares. The reference date of the share exchange was December 24, 2022. Please refer to Note 30 of the Consolidated Financial Statement.

b. Information on subsidiaries with material non-controlling interests

| | % of Non-controlling interests | |
|---|---|---|
| Subsidiary | December 31, 2022 | December 31, 2021 |
| GEM Services, Inc. | 49% | 49% |
| Centera Photonics Inc. | 42.03% | -% |

Please refer to Table 4 for the country information of the principal business site and company registration.

| | Net income(loss) distribution to non-controlling interests | | Non-controlling interests | |
|---|---|---|---|---|
| Subsidiary | 2022 | 2021 | December 31, 2022 | December 31, 2021 |
| GEM Services, Inc. | $ 455,893 | $ 420,444 | $ 2,128,625 | $ 2,023,445 |
| Centera Photonics Inc. | $ 604 | $ - | $ 140,115 | $ - |

The consolidated financial information for the following subsidiaries has been prepared at balances before intercompany transactions are eliminated:

GEM Services, Inc.

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Current assets | $ 3,279,230 | $ 3,386,237 |
| Non-current assets | 3,635,114 | 3,291,085 |
| Current liabilities | ( 1,991,013) | ( 2,026,408) |
| Non-current liabilities | ( 579,522) | ( 521,742) |
| Equity | $ 4,343,809 | $ 4,129,172 |
| | | |
| Equity attributable to: | | |
| Owners of the Company | $ 2,215,184 | $ 2,105,727 |
| Non-controlling interests | 2,128,625 | 2,023,445 |
| | $ 4,343,809 | $ 4,129,172 |

| | 2022 | 2021 |
|---|---|---|
| Revenue | $ 5,221,467 | $ 4,755,929 |
| | | |
| Net income | $ 930,323 | $ 857,985 |
| Other comprehensive income | ( 5,925) | 2,544 |
| Total comprehensive income | $ 924,398 | $ 860,529 |
| | | |
| Net income attributable to: | | |
| Owners of the Company | $ 474,430 | $ 437,541 |
| Non-controlling interests | 455,893 | 420,444 |
| | $ 930,323 | $ 857,985 |

| | 2022 | 2021 |
|---|---|---|
| Total comprehensive income attributable to | | |
| Owners of the Company | $ 471,409 | $ 438,838 |
| Non-controlling interests | 452,989 | 421,691 |
| | $ 924,398 | $ 860,529 |
| Cash flow | | |
| From operating activities | $ 1,588,337 | $ 1,048,230 |
| From investing activities | ( 841,788 ) | ( 1,176,283 ) |
| From financing activities | ( 562,705 ) | ( 66,967 ) |
| Effect of exchange rate changes | 137,144 | ( 29,405 ) |
| Net cash generated (used in) | $ 320,988 | ( $ 224,425 ) |
| Dividends to non-controlling interests | | |
| GEM Services, Inc. | $ 347,749 | $ 284,526 |

Centera Photonics Inc.

| | December 31, 2022 |
|---|---|
| Current assets | $ 501,359 |
| Non-current assets | 35,732 |
| Current liabilities | ( 203,665 ) |
| Non-current liabilities | ( 34 ) |
| Equity | $ 333,392 |
| Equity attributable to: | |
| Owners of the Company | $ 332,788 |
| Non-controlling interests | 604 |
| | $ 333,392 |

| | Acquisition date to December 31, 2022 |
|---|---|
| Revenue | $ 15,254 |
| Net income | $ 1,437 |
| Other comprehensive income | - |
| Total comprehensive income | $ 1,437 |
| Net income attributable to: | |
| Owners of the Company | $ 833 |
| Non-controlling interests | 604 |
| | $ 1,437 |
| Total comprehensive income attributable to | |
| Owners of the Company | $ 833 |
| Non-controlling interests | 604 |

| | Acquisition date to December 31, 2022 |
|---|---|
| | $ 1,437 |

| | |
|---|---|
| Cash flow | |
| From operating activities | $ 9,448 |
| From investing activities | ( 239 ) |
| From financing activities | ( 4,081 ) |
| Effect of exchange rate changes | 88 |
| Net cash generated | $ 5,216 |

## 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Associates that are not individually material | | |
| Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. | $ 101,489 | $ 88,869 |

Shareholding and voting rights of the Group in the associates at the balance sheet date are as follows:

| | | | % of Ownership | |
|---|---|---|---|---|
| Name of Company | Main Activities | Location | December 31, 2022 | December 31, 2021 |
| Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. | Production, design, packaging and testing of power management electronic accessories | Hefei City, Anhui Province, China | 20% | 20% |

Aggregate information of associates that are not individually material

| | 2022 | 2021 |
|---|---|---|
| Attributable to the Group | | |
| Net income | $ 14,635 | $ 10,964 |
| Other comprehensive income | - | - |
| Total comprehensive income | $ 14,635 | $ 10,964 |

Share of profit of associates accounted for using equity method is recognized based on the financial statements of the associates that have been audited by independent auditor during the same period.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Assets used by the Company | $ 4,670,386 | $ 4,362,364 |
| Assets subject to operating leases | - | - |
| | $ 4,670,386 | $ 4,362,364 |

a. Assets used by the Group

| | Land | Buildings | Machinery and equipment | Transportation equipment | Office equipment | Leasehold improvements | Miscellaneous equipment | Property under construction and equipment to be inspected | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| Balance at January 1, 2022 | $ 743,384 | $ 664,703 | $ 6,004,593 | $ 10,484 | $ 66,793 | $ 105,177 | $ 124,113 | $ 925,928 | $ 8,645,175 |
| Acquired by business combinations (Note 30) | - | - | 49,897 | - | 800 | 3,960 | 41,037 | - | 95,694 |
| Additions | - | 61,777 | 179,332 | - | 3,602 | 72,122 | 7,445 | 180,872 | 505,150 |
| Reclassification (Note) | - | 312,003 | 1,259,837 | - | 1,954 | - | 654 | (1,019,712) | 554,736 |
| Disposal | - | (25,310) | (491,494) | - | (1,479) | - | (44,498) | - | (562,781) |
| Effect of exchange rate changes | - | 829 | 11,069 | 59 | 853 | (412) | 2,149 | 25,070 | 39,617 |
| Balance at December 31, 2022 | $ 743,384 | $ 1,014,002 | $ 7,013,234 | $ 10,543 | $ 72,523 | $ 180,847 | $ 130,900 | $ 112,158 | $ 9,277,591 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance at January 1, 2022 | $ - | $ 256,041 | $ 3,807,536 | $ 6,682 | $ 52,469 | $ 63,202 | $ 96,881 | $ - | $ 4,282,811 |
| Acquired by business combinations (Note 30) | - | - | 35,320 | - | 800 | 3,960 | 28,875 | - | 68,955 |
| Depreciation expense | - | 43,156 | 663,533 | 1,456 | 5,893 | 18,660 | 13,718 | - | 746,416 |
| Impairment losses | - | - | 31,481 | - | - | - | - | - | 31,481 |
| Disposal | - | (25,310) | (482,040) | - | (1,479) | - | (44,496) | - | (553,325) |
| Effect of exchange rate changes | - | 2,052 | 26,368 | 50 | 750 | (45) | 1,692 | - | 30,867 |
| Balance at December 31, 2022 | $ - | $ 275,939 | $ 4,082,198 | $ 8,188 | $ 58,433 | $ 85,777 | $ 96,670 | $ - | $ 4,607,205 |
| Carrying amount at December 31, 2022 | $ 743,384 | $ 738,063 | $ 2,931,036 | $ 2,355 | $ 14,090 | $ 95,070 | $ 34,230 | $ 112,158 | $ 4,670,386 |
| Cost | | | | | | | | | |
| Balance at January 1, 2021 | $ 571,180 | $ 546,158 | $ 5,477,224 | $ 10,504 | $ 64,602 | $ 122,661 | $ 139,241 | $ 224,659 | $ 7,156,229 |
| Additions | 172,204 | 105,121 | 508,835 | - | 7,897 | 387 | 11,204 | 702,486 | 1,508,134 |
| Reclassification (Note) | - | - | 419,581 | - | 119 | - | 5,831 | - | 425,531 |
| Disposal | - | (6,060) | (393,801) | - | (5,521) | (17,871) | (31,471) | - | (454,724) |
| Transfers to investment property | - | (210,112) | - | - | - | - | - | - | (210,112) |
| Assets for operational leasing | - | 230,448 | - | - | - | - | - | - | 230,448 |
| Effect of exchange rate changes | - | (852) | (7,246) | (20) | (304) | - | (692) | (1,217) | (10,331) |
| Balance at December 31, 2021 | $ 743,384 | $ 664,703 | $ 6,004,593 | $ 10,484 | $ 66,793 | $ 105,177 | $ 124,113 | $ 925,928 | $ 8,645,175 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance at January 1, 2021 | $ - | $ 250,541 | $ 3,640,989 | $ 4,956 | $ 53,001 | $ 63,872 | $ 96,023 | $ - | $ 4,109,382 |
| Disposal | - | (6,060) | (354,577) | - | (5,521) | (12,329) | (31,471) | - | (409,958) |
| Transfers to investment property | - | (150,628) | - | - | - | - | - | - | (150,628) |
| Assets for operational leasing | - | 137,579 | - | - | - | - | - | - | 137,579 |
| Depreciation expense | - | 25,366 | 528,703 | 1,742 | 5,242 | 11,659 | 32,755 | - | 605,467 |
| Effect of exchange rate changes | - | (757) | (7,579) | (16) | (253) | - | (426) | - | (9,031) |
| Balance at December 31, 2021 | $ - | $ 256,041 | $ 3,807,536 | $ 6,682 | $ 52,469 | $ 63,202 | $ 96,881 | $ - | $ 4,282,811 |
| Carrying amount at December 31, 2021 | $ 743,384 | $ 408,662 | $ 2,197,057 | $ 3,802 | $ 14,324 | $ 41,975 | $ 27,232 | $ 925,928 | $ 4,362,364 |

Note: It was transferred from other non-current assets - prepaid equipment.

Due to the impact of the industry and market environment, the sales of the Group did not meet expectations. After evaluation, the future cash generated will be reduced, resulting in the recoverable amount being less than the carrying amount. Thus, impairment losses of $31,841 thousands were recognized in 2022. The recoverable amount of the machinery and equipment is determined based on the value in use, and the Group used discount rate of 17.16% in its impairment as of December 31, 2022. The impairment loss is included in other gains and losses in the statement of comprehensive income.

Depreciation expense is accrued on a straight-line basis for the following economic life:

| | |
|---|---|
| Buildings | |
| Main building | 20 to 50 years |
| Building improvement | 10 to 20 years |
| Machinery and equipment | 3 to 15 years |
| Transportation equipment | 5 years |
| Office equipment | 3 to 7 years |
| Leasehold improvements | 2.5 to 10 years |
| Miscellaneous equipment | 2 to 10 years |

Please refer to Note 36 for the amount of property, plant and equipment pledged as collateral.

b. Assets subject to operating leases

| | Buildings |
|---|---|
| Cost | |
| Balance at January 1, 2021 | $ 231,676 |
| Transfers to assets used by the Group | ( 230,448 ) |
| Effect of exchange rate changes | ( 1,228 ) |
| Balance at December 31, 2021 | $ - |
| | |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2021 | $ 128,975 |
| Transfers to assets used by the Group | ( 137,579 ) |
| Depreciation expense | 9,288 |
| Effect of exchange rate changes | ( 684 ) |
| Balance at December 31, 2021 | $ - |
| | |
| Carrying amount at December 31, 2021 | $ - |

No impairment losses were recognized or reversed for 2022 and 2021.

The Group leases out the buildings under operational leasing for a period of 6 years. At the end of the lease period, the lessee will not have the purchase price option to acquire the real estate.

Depreciation expense is accrued on a straight-line basis for the following economic life:

| | |
|---|---|
| Buildings | |
| Factory main building | 20 years |
| Building improvement | 10 to 20 years |

14. LEASE ARRANGEMENTS

a. Right-of-use assets

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Carrying amount | | |
| Land (Note) | $ 40,442 | $ 40,942 |
| Buildings | 108,256 | 129,857 |
| Office equipment | 5,532 | 1,862 |
| | $ 154,230 | $ 172,661 |

| | 2022 | 2021 |
|---|---|---|
| Addition of right-of-use assets | $ 23,055 | $ 94,387 |
| Depreciation of right-of-use assets | | |
| Land | $ 1,148 | $ 1,262 |
| Buildings | 44,616 | 37,743 |
| Office equipment | 1,075 | 1,055 |
| | $ 46,839 | $ 40,060 |

Note: For the land use right in mainland China, the Group has obtained the Land Use Certificates for State Owned Land, and the lease period is 50 years.

A lease agreement was signed on December 31, 2021 for part of the land leased by the Company located in Hefei, Anhui Province, China, which is sub-leased to Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. under operational leasing from January 1, 2022. The relevant right-of-use assets are presented as investment properties please refer to Note 15. The relevant amount of the above right-of-use assets does not include the right-of-use assets that meet the definition of investment properties.

Except for the above-mentioned additions, recognition of depreciation expenses and transfer of investment properties, there was no impairment of the right-of-use assets for the Group in 2022 and 2021.

b. Lease liabilities

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Carrying amounts | | |
| Current portion | $ 42,745 | $ 35,670 |
| Non-current portion | $ 73,709 | $ 96,164 |

Ranges of discount rates for lease liabilities are as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Buildings | 0.99%～4.35% | 0.99%～4.35% |
| Office equipment | 0.99%～4.35% | 0.99%～4.35% |

c. Important lease activities and terms

The lease period of the buildings and office equipment leased by the Group is 1 to 10 years. Among them, the rent of the building is adjusted according to the fluctuation of the price indices and the terms are reviewed during the lease period. At the end of the lease period, the Group has no bargain purchase price option to purchase the leased buildings and office equipment.

d. Other lease information

| | 2022 | 2021 |
|---|---|---|
| Expense relating to short-term leases | ($ 6,271) | ($ 511) |
| Total cash outflow for leases | ($ 49,067) | ($ 42,148) |

The Group has chosen to apply the recognition exemption to building leases that qualify as short-term leases and will not recognize the related right-of-use assets and lease liabilities.

15. INVESTMENT PROPERTY

| | Buildings | Right-of-use assets - Land | Total |
|---|---|---|---|
| Cost | | | |
| Balance at January 1, 2022 | $ 210,112 | $ 5,461 | $ 215,573 |
| Effect of exchange rate changes | 3,288 | 85 | 3,373 |
| Balance at December 31, 2022 | $ 213,400 | $ 5,546 | $ 218,946 |
| | | | |
| Accumulated depreciation and impairment | | | |
| Balance at January 1, 2022 | $ 150,628 | $ 416 | $ 151,044 |
| Depreciation expense | 8,231 | 141 | 8,372 |
| Effect of exchange rate changes | 2,310 | 6 | 2,316 |
| Balance at December 31, 2022 | $ 161,169 | $ 563 | $ 161,732 |
| | | | |
| Carrying amount at December 31, 2022 | $ 52,231 | $ 4,983 | $ 57,214 |

| | Buildings | Right-of-use assets - Land | Total |
|---|---|---|---|
| Cost | | | |
| Balance at January 1, 2021 | $ - | $ - | $ - |
| From property, plant and equipment/right-of-use assets | 210,112 | 5,461 | 215,573 |
| Balance at December 31, 2021 | $ 210,112 | $ 5,461 | $ 215,573 |
| Accumulated depreciation and impairment | | | |
| Balance at January 1, 2021 | $ - | $ - | $ - |
| From property, plant and equipment/right-of-use assets | 150,628 | 416 | 151,044 |
| Balance at December 31, 2021 | $ 150,628 | $ 416 | $ 151,044 |
| Carrying amount at December 31, 2021 | $ 59,484 | $ 5,045 | $ 64,529 |

The right-of-use assets in the investment property is the subleasing of the leased land located in Hefei City, Anhui Province, China to Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. under operational leasing.

The lease term of the investment property is 5 years with an option to extend the lease term for 2 years. The lessees do not have purchase options to acquire the assets at the expiration of the lease periods.

The maturity analysis of operating lease payments receivable from the investment property is as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Year 1 | $ 48,232 | $ 47,489 |
| Year 2 | 48,232 | 47,489 |
| Year 3 | 48,232 | 47,489 |
| Year 4 | 48,232 | 47,489 |
| Year 5 | - | 47,489 |
| | $192,928 | $237,445 |

The Group implements a general risk management policy to reduce the residual risk of the leased buildings and right-of-use assets upon expiry of the lease term.

Investment properties are depreciated on a straight-line basis over the following economic life:

| | |
|---|---|
| Buildings | |
| Factory main building | 20 years |
| Right-of-use assets - Land | 50 years |

The fair value of the investment properties is measured by the independent appraisal company Anhui Huateng Property Assessment Office as a Level 3 input on the balance sheet date. The evaluation is based on market evidence of similar property transaction prices and the cash flow method, and the important unobservable input used include discount rate. The fair value obtained from the evaluation is as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Fair value | $283,872 | $299,771 |

The above fair value measurement has taken into account the uncertainty of the impact of the subsequent development of the COVID-19 epidemic on market fluctuations.

## 16. GOODWILL

| | 2022 | 2021 |
|---|---|---|
| Cost | | |
| Balance, beginning of period | $ - | $ - |
| Acquired by business combinations in the current period (Note 30) | 32,577 | - |
| Balance, end of period | $ 32,577 | $ - |
| | | |
| Accumulated impairment losses | | |
| Balance, beginning of period | $ - | $ - |
| Impairment losses recognized in the current period | - | - |
| Balance, end of period | $ - | $ - |
| Balance, end of year | $ 32,577 | $ - |

The Group’s investment cost of acquiring Centera Photonics Inc. above the net value of identifiable assets and liabilities on the acquisition date are recognized as goodwill.

The Group conducts an impairment assessment on the recoverable amount of goodwill at the end of the reporting period, and does not recognize any impairment loss of goodwill using the value in use as the calculation basis for the recoverable amount.

## 17. INTANGIBLE ASSETS

| | Computer Software |
|---|---|
| Cost | |
| Balance at January 1, 2022 | $ 12,095 |
| Additions | 1,336 |
| Acquired by business combinations (Note 30) | 3,323 |
| Disposal | ( 3,682 ) |
| Effect of exchange rate changes | 140 |
| Balance at December 31, 2022 | $ 13,212 |
| Accumulated amortization and impairment | |
| Balance at January 1, 2022 | $ 5,572 |
| Amortization expense | 4,546 |
| Acquired by business combinations (Note 30) | 533 |
| Disposal | ( 3,682 ) |
| Effect of exchange rate changes | 67 |
| Balance at December 31, 2022 | $ 7,036 |
| Carrying amount at December 31, 2022 | $ 6,176 |
| Cost | |
| Balance at January 1, 2021 | $ 9,092 |
| Additions | 4,389 |
| Disposal | ( 1,352 ) |
| Effect of exchange rate changes | ( 34 ) |
| Balance at December 31, 2021 | $ 12,095 |
| Accumulated amortization and impairment | |
| Balance at January 1, 2021 | $ 3,109 |
| Amortization expense | 3,826 |
| Disposal | ( 1,352 ) |
| Effect of exchange rate changes | ( 11 ) |
| Balance at December 31, 2021 | $ 5,572 |
| Carrying amount at December 31, 2021 | $ 6,523 |

Amortization expenses are accrued on a straight-line basis over the economic life:

| | |
|---|---|
| Computer Software | 1 to 5 years |

## 18. OTHER ASSETS

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Current | | |
| Prepayments | | |
| Tax credit | $ 200,801 | $ 267,445 |
| Others | 21,892 | 38,515 |
| | $ 222,693 | $ 305,960 |

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Non-current | | |
| Prepayments for equipment | $ 412,434 | $ 563,007 |
| Refundable deposits paid (Note) | 10,637 | 9,947 |
| Uncollectible receivables | 6,936 | - |
| | 430,007 | 572,954 |
| Less: Loss allowances | ( 6,936 ) | - |
| | $ 423,071 | $ 572,954 |

The Group acquired the subsidiary on December 24, 2022, and transferred in prepayment of NT$13,978 thousand, prepaid equipment payments of NT$560 thousand and refundable deposit of NT$833 thousand, please refer to Note 30.

Note: The Group considers the debtor’s historical record, current market conditions and business outlook to measure the 12-month expected credit loss or lifetime expected credit loss of the refundable deposit paid. As of December 31, 2022 and 2021, the Group assessed that it was not necessary to report expected credit losses for refundable deposits paid.

19. BORROWINGS

a. Short-term borrowings

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Secured borrowings (Note 36) | | |
| Bank borrowings (Note) | $ 71,170 | $ - |

The Group acquired the subsidiary on December 24, 2022, and transferred short-term bank loans of NT$71,170 thousand, please refer to Note 30.

Note: Among them, the used amount of NT$25,000 thousand is guaranteed by the Taiwan SMEG. The interest rate of the bank loan was 2.16% to 2.75% as of December 31, 2022.

b. Long-term bank borrowings

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Secured borrowings (Note 36) | | |
| Bank borrowings | $ 405,000 | $ 358,990 |
| Less: Current portion | ( 37,732 ) | ( 83,054 ) |
| Long-term bank loans | $ 367,268 | $ 275,936 |

The borrowings of the Group include:

| | Due date | Material terms | December 31, 2022 Amount | December 31, 2022 Effective rate % | December 31, 2021 Amount | December 31, 2021 Effective rate % |
|---|---|---|---|---|---|---|
| Floating rate loan | | | | | | |
| Taiwan Cooperative Bank | | | | | | |
| Secured loans for land and buildings | February 3, 2028 | The loan amount of $135,000 thousand is divided into 84 monthly installments starting March 2021 where the interest is paid monthly in the first year, and the principal and interest are amortized monthly starting March 2022. (Early repayment in January 2022). | $ - | - | $ 135,000 | 0.99 |
| Secured loans for land and buildings | March 9, 2028 | The loan amount of $135,000 thousand is divided into 84 monthly installments starting April 2021 where the interest is paid monthly in the first year, and the principal and interest are amortized monthly starting April 2022. (Early repayment in February 2022). | - | - | 135,000 | 0.99 |
| Machinery and equipment secured loans | October 23, 2023 | The loan amount of $97,000 thousand is divided into 36 monthly installments starting November 2020 where the interest is paid monthly in the first year, and the principal and interest are amortized monthly starting November 2021. (Early repayment in December 2022). | - | - | 88,990 | 0.99 |
| Secured loans for land and buildings | January 26, 2029 | The loan amount of $135,000 thousand is divided into 84 monthly installments starting February 2022 where the interest is paid monthly in the first year, and the principal and interest are amortized monthly starting February 2023. | 135,000 | 1.49 | - | - |
| Secured loans for land and buildings | February 25, 2029 | The loan amount of $135,000 thousand is divided into 84 monthly installments starting March 2022 where the interest is paid monthly in the first year, and the principal and interest are amortized monthly starting March 2023. | 135,000 | 1.49 | - | - |
| Secured loans for land and buildings | December 19, 2029 | The loan amount of $135,000 thousand is divided into 84 monthly installments starting January 2023 where the interest is paid monthly in the first year, and the principal and interest are amortized monthly starting January 2024. | 135,000 | 1.49 | - | - |
| | | | 405,000 | | 358,990 | |
| Less: Current portion | | | ( 37,732 ) | | ( 83,054 ) | |
| Balance of long-term bank loans | | | $ 367,268 | | $ 275,936 | |

## 20. OTHER LIABILITIES

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Current | | |
| Other payables | | |
| Payable for equipment (Note 32) | $ 540,105 | $ 554,118 |
| Salaries payable and bonus | 401,021 | 371,673 |
| OEM collection and payment | 80,756 | 75,860 |
| Insurance premium | 50,762 | 40,465 |
| Processing fee | 19,820 | - |
| Pension | 20,317 | 18,294 |
| Repair and maintenance expense | 6,080 | 11,571 |
| Professional service fee | 7,179 | 6,142 |
| Contract service payment | 1,277 | 2,554 |
| Business tax | 2,303 | 2,346 |
| Payable for capital reduction (Note 32) | - | 713 |
| Interest | 176 | 212 |
| Dividends payable (Note 32) | 171 | 111 |
| Others | 69,250 | 79,756 |
| | $ 1,199,217 | $ 1,163,815 |
| Other current liabilities | | |
| Guarantee deposit - payments received to retain capacity (Note) | $ 143,542 | $ 95,002 |
| Others | 2,650 | 3,149 |
| | $ 146,192 | $ 98,151 |
| Non-current | | |
| Guarantee deposits and margins received | | |
| Payments received to retain capacity (Note) | $ 526,626 | $ 442,006 |
| Others (Note 35) | 13,415 | 13,273 |
| | $ 540,041 | $ 455,279 |

The Group acquired the subsidiary on December 24, 2022, and transferred NT$62,076 thousand to other payables and NT$ 645 thousand to receipts under custody, please refer to Note 30.

Note: To expand the production capacity in response to the increase in customer demand, the Group has signed a production capacity agreement with its customers and collected a production capacity deposit which the customers can offset the payment for shipments in phases during the production capacity guarantee period according to the conditions stipulated in the agreement.

21. PROVISIONS

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Current | | |
| Warranties | $ 36,419 | $ 34,123 |

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ 34,123 | $ 37,795 |
| Additions | 2,962 | 5,916 |
| Usage | ( 666 ) | ( 9,588 ) |
| Balance, end of period | $ 36,419 | $ 34,123 |

The warranties provision for liabilities is the present value of the best estimate of the future economic outflows due to the warranties obligations by the management of the Group according to the contract for the sale of goods. This estimate is based on historical warranties and adjusted by taking into account new raw materials, changes in the process or other factors that affect product quality.

22. RETIREMENT BENEFIT PLANS

a. Determuned contribution plans

eLaser, eLaser Technologies Co., Ltd., Centera Photonics Inc., and GEM Tech Ltd., Taiwan Branch of the Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Group makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the subsidiaries of the Group in Mainland China are enrolled in the pension system operated by the local location government. These subsidiaries are required to contribute a specified percentage of payroll to fund the pension system. The Group's obligation to this government-operated pension system is only to contribute the specified amount.

b. Defined benefit plans

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

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Present value of defined benefit obligation | $ 52,193 | $ 56,783 |
| Fair value of plan assets | ( 20,631 ) | ( 19,071 ) |
| Deficit | 31,562 | 37,712 |
| Net defined benefit liabilities | $ 31,562 | $ 37,712 |

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

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liabilities (asset) |
|---|---|---|---|
| Balance at January 1, 2022 | $ 56,783 | ($ 19,071 ) | $ 37,712 |
| Service cost | | | |
| Current service cost | 623 | - | 623 |
| Interest expense (income) | 356 | ( 122 ) | 234 |
| Recognized in profit or loss | 979 | ( 122 ) | 857 |
| Remeasurement | | | |
| Return on plan assets (excluding the amounts included in net interest) | - | ( 1,494 ) | ( 1,494 ) |
| Actuarial (profit) loss - changes in financial assumptions | ( 1,773 ) | - | ( 1,773 ) |
| Actuarial (profit) loss - experience adjustment | ( 3,348 ) | - | ( 3,348 ) |
| Recognized in other comprehensive income | ( 5,121 ) | ( 1,494 ) | ( 6,615 ) |
| Contributions from the employer | - | ( 392 ) | ( 392 ) |
| Benefits paid | ( 448 ) | 448 | - |
| Balance at December 31, 2022 | $ 52,193 | ($ 20,631 ) | $ 31,562 |
| | | | |
| Balance at January 1, 2021 | $ 58,489 | ($ 18,766 ) | $ 39,723 |
| Service cost | | | |

| | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liabilities (asset) |
|---|---|---|---|
| Current service cost | 633 | - | 633 |
| Interest expense (income) | 219 | ( 71 ) | 148 |
| Recognized in profit or loss | 852 | ( 71 ) | 781 |
| Remeasurement | | | |
| Return on plan assets (excluding the amounts included in net interest) | $ - | ($ 268 ) | ($ 268 ) |
| Actuarial (profit) loss - changes in demographic assumptions | 1,200 | - | 1,200 |
| Actuarial (profit) loss - changes in financial assumptions | ( 1,062 ) | - | ( 1,062 ) |
| Actuarial (profit) loss - experience adjustment | ( 2,270 ) | - | ( 2,270 ) |
| Recognized in other comprehensive income | ( 2,132 ) | ( 268 ) | ( 2,400 ) |
| Contributions from the employer | - | ( 392 ) | ( 392 ) |
| Benefits paid | ( 426 ) | 426 | - |
| Balance at December 31, 2021 | $ 56,783 | ($ 19,071 ) | $ 37,712 |

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

1) Investment risk: The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management which is invested in domestic and foreign equity and debt securities, bank deposits, etc. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan’s debt investments.
3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Discount rate | 1.125% | 0.625% |
| Expected rates of salary increase | 3.00% | 3.00% |

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Discount rate | | |
| Increase by 0.25% | ($ 843) | ($ 1,039) |
| Decrease by 0.25% | $ 871 | $ 1,078 |
| Expected rates of salary increase | | |
| Increase by 0.25% | $ 844 | $ 1,039 |
| Decrease by 0.25% | ($ 821) | ($ 1,008) |

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Expected contributions to the plan for the next year | $ 392 | $ 392 |
| Average duration of the defined benefit obligation | 6.5 years | 7.3 years |

23. EQUITY

a. Capital stock

Common stock

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Authorized shares (in thousands) | 300,000 | 300,000 |
| Authorized capital | $ 3,000,000 | $ 3,000,000 |
| Issued and paid shares (in thousands) | 145,681 | 145,681 |
| Issued capital (NTD in thousand) | $ 1,456,814 | $ 1,456,814 |

The authorized shares include 10,000 thousand shares allocated for the exercise of employee stock options.

A holder of issued common shares with par value of NT$10 per share is entitled to vote and to receive dividends.

b. Capital surplus

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| May be used to offset a deficit, distributed as cash dividends or transferred to capital (Note 1) | | |
| Additional paid-in capital | $ 322,130 | $ 322,130 |
| Treasury stocks | 6,420 | 6,420 |
| | $ 328,550 | $ 328,550 |
| May only be used to offset a deficit | | |
| From share of changes in equities of subsidiaries (Note 2) | $ 123,744 | $ 123,722 |

Note 1: Such capital surplus can be used to offset a deficit, in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of eLaser's paid-in capital.

Note 2: This capital surplus is the amount of equity transaction impact recognized due to changes in the Company's equity when the Company does not subscribe to the subsidiary's equity in proportion to its shareholding, or the adjusted amount recognized by eLaser using the equity method to recognize the subsidiary's capital surplus.

c. Retained earnings and dividend policy

On June 29, 2022, eLaser's shareholders' meeting approved a resolution to amend the earnings distribution policy of the Articles of Association.

In accordance with eLaser's earnings distribution policy in the revised Articles of Association, if there is a surplus after the annual financial report, eLaser will pay taxes and make up for previous annual deficit and add items other than the after-tax net profit to the undistributed earnings for the current period. Also, 10% of legal reserve shall be set aside and if necessary, the special reserve shall be set aside in accordance with relevant laws or regulations, and the accumulated undistributed earnings of the previous year shall be added as the distributable surplus, which shall be reserved by the Board of Directors according to operation capital demand and distributed in accordance with the earnings distribution proposal submitted to the shareholder's meeting for resolution. When the net amount of other equity deductions accumulated in the previous period is set aside as a special reserve, if the undistributed earnings in the previous period is insufficient to be set aside, items other than after-tax net profit plus after-tax net profit for the current period are included in the undistributed earnings for the current period. eLaser's dividend policy is to evaluate the eLaser's future capital needs, financial structure, and earnings. As eLaser is in the growth stage with the industry outlook and development trend changing rapidly, continuous investment, R&D and a sound financial structure are required to create a competitive advantage. Future earnings will be appropriately distributed in the form of stock dividends or cash dividends, depending on eLaser's operation. The total amount of dividends shall be at least 5% of the distributable earnings for the current year, of which cash dividends shall not be less than 20% of the total dividends.

According to the provisions of the earnings distribution policy of eLaser's Articles of Association before the amendment, if there is a surplus after the annual final accounts, the tax shall be paid according to the law and the losses of the previous years shall be made up, and then 10% of the statutory surplus reserve shall be allocated. When necessary, the special reserve shall be withdrawn or reversed in accordance with the law. The accumulated undistributed earnings of the previous year are added as distributable surplus, which is reserved by the Board of Directors according to operational needs, and a surplus distribution proposal is drawn up and submitted to the shareholders' meeting for distribution. eLaser's dividend policy is to evaluate the eLaser's future capital needs, financial structure, and earnings. As eLaser is in the growth stage with the industry outlook and development trend changing rapidly, continuous investment, R&D and a sound financial structure are required to create a competitive advantage. Future earnings will be appropriately distributed in the form of stock dividends or cash dividends, depending on eLaser's operation. The total amount of dividends shall be at least 5% of the distributable earnings for the current year, of which cash dividends shall not be less than 20% of the total dividends. Please refer to Note 25 (9) Employee

Remuneration and Director Remuneration for the employees and directors remuneration policy stipulated in the Articles of Association of the Company.

According to Article 237 of eLaser Act of the Republic of China, Act, when allocating surplus profits after having paid all taxes and dues, shall first set aside 10% of said profits as legal reserve. Where such legal reserve amounts to the total paid-in capital, this provision shall not apply. The legal reserve can be used to make up for losses. When the Company has no losses, the portion of the legal reserve exceeding 25% of the total paid-in capital can be allocated in cash in addition to being accounted as share capital.

eLaser set aside the special reserve in accordance with the Official Letter Chin-Kuan-Cheng-Fa-Tzu No. 1090150022 and "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs".

eLaser held regular shareholders' meetings on June 29, 2022 and July 22, 2021, and the resolutions were passed respectively to approve the 2021 and 2020 annual earnings distribution proposals as shown below:

| | 2021 | 2020 |
|---|---|---|
| Legal reserve | $ 37,211 | $ 23,722 |
| Special reserve | ($ 1,038) | ($ 1,752) |
| Cash dividends | $262,226 | $ 203,954 |
| Cash dividend per share (NT$) | $ 1.8 | $ 1.4 |

On March 22, 2023, the Company's Board of Directors proposed the 2022 earnings distribution as follows:

| | 2022 |
|---|---|
| Legal reserve | $ 19,712 |
| Special reserve | $ 2,417 |
| Cash dividends | $ 72,841 |
| Cash dividend per share (NT$) | $ 0.5 |

The 2022 earnings distribution plan is yet to be resolved at the shareholders' meeting which is expected to be held on June 6, 2023.

d. Special capital reserve

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ 66,339 | $ 68,091 |
| (Reversal of) Reduction of other equity items | ( 1,038) | ( 1,752) |
| Balance, end of period | $ 65,301 | $ 66,339 |

e. Others

Exchange differences on translation of foreign financial statements:

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | ($ 65,301) | ($ 66,339) |
| Recognized in the current period | | |
| Foreign operations – foreign currency translation differences | ( 3,021) | 1,297 |
| Related tax | 604 | ( 259) |
| Other comprehensive income | ( 2,417) | 1,038 |
| Balance, end of period | ($ 67,718) | ($ 65,301) |

f. Non-controlling interests

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ 2,023,445 | $ 1,944,026 |
| Net income | 456,497 | 419,588 |
| Other comprehensive income | | |
| Foreign operations – foreign currency translation differences | ( 2,904) | 1,247 |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | - | 863 |
| Cash dividend issued from subsidiaries | ( 347,809) | ( 284,571) |
| Remuneration to employees of subsidiaries (Note 28) | 15 | ( 57,708) |
| Non-controlling interests from acquiring subsidiaries (Note 30) | 139,496 | - |
| Balance, end of period | $ 2,268,740 | $ 2,023,445 |

24. Revenue

| | 2022 | 2021 |
|---|---|---|
| Revenue from contracts with customers | | |
| Packaging and testing | $ 6,376,553 | $ 6,728,759 |
| Other Operating revenue | | |
| Others (Note 35) | 399,228 | 468,781 |
| | $ 6,775,781 | $ 7,197,540 |

a. Detail of customer contracts

1) Packaging and testing

The customer contract signed by the Group includes two performance obligations of packaging and testing services. The customer pays the contract transaction price after obtaining the packaged or tested product. Since the time interval between the transfer of labor services and the customer's payment is less than a year, the significant financial component of the contract transaction price will not be adjusted. The stand-alone selling prices for packaging and testing services are determined using the expected cost plus a margin approach and are used to allocate the transaction price to each performance obligation.

2) other services

The other service contracts signed by the Group are for the electroplating processing services, building leasing services, and installation and testing services of production equipment contracted to the Group, and the transaction prices of the services are negotiated in accordance with these contracts.

b. Contract balance

| | December 31, 2022 | December 31, 2021 | Balance as of January 1, 2021 |
|---|---|---|---|
| Notes receivable (Note 9) | $ - | $ 20,245 | $ 10,828 |
| Accounts receivable (Note 9) | 986,290 | 1,328,772 | 1,171,258 |
| Accounts receivable due from related parties (Note 35) | 9,583 | 8,717 | 8,059 |
| | $ 995,873 | $ 1,357,734 | $ 1,190,145 |
| Contract assets | | | |
| Packaging and testing | $ 190,216 | $ 221,788 | $ 198,630 |
| Less: Loss allowances | ( 38,454) | ( 12,330) | ( 8,425) |
| | $ 151,762 | $ 209,458 | $ 190,205 |
| Contract liabilities | | | |
| Packaging and testing | $ 16,019 | $ 28,134 | $ 32,432 |

The Group acquired the subsidiary on December 24, 2022, and transferred contract liabilities of NT$7,671 thousand, please refer to Note 30.

Changes in contract assets and contract liabilities are due to the difference between the timing of meeting performance obligations and the timing of payment. Other major changes are as follows:

| | 2022 | 2021 |
|---|---|---|
| Contract assets | | |
| Balance at beginning of the period transfers to accounts receivable | ($ 220,550) | ($ 186,068) |

The Group recognizes loss allowance for contract assets based on lifetime expected credit losses. The average process duration of the packaging and testing service contracts signed by the Group is 20 to 30 days. When determining the possibility of obtaining an unconditional right of payment for contract assets in the future, the policy adopted by the Group refers to the default record of the counterparty's past accounts receivable and considers the contracts that are still under obligations on the balance sheet date, examines each contract for stagnation, and recognizes the loss allowance for contract assets according to the expected credit losses during the duration. If there is evidence that the obligation of the contract have been stagnant for more than 30 days, the Group will recognize the loss allowance at full amount, but will continue to pursuit the stagnation of the contract, and carry out the obligation when the stagnation has been eliminated. If there is evidence that the counterparty has signs of breach of contract or is facing serious financial difficulties where the recoverable amount cannot be reasonably estimated, the Group will directly write off the relevant contract assets and loss allowance, but will continue to pursue for recovery. The amount recovered by the pursuit will be recognized in profit or loss.

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Expected credit loss rate | 20% | 6% |
| Total amount | $ 190,216 | $ 221,788 |
| Loss allowance (lifetime expected credit losses) | ( 38,454) | ( 12,330) |
| | $ 151,762 | $ 209,458 |

Movements of the loss allowance for contract assets

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of period | $ 12,330 | $ 8,425 |
| Add: Impairment losses for the current period | 26,085 | 4,033 |
| Less: Write-off in the current period (Note) | - | ( 121) |
| Exchange differences on translation of foreign currency | 39 | ( 7) |

| | 2022 | 2021 |
|---|---|---|
| Balance, end of period | $ 38,454 | $ 12,330 |

Note: In 2021, the Group assessed the unrecoverable accounts receivable of some customers where the contracts had been terminated, so the related contract assets and loss allowance were written off.

The amount recognized as revenue in the current year from the contract liabilities at the beginning of the period and the performance obligations that have been satisfied in the previous period is as follows:

| | 2022 | 2021 |
|---|---|---|
| Contract liabilities at the beginning of the period | $ 23,560 | $ 13,583 |

c. Detail of customer contracts

Please refer to Note 40 for detailed revenue information.

## 25. NET PROFIT FROM CONTINUING OPERATION

a. Other income and (losses)

| | 2022 | 2021 |
|---|---|---|
| Impairment loss on property, plant and equipment | $ 31,481 | $ - |

b. Interest income

| | 2022 | 2021 |
|---|---|---|
| Bank deposit | $ 16,972 | $ 6,146 |

c. Other income

| | 2022 | 2021 |
|---|---|---|
| Government subsidy | $ 5,521 | $ 4,713 |
| Others | 9,509 | 8,243 |
| | $ 15,030 | $ 12,956 |

d. Other gains and losses

| | 2022 | 2021 |
|---|---|---|
| Gains (losses) on disposal of property, plant and equipment | $ 2,846 | ($ 4,597) |
| Foreign exchange gains(losses) | 253,433 | ( 47,963) |
| Gains from lease modification | 19 | 25 |
| Others | ( 711) | ( 1,653) |
| | $ 255,587 | ($ 54,188) |

e. Finance costs

| | 2022 | 2021 |
|---|---|---|
| Bank loans interest | $ 4,250 | $ 3,253 |
| Interest expense on lease liability | 3,775 | 999 |
| Interest on borrowings from related parties (Note 35) | 14 | - |
| | $ 8,039 | $ 4,252 |

f. Depreciation and amortization

| | 2022 | 2021 |
|---|---|---|
| Depreciation expenses summarized by function | | |
| Cost of revenue | $ 741,968 | $ 602,136 |
| Operating expenses | 59,659 | 52,679 |
| | $ 801,627 | $ 654,815 |
| Amortization expenses summarized by function | | |
| Cost of revenue | $ 581 | $ 803 |
| Operating expenses | | |
| General and administrative expense | 3,885 | 2,580 |
| Research and development expense | 80 | 443 |
| | $ 4,546 | $ 3,826 |

g. Direct operating expenses of investment property

| | 2022 | 2021 |
|---|---|---|
| Lease revenue | | |
| Depreciation expense | $ 8,372 | $ - |
| Others | 618 | - |
| | $ 8,990 | $ - |

h. Employee benefits expenses

| | 2022 | 2021 |
|---|---|---|
| Share-based payment | | |
| Equity-settled (Note 28) | $ 37 | $ - |
| Post-employment benefits | | |
| Determined contribution plans | 138,056 | 118,822 |
| Defined benefit plans (Note 22) | 857 | 781 |
| | 138,950 | 119,603 |
| Others | 1,865,865 | 1,708,762 |
| Total employee benefits expenses | $ 2,004,815 | $ 1,828,365 |
| Summarized by function | | |
| Cost of revenue | $ 1,579,488 | $ 1,450,698 |
| Operating expenses | 425,327 | 377,667 |
| | $ 2,004,815 | $ 1,828,365 |

i. Remuneration to the employees and directors

According to the Articles of Association, eLaser allocates 8% to 15% of the employee’s remuneration and no more than 3% of the director’s remuneration according to the pre-tax profit before deducting the employee’ and director’s remuneration in the current year.

Employee remuneration and director remuneration in 2022 and 2021 were approved by the Board of Directors on March 22, 2023 and March 24, 2022 as follows:

Estimated ratio

| | 2022 | 2021 |
|---|---|---|
| Remuneration to employees | 12% | 10.39% |
| Compensation to directors | 2.82% | 2.90% |

Amount

| | 2022 | 2021 |
|---|---|---|
| | Cash | Cash |
| Remuneration to employees | $ 34,000 | $ 55,500 |
| Compensation to directors | $ 8,000 | $ 15,500 |

If there is still a change in the amount after the annual consolidated financial statement is approved, it will be treated as a change in accounting estimates and adjusted and recorded in the following year.

There is no significant difference between the aforementioned approved amounts and the amounts charged against earnings of 2021 and 2020, respectively.

The information about the appropriations of the Company's remuneration to employees and directors in 2022 and 2021 is available at the Market Observation Post System website.

j. Foreign exchange gains and losses

| | 2022 | 2021 |
|---|---|---|
| Foreign currency exchange gains | $ 548,832 | $ 156,523 |
| Foreign currency exchange losses | ( 295,399 ) | ( 204,486 ) |
| Net gains (losses) | $ 253,433 | ($ 47,963 ) |

## 26. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Current income tax | | |
| Recognized in the current period | $ 261,873 | $ 272,584 |
| Levied undistributed surplus earnings | 3,686 | 565 |
| Income tax adjustments on prior years | ( 4,185 ) | ( 13,476 ) |
| | 261,374 | 259,673 |
| Deferred income tax | | |
| Recognized in the current period | ( 7,019 ) | 34,709 |
| Income tax expense recognized in profit or loss | $ 254,355 | $ 294,382 |

A reconciliation of income before income tax and income tax expenses recognized in profit or loss was as follows:

| | 2022 | 2021 |
|---|---|---|
| Income before income tax | $ 902,676 | $ 1,085,023 |
| Income tax expense calculated at the statutory rate (20%) | $ 180,535 | $ 217,005 |
| Nondeductible expenses in determining taxable income | 1,420 | 22,693 |
| Tax exempt income | ( 298 ) | ( 17,383 ) |
| Levied undistributed surplus earnings | 3,686 | 565 |
| Unrecognized deductible temporary differences/ loss | ( 38,230 ) | ( 5,207 ) |

| | 2022 | 2021 |
|---|---|---|
| deduction | | |
| Effect of different tax rates applicable to consolidated entities | 119,642 | 98,028 |
| Adjustments for prior years' tax | ( 4,185 ) | ( 13,476 ) |
| Investment credits | ( 8,215 ) | ( 7,843 ) |
| Income tax expense recognized in profit or loss | $ 254,355 | $ 294,382 |

b. Income tax recognized in other comprehensive income

| | 2022 | 2021 |
|---|---|---|
| Deferred income tax | | |
| Recognized in the current period | | |
| - Remeasurement of defined benefit plans | $ 1,323 | $ 480 |
| - Foreign operations – foreign currency translation differences | ( 604 ) | 259 |
| | $ 719 | $ 739 |

c. Current tax assets and liabilities

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Current tax asset | | |
| Income tax refund receivable | $ 10,086 | $ 1,674 |
| Current tax liabilities | | |
| Income tax payable | $ 128,967 | $ 171,053 |

d. Deferred tax assets and liabilities

Changes in deferred tax assets and liabilities are as follows:

2022

| Deferred tax assets | Balance, beginning of period | Recognized in profit or loss | Recognized in other comprehensive income | Exchange difference | Balance, end of period |
|---|---|---|---|---|---|
| Temporary difference | | | | | |
| Inventory loss (reversal of write-down of inventories) | $ 6,153 | $ 10,149 | $ - | $ - | $ 16,302 |
| Defined benefit retirement plan | 5,866 | - | ( 1,323 ) | - | 4,543 |
| Unrealized exchange loss | 904 | 6,989 | - | - | 7,893 |
| Allowance for losses - accounts receivable | 2,674 | 458 | - | ( 45 ) | 3,087 |
| Impairment loss on property, plant and equipment | - | 6,296 | - | - | 6,296 |
| Unrealized pension expense | 923 | 93 | - | - | 1,016 |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | 9,900 | - | - | - | 9,900 |
| Exchange differences on translating the financial | 16,325 | - | 604 | - | 16,929 |

| | Balance, beginning of period | Recognized in profit or loss | Recognized in other comprehensive income | Exchange difference | Balance, end of period |
|---|---|---|---|---|---|
| statements of foreign operations | | | | | |
| Allowance for losses - contract assets | 2,506 | 5,267 | - | 8 | 7,781 |
| Employee compensation payable | 15,909 | (1,044) | - | 255 | 15,120 |
| Unrealized sales allowance | - | 168 | - | - | 168 |
| Lease income tax effect | - | 545 | - | (4) | 541 |
| Others | 6,825 | 459 | - | - | 7,284 |
| | $ 67,985 | $ 29,380 | ($ 719) | $ 214 | $ 96,860 |
| Deferred tax liabilities | | | | | |
| Temporary difference | | | | | |
| Share of profit of subsidiaries, associates and joint ventures accounted for using equity method | $ 293,021 | $ 22,495 | $ - | $ - | $ 315,516 |
| Changes in subsidiaries' ownership | 28,482 | | - | - | 28,482 |
| Revenue from contracts with customers | 3,153 | (660) | - | 53 | 2,546 |
| Unrealized exchange profit | 1,229 | 526 | - | 14 | 1,769 |
| | $ 325,885 | $ 22,361 | $ - | $ 67 | $ 348,313 |

2021

| | Opening balance | Recognized in profit or loss | Recognized in other comprehensive income | Exchange difference | Balance, end of period |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Temporary difference | | | | | |
| Inventory loss (reversal of write-down of inventories) | $ 8,803 | ($ 2,650) | $ - | $ - | $ 6,153 |
| Defined benefit retirement plan | 6,346 | - | (480) | - | 5,866 |
| Unrealized exchange loss | 761 | 143 | - | - | 904 |
| Allowance for losses - accounts receivable | 3,267 | (593) | - | - | 2,674 |
| Unrealized pension expense | 845 | 78 | - | - | 923 |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | 9,900 | - | - | - | 9,900 |
| Deferred tax assets | | | | | |
| Exchange differences on translating the financial statements of foreign operations | $ 16,584 | $ - | ($ 259) | $ - | $ 16,325 |
| Allowance for losses - contract assets | 1,614 | 891 | - | 1 | 2,506 |
| Allowance for losses - other receivables | 4,793 | (4,793) | - | - | - |
| Employee compensation payable | 13,720 | 2,265 | - | (76) | 15,909 |
| Unrealized sales allowance | 313 | (313) | - | - | - |
| Others | 7,560 | (735) | - | - | 6,825 |
| | $ 74,506 | ($ 5,707) | ($ 739) | ($ 75) | $ 67,985 |
| Deferred tax liabilities | | | | | |
| Temporary difference | | | | | |
| Share of profit of subsidiaries, associates and joint ventures accounted for using equity method | $ 264,741 | $ 28,280 | $ - | $ - | $ 293,021 |
| Changes in subsidiaries' ownership | 28,482 | - | - | - | 28,482 |
| Revenue from contracts with customers | 808 | 2,349 | - | (4) | 3,153 |

| | Opening balance | Recognized in profit or loss | Recognized in other comprehensive income | Exchange difference | Balance, end of period |
|---|---|---|---|---|---|
| Unrealized exchange profit | 2,856 | ( 1,627 ) | - | - | 1,229 |
| | $ 296,887 | $ 29,002 | $ - | ( $ 4 ) | $ 325,885 |

e. Deductible temporary difference and unused loss deduction amount not recognized in the consolidated balance sheet

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Deductible temporary difference | | |
| Unrealized asset impairment loss | $ 146,099 | $ 166,837 |
| Inventory loss (reversal of write-down of inventories) | 78,080 | 46,541 |
| Unrealized exchange loss | - | 201 |
| Allowance for losses - accounts receivable | 77 | - |
| Others | - | 2,437 |
| | $ 224,256 | $ 216,016 |
| | | |
| Loss deduction | | |
| Expired in 2022 | $ - | $ 44,192 |
| Expired in 2023 | 43,379 | 40,224 |
| Expired in 2025 | 7,082 | - |
| Expired in 2026 | 51,189 | 5,391 |
| Expired in 2027 | 51,882 | - |
| Expired in 2028 | 71,733 | - |
| Expired in 2029 | 94,744 | - |
| Expired in 2030 | 100,936 | 11,261 |
| Expired in 2031 | 133,910 | 14,014 |
| Expired in 2032 | 75,380 | - |
| | $ 630,235 | $ 115,082 |

f. Income tax assessments

The Company’s tax returns for all years through 2020 have been assessed by the tax authorities and there is no significant difference between the approved number and the filed number. The Company had no pending tax litigation as of December 31, 2022.

## 27. EARNINGS PER SHARE

| | 2022 | 2021 |
|---|---|---|
| Basic EPS | $ 1.32 | $ 2.55 |
| Diluted EPS | $ 1.31 | $ 2.51 |

EPS is computed as follows:

Net income

| | 2022 | 2021 |
|---|---|---|
| Net income attributable to owners of the Company | $ 191,824 | $ 371,053 |
| Net income used to calculate basic earnings per share | $ 191,824 | $ 371,053 |
| Effects of all dilutive potential common shares: | | |
| Subsidiaries' stock option | - | ( 1,880 ) |
| Net profit used to calculate diluted earnings per share | $ 191,824 | $ 369,173 |

Common shares

Unit: thousand shares

| | 2022 | 2021 |
|---|---|---|
| Weighted average number of common shares used to calculate basic EPS | 145,681 | 145,681 |
| Effects of all dilutive potential common shares: | | |
| Remuneration to employees | 1,175 | 1,120 |
| Weighted average number of common shares used to calculate diluted EPS | 146,856 | 146,801 |

If the Group can choose to pay employee remuneration in shares or cash, when calculating diluted EPS, assumed that employee remuneration will be issued in shares, the weighted average number of outstanding shares shall be included in the potentially dilutive common shares to calculate the diluted EPS. When calculating the diluted EPS before deciding on the number of shares for employee remuneration in the following year, the potentially dilutive common shares will also be considered.

28. SHARE-BASED PAYMENT ARRANGEMENTS

a. The subsidiary GEM Services, Inc. has issued a share option plan in 2000

On February 28, 2000, the GEM Services, Inc. approved the proposal of its Board of Directors to issue the share option plan. The share option plan has been revised several times since the issuance, and the total amount of shares issued was 6,722 thousand units. The plan is granted to employees of the GEM Services, Inc. and its 100%-owned subsidiaries and those who provide services to the GEM Services, Inc. and its subsidiaries and meet certain conditions. The above-mentioned share option plan grants those who meet certain conditions to exercise the share options in a certain schedule and proportion in one year after obtaining the stock warrant. The duration of the above-mentioned warrants is ten years. After ten years, the unexercised share options shall be deemed to be waived, and the warrantee shall no longer claim his or her share option. Among the issued share option of GEM Services, Inc., there were 200 thousand units expired on June 27, 2021, and all lapsed due to non-exercise.

The relevant information of 2021 stock option is as follows:

| | 2021 | | | |
|---|---|---|---|---|
| | Employee stock option (in thousands) | Weighted average strike price (USD) | Other option (in thousands) | Weighted average strike price (USD) |
| Circulation at the beginning of the period | - | $ - | 200 | $ 1.250 |
| Expired in the current period | - | - | ( 200 ) | 1.250 |
| Circulation at the end of the period | - | - | - | - |
| Exercisable at the end of the period | - | - | - | - |
| Weighted average fair value of the stock options in the current period (NTD) | $ - | | $ - | |

The stock options granted by GEM Services, Inc. on June 28, 2011 are the related remuneration costs of the stock warrant recognized at the fair value (calculated according to the Black-Scholes evaluation model). The parameters used in the relevant evaluation model are as follows:

| | | June 28, 2011 |
|---|---|---|
| Evaluation parameters for non-employees: | Share price on grant day (NTD) | USD 1.040 |
| | Exercise price (NTD) | USD 1.250 |
| | Expected volatility | 48.34% |
| | Expected life | 10 years |
| | Expected dividend rate | 0.00% |
| | Risk-free interest rate | 1.89% |

b. The subsidiary Centera Photonics Inc. has issued a share option plan in 2018

Centera Photonics Inc. was approved by the Board of Directors on May 17, 2018 to issue 2,000 thousand units of employee stock warrant, and each unit subscribed for 1 common share. The total number of common shares to be for this stock warrant was 2,000 thousand shares, and the grantees are limited to the employees of Centera Photonics Inc. According to the warrant exercise rules, warrant holders can exercise a certain proportion of warrants granted after half a year, one year and one and a half years after the issuance respectively. The duration of the warrants is 7 years, and each share and the subscription price is NT$10, with a total of 2,000 thousand units. Authorized by the Board of Directors, the chairman decided to issue 599 thousand units, 713 thousand units and 289 thousand units on May 20, 2019, November 12, 2019 and May 24, 2021 respectively. As of December 31, 2022, the outstanding shares are 548,000 units.

Information relating to issued employee stock options is as follows:

| | Acquisition date to December 31, 2022 | |
|---|---|---|
| Employee stock option | Unit (thousand) | Weighted average exercise price (NT$) |
| Outstanding on acquisition date | 548 | $ 10 |
| Offered in the period from the acquisition date | - | - |
| Exercised in the period from the acquisition date | - | - |
| Circulation at the end of the period | 548 | 40 |

| Employee stock option | Acquisition date to December 31, 2022 | |
|---|---|---|
| | Unit (thousand) | Weighted average exercise price (NT$) |
| Exercisable at the end of the period | 434 | |
| Weighted average fair value of the stock options in the period from the acquisition date (NT$) | $ - | |

Information relating to outstanding employee stock options is as follows:

| | December 31, 2022 |
|---|---|
| Exercise price (NT$) | $ 40 |
| Weighted average remaining contractual life (years) | 4.56 years |

The employee stock options granted by the Group on May 24, 2021, November 12, 2019, and May 20, 2019 adopt the Black-Scholes evaluation model, and the input values used in the evaluation model are as follows:

| | May 24, 2021 | November 12, 2019 | May 20, 2019 |
|---|---|---|---|
| Share price on grant day | NT$4.75 | NT$4.98 | NT$5.73 |
| Exercise price | NT$10 | NT$10 | NT$10 |
| Expected volatility | 39.66% | 32.18% | 32.08% |
| Duration | 4.3 years | 4.3 years | 4.3 years |
| Expected dividend rate | 0% | 0% | 0% |
| Risk-free interest rate | 0.1689% | 0.5758% | 0.5546% |

The expected volatility is based on the historical stock price volatility of the same industry, and the annualized standard deviation is obtained based on the duration of the option.

The remuneration cost recognized from the acquisition date to December 31, 2022 was NT$37 thousand.

29. GOVERNMENTS SUBSIDY

The facilities purchased by GEM Electronics (Hefei) Co., Ltd., a subsidiary of the Group, was approved for a subsidy of $5,224 thousand by the local government in October 2019 after meeting the subsidy conditions set by the Official Letter He-Ching-Hsin-Tsung-He No.185 (2019) of the local government in May, 2019.

The building constructed by GEM Electronics (Hefei) Co., Ltd., a subsidiary of the Group, was approved for a subsidy of NT$7,674 thousand by the local government in

March 2021 after meeting the subsidy conditions set by the No.6 (2020) of the Government of Hefei Municipality February, 2021.

The building constructed and facilities purchased by GEM Electronics (Hefei) Co., Ltd., a subsidiary of the Group, was approved for a subsidy of $31,190 thousand by the local government in July 2022 after meeting the subsidy conditions set by the No.8 (2021) of the Government of Hefei Municipality March, 2022.

This amount has been deducted from the relevant asset's carrying amount and carried forward to profit or loss over the asset's economic life by reducing the depreciation expense. As of December 31, 2022 and 2021, the depreciation expenses were reduced $2,148 thousand and $894 thousand, respectively.

30. BUSINESS COMBINATIONS

a. Subsidiaries acquired

| | Principal Activity | Date of Acquisition | Proportion of Voting Equity Interests Acquired (%) | Consideration Transferred |
|---|---|---|---|---|
| Centera Photonics Inc. | Manufacture and sales of electronic parts | December 24, 2022 | 57.97% | $ 225,000 |

b. Consideration transferred

| | Centera Photonics Inc. |
|---|---|
| Cash | $ 225,000 |

c. Assets acquired and liabilities assumed at the date of acquisition

| | Centera Photonics Inc. |
|---|---|
| Current assets | |
| Cash and cash equivalents | $ 267,163 |
| Financial assets measured at amortized cost - Current | 12,500 |
| Accounts receivable | 7,133 |
| Inventories | 195,641 |
| Prepayments | 13,978 |
| Non-current assets | |
| Financial assets measured at amortized cost - Non-current | 741 |
| Property, plant and equipment | 26,739 |
| Intangible assets | 2,790 |
| Other non-current assets | 1,393 |
| Current liabilities | |
| Short-term bank loans | ( 71,170 ) |

| | |
|---|---|
| Contract liabilities | ( 7,671 ) |
| Accounts payable | ( 54,597 ) |
| Other payables | ( 62,076 ) |
| Other current liabilities | ( 645 ) |
| | $ 331,919 |

d. Non-controlling interests

The non-controlling interest in Centera Photonics Inc. (42.03% of total equity) is measured based on the identifiable net assets on the acquisition date and the shareholding ratio of the non-controlling interest.

e. Goodwill arising on an acquisition of a business

| | Centera Photonics Inc. |
|---|---|
| Consideration Transferred | $ 225,000 |
| Add: Non-controlling interest (42.03% of Centera Photonics Inc.'s total equity) | 139,496 |
| Less: Fair value of identifiable net assets acquired | ( 331,919 ) |
| Goodwill arising on an acquisition of a business | $ 32,577 |

The difference between the investment cost and the net equity value of the Group's acquisition of Centera Photonics Inc. is recognized as provisions on the balance sheet date because the measurement of the identifiable assets acquired, and the liabilities assumed by the business combination has not yet been completed. Retrospective adjustments are made or additional goodwill on acquisitions is recognized in subsequent measurement periods to reflect new information acquired about facts and circumstances existing at the acquisition date.

f. Net cash inflow on acquisition of subsidiary

| | Centera Photonics Inc. |
|---|---|
| Consideration paid in cash | ($ 225,000 ) |
| Add: Cash and cash equivalents on acquisition of subsidiaries, assets and operations | 267,163 |
| | $ 42,163 |

g. Impact of acquisition on the results of the Group

Starting from the acquisition date, the operating results from the acquired company are as follows:

| | Centera Photonics Inc. |
|---|---|
| Revenue | $ 15,254 |
| Net income | $ 1,437 |

31. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

eLaser purchased the outstanding shares of eLaser Technologies Co., Ltd. in March 2021, and eLaser's shareholding ratio in eLaser Technologies Co., Ltd. increased to 100%.

Since the above transactions did not change eLaser's control over these subsidiaries, they are treated as equity transactions.

| | 2021 |
|---|---|
| | eLaser Technologies Co., Ltd. |
| Cash consideration paid | ($ 57,708) |
| The carrying amount of the subsidiary's net assets is calculated based on the change in relative equity and the non-controlling interests that should be transferred - acquisition of subsidiary equity | 56,845 |
| Equity transaction difference | ($ 863) |
| | |
| Equity transaction difference adjustments | |
| Retained earning - difference between consideration received and the carrying amount of subsidiaries' net assets during actual acquisitions | ($ 863) |

32. CASH FLOW INFORMATION

a. Non-cash transaction

The Group conducted the following non-cash investment and financing activities in 2022 and 2021:

1) As of December 31, 2022 and 2021, the purchase price of unpaid properties, plant and equipment acquired by the Group were $540,105 thousand and $554,118 thousand respectively, and were accounted as other payables.

2) Subsidiary GEM Services, Inc. as of December 31, 2022 and 2021, had announced cash dividends NT$171 thousand and NT$111 thousand respectively that have not been distributed and are listed under other payables.

3) Subsidiary eLaser Technologies Co., Ltd. decided to reduce capital in cash at the extraordinary general meeting of shareholders on October 5, 2020. As of

December 31, 2022 and 2021, there were NT$0 thousand and NT$713 thousand respectively that have not been returned and are listed under other payables.

4) Subsidiary GEM Services, Inc. signed a production capacity guarantee agreement with the customer and offset the security deposit by offsetting the payment according to the conditions stipulated in the contract. In 2022, NT$45,449 thousand offset the security deposit by offsetting accounts receivable.

b. Reconciliation of liabilities arising from financing activities

2022

| | | | Non-cash changes | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1, 2022 | Financing Cash Flow | Lease addition | Lease modification | Subsidiaries acquired | Finance costs | Foreign Exchange Movement | Payment refund | Others | December 31, 2022 |
| Short-term bank loans | $ - | $ - | $ - | $ - | $ 71,170 | $ - | $ - | $ - | $ - | $ 71,170 |
| Other receivables - related parties | - | - | - | - | 15,014 | - | - | - | - | 15,014 |
| Long-term bank loans | 358,990 | 46,010 | - | - | - | - | - | - | - | 405,000 |
| Guarantee deposits and margins received | 550,281 | 178,263 | - | - | - | - | 488 | ( 45,449) | - | 683,583 |
| Lease liabilities | 131,834 | ( 39,021) | 23,055 | ( 1,004) | - | 3,775 | 1,590 | - | ( 3,775) | 116,454 |
| | $1,041,105 | $ 185,252 | $ 23,055 | ($ 1,004) | $ 86,184 | $ 3,775 | $ 2,078 | ($ 45,449) | ($ 3,775) | $1,291,221 |

2021

| | | | Non-cash changes | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1, 2021 | Financing Cash Flow | Lease addition | Lease modification | Finance costs | Foreign Exchange Movement | Other Changes | December 31, 2021 |
| Long-term bank loans | $ 97,000 | $ 261,990 | $ - | $ - | $ - | $ - | $ - | $ 358,990 |
| Guarantee deposits and margins received | 5,859 | 544,458 | - | - | - | ( 36 ) | - | 550,281 |
| Lease liabilities | 80,312 | ( 40,638 ) | 94,350 | ( 2,023 ) | 999 | ( 167 ) | ( 999 ) | 131,834 |
| | $ 183,171 | $ 765,810 | $ 94,350 | ( $ 2,023 ) | $ 999 | ( $ 203 ) | ( $ 999 ) | $ 1,041,105 |

## 33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of equity (i.e. issued capital, capital surplus, retained earnings and other equity).

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

## 34. FINANCIAL INSTRUMENTS

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

The management of the Group considers that the carrying amounts of financial instruments in the consolidated financial statements that are not measured at fair value approximate their fair values.

b. Categories of financial instruments

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Financial assets | | |
| Amortized cost (Note 1) | $ 3,716,151 | $ 3,603,747 |
| Financial liabilities | | |
| Amortized cost (Note 2) | 2,106,032 | 2,706,460 |

Note 1: Including cash and cash equivalents, financial assets measured at amortized cost, note receivable, accounts receivable (including related parties), other receivables (including related parties; excluding income tax refund receivable), uncollectible receivables and refundable deposits and other financial assets.

Note 2: Including financial liabilities measured at amortized cost such as short-term borrowings, accounts payable (including related parties), other payables (including related parties; excluding salaries and bonuses payable, insurance premiums payable, pensions payable, business taxes payable and dividends payable), long-term borrowings and guarantee deposit.

c. Financial risk management objectives and policies

The major financial instruments of the Group include cash and cash equivalents, receivables, payables, lease liabilities and borrowings. Among the financial instruments held by the Group, financial risks related to operations include market risk (including exchange rate risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

The main financial risks borne by the Group's operating activities are the exchange rate risk (see (1) below) and the interest rate risk (see (2) below).

(1) Foreign currency risk

The Group is engaged in foreign currency-denominated sales and purchase transactions, thus causing the Group to be exposed to exchange rate risk. The Group regularly evaluates the net risk position of the sales amount and cost amount denominated in non-functional currency, and adjusts the cash holding position of the non-functional currency accordingly to achieve hedging.

For the carrying amounts of monetary assets and liabilities of the Group denominated in non-functional currencies on the balance sheet date (including those monetary items denominated in non-functional currencies that have been eliminated in the consolidated financial statements), please refer to Note 38.

<u>Sensitivity analysis</u>

The Group is mainly affected by fluctuations in the exchange rates of USD, JPY and NTD.

The table below details the sensitivity analysis of the Group when the exchange rate of each functional currency of each entity against each relevant foreign currency increases/decreases by 1%. 1% is the sensitivity rate used when reporting exchange rate risk within the Group to key management, and also represents management's assessment of the reasonably possible range of changes in foreign currency exchange rates. Sensitivity analysis only includes foreign currency monetary items in circulation which is translated at the end of the period with a 1% exchange rate adjustment.

When foreign currency monetary items are net assets, a positive number in the table below means that when the functional currency of each consolidated entity depreciates by 1% relative to each related currency (mainly USD, JPY and NTD), the pre-tax net profit or equity will increase by a number of the same amount; when the functional currency of each consolidated entity appreciates by 1% relative to each relevant currency, its impact on pre-tax net profit or equity will be a negative number of the same amount.

| | The impact of USD | | The impact of JPY | | The impact of NTD | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Gains or (losses) | $ 17,142 (i) | $ 16,718 (i) | $ 3 (ii) | ($ 189 )(ii) | ($ 1,376)(iii) | ($ 1,261)(iii) |

(i) Mainly from the Group's USD-denominated cash and cash equivalents, receivables, and payables that were in circulation on the balance sheet date without cash flow hedging.

The Group's sensitivity to the USD exchange rate increased in the current period, which was due to the decrease in payables denominated in USD.

(ii) Mainly from the Group's JPY-denominated cash and cash equivalents, receivables, and payables that were in circulation on the balance sheet date without cash flow hedging.

The Group's sensitivity to the JPY exchange rate decreased in the current period, which was due to the decrease in payables denominated in JPY.

(iii) Mainly from the Group's NTD-denominated payables that were still in circulation on the balance sheet date without cash flow hedging.

The Group's sensitivity to the NTD exchange rate increased in the current period, which was due to the increase in payables denominated in NTD.

(2) Interest rate risk

Interest rate risk exposure is incurred due to the bank deposits, lease liabilities and borrowings within the Group include fixed and floating interest rates.

The carrying amounts of financial assets and financial liabilities of the Group subject to interest rate risk exposure on the balance sheet date are as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Fair value interest rate risk | | |
| - Financial assets | $ 537,599 | $ 354,480 |
| - Financial liabilities | 131,454 | 131,834 |
| Cash flow interest rate risk | | |
| - Financial assets | 2,016,546 | 1,716,170 |
| - Financial liabilities | 476,170 | 358,990 |

Sensitivity analysis

The sensitivity analysis below is based on the interest rate exposure of non-derivative instruments at the balance sheet date. The analysis for floating rate liabilities assumes that the amounts of the liabilities outstanding at the balance sheet date were all outstanding during the reporting period. The rate of change used in reporting interest rates within the Group to key management is a 1% increase or decrease in interest rates, which represents management's assessment of the reasonably possible range of changes in interest rates.

If interest rates increased/decreased by 1% when all other variables are held constant, the Group's net profit before tax in 2022 and 2021 will increase/decrease by NT$15,404 thousand and NT$13,572 thousand respectively, mainly due to the risk of interest rate changes arising from the interest-bearing bank deposits and bank loans at floating rates.

The Group's sensitivity to interest rates increased in the current period, which is due to the increase in bank deposits with floating interest rates.

2) Credit risk

Credit risk refers to the risk that the counterparty defaults on its contractual obligations resulting in financial losses to the Group. As of the balance sheet date, the maximum credit risk exposure of the Group that may result in financial losses due to the counterparty's failure to perform its obligations is from the carrying amount of financial assets recognized in the consolidated balance sheet.

The policy adopted by the Group is to transact with reputable counterparties and to obtain adequate guarantees to mitigate the risk of financial loss due to default when necessary. The Group rates major customers by creating complete customer profiles, using publicly available financial and non-financial information, and referring to past transaction records with the Group. The Group continuously monitors the credit exposure and the credit rating of the counterparty and controls the credit exposure through the counterparty's credit limit which is reviewed and approved annually by the responsible supervisor.

The Group continuously evaluates the financial status of customers with accounts receivable and contract assets and reviews the recoverable amounts of accounts receivable and contract assets to ensure that unrecoverable accounts receivable and contract assets have been properly set aside for impairment losses. When necessary, receipts in advance will be adopted as a transaction term to reduce credit risk. Thus, the credit risk on accounts receivable and contract assets is expected to be limited.

The credit risk of the Group is concentrated in the top five customers. As of December 31, 2022 and 2021, the ratio for the total amount of accounts receivable and total contract assets came from the top five customers were 54% and 44%, respectively.

3) Liquidity risk

The Group manages and maintains a sufficient position of cash and cash equivalents to support the operations and mitigate the impact of fluctuations in cash flow. The management of the Group supervises the use of the bank's financing amount and ensures compliance with the terms of the loan agreement.

Bank loans are an important source of liquidity for the Group. Please refer to the description of (2) Financing amount for the unused financing amount of the Group as of December 31, 2022 and 2021.

(1) Liquidity and interest rate risk for non-derivative financial liabilities

The analysis of the remaining contractual maturity of non-derivative financial liabilities is based on the earliest date on which the Group may be required to repay, and is prepared based on the undiscounted cash flows of financial liabilities (including principal and estimated interest). The maturity analysis of other non-derivative financial liabilities is prepared according to the agreed repayment date.

For interest cash flows paid at floating rates, the undiscounted interest amount is derived based on the average lending rate on the balance sheet date.

December 31, 2022

| | Less than 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing liabilities | $ 338,032 | $ 518,554 | $ 745,032 | $ 13,415 | $ - |
| Floating rate instrument | 71,724 | 6,365 | 36,678 | 283,619 | 103,261 |
| Fixed rate instrument | 15,053 | - | - | - | - |
| Lease liabilities | 9,312 | 2,171 | 33,849 | 65,050 | 11,406 |
| | $ 434,121 | $ 527,090 | $ 815,559 | $ 362,084 | $ 114,667 |

December 31, 2021

| | Less than 1 month | 1 - 3 months | 3 - 12 months | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Non-interest bearing liabilities | $ 351,241 | $ 547,373 | $ 993,688 | $ 455,279 | $ - |
| Floating rate instrument | 4,305 | 10,434 | 71,529 | 226,309 | 56,027 |
| Lease liabilities | 9,301 | 1,144 | 28,738 | 85,450 | 14,633 |
| | $ 364,847 | $ 558,951 | $ 1,093,955 | $ 767,038 | $ 70,660 |

(2) Financing amount

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Unsecured loans | | |
| - Utilized | $ - | $ - |
| - Unutilized | 630,000 | 630,000 |
| | $ 630,000 | $ 630,000 |
| | | |
| Secured loans | | |
| - Utilized | $ 476,170 | $ 358,990 |
| - Unutilized | 153,830 | 293,010 |
| | $ 630,000 | $ 652,000 |

35. RELATED PARTY TRANSACTIONS

Transactions, account balances, income and expenses between eLaser and its subsidiaries (which are related parties of eLaser) are all eliminated upon consolidation, thus not disclosed in this note. Unless disclosed in other notes, the transactions between the Group and other related parties are as follows.

a. Related party name and categories

| Related Party Name | Related Party Categories |
|---|---|
| Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. | Associate |
| Chen-Chi, Liao | Substantive related party |

b. Operating revenue

| Item | Related Party Categories | 2022 | 2021 |
|---|---|---|---|
| Electroplating services | Associate | $ 93,222 | $ 71,006 |
| Lease revenue | Associate | $ 47,807 | $ 47,085 |
| Lease and other services | Associate | $ 6,719 | $ 13,281 |

There is no other comparable transaction of the same sales price and conditions of the related parties. The income from electroplating services is determined by the cost-plus pricing, and the payment terms are monthly T/T 45 days. The lease income is based on the contract signed according to the general market conditions, and the rent is collected on a monthly basis; the other service income is collected on a monthly basis according to the contract content.

c. Purchase

| Related Party Categories | 2022 | 2021 |
|---|---|---|
| Associate | $ 1,955 | $ - |

The transaction price refers to the market and is negotiated by both parties. The payment terms are monthly T/T 30 days, and the price is not significantly different from that of ordinary purchases.

d. Contract liabilities

| Categories/ Related party | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Associate | | |
| Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. | $ 3,961 | $ - |

e. Receivables from related parties

| Item | Related Party Categories | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| Accounts receivable due from related parties | Associate | $ 9,583 | $ 8,717 |
| Other receivables - related parties | Associate | $ 43 | $ 110 |

The outstanding receivables from related parties are not overdue, and no guarantee has been received. The amount receivable from related parties in 2022 and 2021 has not been recognized as loss provision.

f. Payables to related parties

| Item | Related Party Categories | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| Accounts payable - related parties | Associate | $ 1,907 | $ - |
| Other receivables - related parties (interest) | Substantive related party | $ 14 | $ - |

The outstanding payables to related parties were unsecured.

g. Lease agreement

Operation lease/ sublease

The Group leases the buildings and subleases the land use rights related to the buildings to its associate, Mitsubishi Electric GEM Power Semiconductor (Hefei) Co., Ltd., for a lease period of 5 to 6 years. The rent is signed according to the general market condition which is paid monthly. At the end of the lease period, the lessee will not have the purchase price option to acquire the real estate. As of December 31, 2022 and 2021, the total lease payments to be received in the future are as follows:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Year 1 | $ 48,232 | $ 47,489 |
| Year 2 | 48,232 | 47,489 |
| Year 3 | 48,232 | 47,489 |
| Year 4 | 48,232 | 47,489 |
| Year 5 | - | 47,489 |
| | $192,928 | $237,445 |

The lease income recognized in 2022 and 2021 was NT$47,807 thousand and NT$47,085 thousand respectively.

h. Borrowings from related parties

| | 2022 | | 2021 | | |
|---|---|---|---|---|---|
| Categories/ Related party | Highest balance | December 31, 2022 | Highest balance | December 31, 2021 | Balance as of January 1, 2021 |
| Other receivables - related parties | | | | | |
| Substantive related party Chen-Chi, Liao | $ 15,000 | $ 15,000 | $ - | $ - | $ - |

Interest expense

| Related Party Categories | 2022 | 2021 |
|---|---|---|
| Substantive related party | $ 356 | $ - |

The interest rate of the Group's borrowing from related parties is 4.2%, and it is an unsecured loan

i. Other related party transactions

| Item | Related Party Categories | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| Guarantee deposits and margins received | Associate | $ 1,708 | $ 1,682 |

j. Remuneration for key managerial officers

| | 2022 | 2021 |
|---|---|---|
| Short-term employee benefits | $ 129,278 | $ 133,902 |
| Post-employment benefits | 864 | 725 |
| Share-based payment | 7 | - |
| | $ 130,149 | $ 134,627 |

The remuneration of directors and other key managerial officers is determined by the Remuneration Committee in accordance with individual performance and market trends.

36. PLEDGED ASSETS

The following assets have been provided as collateral for financing borrowings and customs guarantees for imported raw materials:

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Pledged demand deposits (financial assets measured at amortized cost - current) | $ 12,500 | $ - |
| Pledged term deposits (financial assets measured at amortized cost - non-current) | 741 | - |
| Self-owned land | 358,403 | 358,403 |
| Net amount of property and building | 107,746 | 110,256 |
| Net amount of machinery and equipment | - | 94,849 |
| | $ 479,390 | $ 563,508 |

37. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The unrecognized commitments of the Group are as follows:

Unit: Foreign currency (In thousands)

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Acquisition of property, plant and equipment | | |
| RMB | $ 3,188 | $ 41,923 |

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| NTD | $ 4,486 | $ 24,021 |
| USD | $ 1,139 | $ 6,694 |

38. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The following information was summarized according to the foreign currencies other than the functional currency of the Group. The exchange rates disclosed were used to translate the foreign currencies into the functional currency. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2022

| | Foreign Currencies (In Thousands) | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Foreign currency assets | | | |
| Monetary items | | | |
| USD | $ 57,224 | 30.7100 (USD: NTD) | $ 1,757,356 |
| USD | 45,497 | 6.9646 (USD: RMB) | 1,397,206 |
| JPY | 125,795 | 0.2324 (JPY: NTD) | 29,235 |
| Foreign currency liabilities | | | |
| Monetary items | | | |
| USD | 37,994 | 30.7100 (USD: NTD) | 1,166,809 |
| USD | 8,906 | 6.9646 (USD: RMB) | 273,505 |
| JPY | 124,576 | 0.2324 (JPY: NTD) | 28,951 |
| NTD | 53,784 | 0.0326 (NTD: USD) | 53,784 |
| NTD | 83,856 | 0.2268 (NTD: RMB) | 83,856 |

December 31, 2021

| | Foreign Currencies (In Thousands) | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Foreign currency assets | | | |
| Monetary items | | | |
| USD | $ 77,368 | 27.6800 (USD: NTD) | $ 2,141,536 |
| USD | 45,621 | 6.3757 (USD: RMB) | 1,262,779 |
| JPY | 208,521 | 0.2405 (JPY: NTD) | 50,149 |
| Foreign currency liabilities | | | |
| Monetary items | | | |
| USD | 47,364 | 27.6800 (USD: NTD) | 1,311,039 |
| USD | 15,227 | 6.3757 (USD: RMB) | 421,477 |
| JPY | 287,234 | 0.2405 (JPY: NTD) | 69,080 |
| NTD | 48,266 | 0.0361 (NTD: USD) | 48,266 |
| NTD | 77,876 | 0.2303 (NTD: RMB) | 77,876 |

The Group’s foreign exchange gains and losses (realized and unrealized) in 2022 and 2021 were NT$253,433 thousand and (NT$47,963) respectively. Due to the wide variety of foreign currency transactions and functional currencies of the Group, it is not possible to disclose exchange gains and losses and significant impact for each currency.

39. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Group:

   1) Financings provided: None
   2) Endorsement/guarantee provided: None
   3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): None
   4) Marketable securities acquired and 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 properties at costs of at least NT$300 million or 20% of the paid-in capital: None
   6) Disposal of individual real estate properties 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 of at least NT$100 million or 20% of the paid-in capital: See Table 1 attached;
   8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: See Table 2 attached;
   9) Information about the derivative financial instruments transaction: None
   10) Others: The business relationship between the parent and the subsidiaries and significant transactions between them: See Table 3 attached;

b. Information on investees (excluding information on investment in Mainland China): See Table 4 attached;

c. Information on investment in mainland China:

   1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: See Table 5 attached.

2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gains or losses, and other related information which is helpful to understand the impact of investment in mainland China on financial reports:

(1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: See Table 1 and Table 3 attached.

(2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None

(3) The amount of property transactions and the amount of the resultant gains or losses: None

(4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None

(5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None

(6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: (Note 35)

d. The notes appended to the consolidated financial statements of the affiliates shall disclose for the affiliates as a whole in accordance with the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises:

1) The names of subordinate companies, a description of their relationship with the controlling company, the nature of their business, and the controlling company's shareholding or capital contribution ratio in each. (Note 11, Tables 4 and 5)

2) Increases, decreases, or changes in the subordinate companies included in the current consolidated financial statements of the affiliates. (Note 11)

3) The names and shareholding or capital contribution ratios of subordinate companies not listed in the current consolidated financial statements for affiliates and the reasons they are not included in the consolidated statements. None

4) The adjustment method and treatment adopted if the opening and closing dates of the subordinate company's accounting year are different from those

of the controlling company. None

5) An explanation of any differences in accounting policies between the subordinate companies and the controlling company. The method and substance of adjustments adopted in the event of any non-conformity with the Generally Accepted Accounting Principles of the Republic of China. None

6) Special operational risks of overseas subordinate companies, such as exchange rate fluctuations. (Note 11)

7) Statutory or contractual restrictions on distribution of earnings by the various affiliates. (Note)

8) Amortization methods and period for consolidated borrowings (loans). None

9) Other matters of significance or explanations that would contribute to the fair presentation of the consolidated financial statements of the affiliates. None

Note: The Articles of Association of GEM Electronics (Shanghai) Co., Ltd. and GEM Electronics (Hefei) Co., Ltd. stipulate that reserve funds, employee rewards and benefit funds shall be withdrawn from the profits after income tax, and the specific ratio shall be in accordance with the Company Act and other relevant laws and regulations of Mainland China. Profit shall not be distributed before the loss of the previous year is made up, and the undistributed profit of the previous year may be included in the profit distribution of the current year.

e. The notes to the consolidated financial statements for affiliates shall disclose the below-listed particulars for the controlling company and subordinate company respectively in accordance with the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises:

1) Transactions that have been eliminated between the controlling company and subordinate companies or between subordinate companies. See Table 3 attached;

2) Information regarding financing, endorsements, and guarantees. None

3) Information regarding trading in derivative products. None

4) Significant contingent matters. None

5) Major subsequent events: None

6) Names of bills and securities held, and their quantities, cost, market value (or net par value if a bill or security does not have a market value), shareholding or capital contribution ratio, description of any pledges, and the highest amount of shareholding or capital contribution during the period. (Tables 4 and 5)

7) Other matters of significance or explanations that would contribute to the fair presentation of the consolidated financial statements of the affiliates. None

f. When subsidiaries hold shares in the parent, the names of the subsidiaries and the shareholdings, amounts, and reasons shall be separately presented. None

g. Information on major shareholders: List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder: See Table 6 attached.

## 40. SEGMENTS INFORMATION

Information provided to the operation decision maker to allocate resources and measure segment performance, focusing on each type of product or service delivered or provided. The reportable segments of the Company are the optoelectronics industry and the semiconductor segment.

The operation decision maker regards the subsidiaries in optoelectronics industry and semiconductor foundry and sales in each region as individual operating segments, but when preparing financial statements, the Group considers the following factors and aggregates these operating segments as a single segment:

1. Similar product properties and process;
2. Similar product pricing strategy and sales model.

a. Revenue and operation results from each department

The revenue and operating results of the Group's continuing operation are analyzed as follows according to the reportable segment:

| | Revenue from Each Segment | | Profit and Loss from Each Segment | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Optoelectronics industry | $ 1,554,314 | $ 2,441,611 | ($ 217,534) | $ 83,204 |
| Semiconductor | 5,221,467 | 4,755,929 | 865,204 | 1,085,733 |
| Total of continuing operations | $ 6,775,781 | $ 7,197,540 | 647,670 | 1,168,937 |
| Headquarters management cost and compensation to directors | | | ( 39,179) | ( 55,540) |

| | Revenue from Each Segment | | Profit and Loss from Each Segment | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Interest income | | | 16,972 | 6,146 |
| Other income | | | 15,030 | 12,956 |
| Other gains and losses | | | 255,587 | ( 54,188) |
| Finance costs | | | ( 8,039) | ( 4,252) |
| Share of profit of subsidiaries and joint ventures accounted for using equity method | | | 14,635 | 10,964 |
| Income before income tax | | | $ 902,676 | $ 1,085,023 |

The segment revenue reported above is generated from transactions with external customers.

Segment profit and loss refers to the profit earned by each segment, excluding the apportionable headquarters management costs and compensation to directors, interest income, other income, other profits and losses, financial costs, share of profits and losses of affiliates and joint ventures accounted using the equity method, and income tax cost. This measured amount is provided to the decision maker for the purpose of allocating resources to segments and measuring their performance.

b. Segment total assets and liabilities

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Segment assets | | |
| Optoelectronics industry | $ 3,195,173 | $ 3,208,295 |
| Semiconductor | 6,755,331 | 6,555,097 |
| Uncollected assets | 219,072 | 168,475 |
| Consolidated total assets | $ 10,169,576 | $ 9,931,867 |
| | | |
| Segment liabilities | | |
| Optoelectronics industry | $ 491,713 | $ 581,207 |
| Semiconductor | 2,470,995 | 2,434,104 |
| Uncollected liabilities | 968,450 | 855,928 |
| Consolidated total liabilities | $ 3,931,158 | $ 3,871,239 |

For the purpose of monitoring segment performance and allocating resources between segments:

1) All assets were allocated to reportable segments other than investments using the equity method, refundable deposit and current and deferred income tax assets. Assets used jointly by reportable segments were allocated on the basis of the revenues earned by individual reportable segments; and
2) all liabilities were allocated to reportable segments other than borrowings

and other financial liabilities. Liabilities for which reportable segments are jointly liable were allocated in proportion to segment assets.

c. Other segment information

Other information reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker:

| | Depreciation and amortization | | Increase in non-current assets in the current period (Note) | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Optoelectronics industry | $ 257,388 | $ 271,510 | $ 97,650 | $ 629,943 |
| Semiconductor | 548,785 | 387,131 | 986,627 | 1,402,498 |
| | $ 806,173 | $ 658,641 | $ 1,084,277 | $ 2,032,441 |

Note: Non-current assets include property, plant and equipment, right-of-use assets and other intangible assets.

d. Revenue from major products and services

The Group's revenues from continuing operations from its major products and services are shown below.

| | 2022 | 2021 |
|---|---|---|
| Optical Communication and Optical Information Products | $ 1,554,314 | $ 2,441,611 |
| Semiconductor products | 5,221,467 | 4,755,929 |
| | $ 6,775,781 | $ 7,197,540 |

e. Region

The Group operates in two regions - Taiwan and China.

The Group's revenue from continuing operations from external customers by location of operations and non-current assets was detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | 2022 | 2021 | December 31, 2022 | December 31, 2021 |
| Taiwan | $ 5,401,558 | $ 5,940,348 | $ 3,693,428 | $ 3,846,851 |
| China | 1,374,223 | 1,257,192 | 1,640,330 | 1,322,233 |
| | $ 6,775,781 | $ 7,197,540 | $ 5,333,758 | $ 5,169,084 |

Non-current assets exclude investments using the equity method, refundable deposit and deferred income tax assets.

f. Information about major customers

Single customers contributing 10% or more to the Group's revenue were as follows:

| Name | 2022 | 2021 |
|---|---|---|
| AC | $ 1,115,607 | $ 841,720 |
| X | 546,558 | 764,303 |
| | $ 1,662,165 | $ 1,606,023 |

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2022

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

Table 1

| Company Name | Related Party | Nature of Relationships | Transaction Details | | | | Abnormal Transaction | | Notes/ Accounts Payable or Receivable | | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases/ Sales | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| GEM Electronics (Shanghai) Co., Ltd. | GEM Tech Ltd., Taiwan Branch | Subsidiary to subsidiary | Sales | ($ 1,624,144) | ( 65%) | Net 90 days from invoice date | — | — | $ 488,823 | 79% | Notes 1, 2 and 4 |
| GEM Tech Ltd., Taiwan Branch | GEM Electronics (Shanghai) Co., Ltd. | " | Purchase | 1,624,144 | 57% | " | — | — | ( 488,823) | ( 85%) | Notes 1, 2 and 4 |
| | GEM Electronics (Hefei) Co., Ltd. | " | Purchase | 1,208,754 | 43% | " | — | — | ( 86,244) | ( 15%) | Notes 1, 2 and 4 |
| GEM Electronics (Hefei) Co., Ltd. | GEM Tech Ltd., Taiwan Branch | " | Sales | ( 1,208,754) | ( 70%) | " | — | — | 86,244 | 61% | Notes 1, 2 and 4 |
| | Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. | Subsidiaries to affiliates | Sales | ( 147,748) | ( 9%) | Electroplating services: monthly T/T 45 days; Lease and other services: collected on a monthly basis. | — | — | 9,583 | 7% | Notes 2 and 3 |

Note 1: The transaction price is determined by the cost-plus pricing.

Note 2: There is no unrealized profit or loss for this period.

Note 3: The income from electroplating services is determined by the cost-plus method; the lease income is based on the contract signed according to the general market conditions; the income from other services is based on the content of the contract.

Note 4: It has been consolidated and written off in the preparation of this consolidated financial statement.

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2022

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

Table 2

| Company Name | Related Party | Nature of Relationships | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period (Note 1) | Allowance for Bad Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| GEM Electronics (Shanghai) Co., Ltd. | GEM Tech Ltd., Taiwan Branch | Subsidiary to subsidiary | Accounts receivable $ 488,823 | 3.38 | $ - | — | $ 374,950 | $ - |

Note 1: Amount recovered from January 1 to March 22, 2023.

Note 2: It has been consolidated and written off in the preparation of this consolidated financial statement.

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

THE BUSINESS RELATIONSHIP BETWEEN THE PARENT AND THE SUBSIDIARIES AND SIGNIFICANT TRANSACTIONS BETWEEN THEM:

FOR THE YEAR ENDED DECEMBER 31, 2022

(Amounts in Thousands of New Taiwan Dollars)

Table 3

| No. | Company Name | Counterparty | Nature of Relationship | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statements Item | Amount (Note 1) | Terms | % of Total (Note 2) |
| 1 | eLaser | Centera Photonics Inc. | Note 3 (1) | Accounts receivable due from related parties | $ 31,705 | - | - |
| 2 | GEM Services, Inc. | eLaser | Note 3 (2) | Earnings Distribution | 361,952 | - | 4% |
| 3 | GEM Electronics (Shanghai) Co., Ltd. | GEM Tech Ltd., Taiwan Branch | Note 3 (3) | Sales Revenue | 1,624,144 (Note 4) | Net 90 days from invoice date | 24% |
| | | | | Accounts receivable due from related parties | 488,823 | - | 5% |
| | | | | Contract assets - related parties | 39,586 | - | - |
| 4 | GEM Electronics (Hefei) Co., Ltd. | GEM Tech Ltd., Taiwan Branch | Note 3 (3) | Sales Revenue | 1,208,754 (Note 4) | Net 90 days from invoice date | 18% |
| | | | | Accounts receivable due from related parties | 86,244 | - | 1% |
| 5 | GEM Tech Ltd. | GEM Services, Inc. | Note 3 (3) | Remittance of earnings | 884,504 | - | 9% |

The business relationship between the parent and the subsidiaries:

eLaser, eLaser Technologies Co., Ltd., Centera Photonics Inc., and GEM Electronics (Shanghai) Co., Ltd. are engaged in the manufacture and sale of electronic parts; GEM Electronics (Hefei) Co., Ltd. is engaged in the manufacture and sale of electronic parts and plant leasing; GEM Tech Ltd., Taiwan Branch and GEM Tech Ltd. are engaged in sales of electronic components; GEM Services, Inc. and GEM Electronics Company Limited are holding companies.

Note 1: This table discloses information on one-way transactions only, which have been written off in the preparation of the consolidated financial statements.

Note 2: The calculation of the ratio of the transaction amount to the consolidated total revenue or total assets is calculated by the closing balance for the consolidated total assets if it is an asset-liability account or calculated by the accumulated amount for the consolidated total revenue if it is a profit and loss account

Note 3: Relationship to the counterparty:

(1) Parent company to subsidiary

(2) Subsidiary to parent company

(3) Subsidiary to subsidiary

Note 4: There is no unrealized profit or loss for this period.

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)

FOR THE YEAR ENDED DECEMBER 31, 2022

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

Table 4

| Investment Company | Investee | Location | Main Business | Original Investment Amount (Note 1) | | Holding of Investment at the End of the Period Balance as of December 31, 2022 | | | Net Income (Losses) of the Investee | Share of Profits/Losses (Note 4) | Share price/net value per share (NT$) | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2022 | December 31, 2021 | Shares | Percentage of Ownership (Note 3) | Carrying Amount (Note 3) | | | | |
| eLaser | eLaser Technologies Co., Ltd. | Taiwan | Manufacture and sales of electronic parts | $ 81,996 | $ 81,996 | 5,432,242 | 100% | $ 76,573 | $ 657 | $ 657 | $ 14 | Notes 2, 6, 7 and 9 |
| | Centera Photonics Inc. | Taiwan | Manufacture and sales of electronic parts | 225,000 | - | 22,500,000 | 57.97% | 225,855 | ( 139,219) | 833 | 8.6 | Notes 2, 6, 8 and 9 |
| | GEM Services, Inc. | Cayman Islands | Holding company business | 568,965 | 568,965 | 65,809,451 | 51% | 2,215,184 | 930,323 | 474,429 | 68.2 | Notes 2, 6 and 10 |
| GEM Services, Inc. | GEM Electronics Company Limited | British Virgin Islands | Holding company business | - | - | 100 | 51% | 1,290,977 | 316,561 | 161,435 | 25,315,079 | Notes 2, 6 and 9 |
| | GEM Tech Ltd. | Samoa | Sales of electronic parts | 18,202 | 18,202 | 606,091 | 51% | 874,436 | 635,358 | 324,009 | 2,829 | Notes 2, 6 and 9 |

Note 1: The original investment amount does not include the investment amount of the investee company before the date of acquisition.

Note 2: The relevant investment profit and loss recognition are based on the financial statements of the investee company audited by accountants during the same period.

Note 3: The carrying amount held at the end of the period is based on the shareholding ratio of eLaser at the end of the period.

Note 4: The investment profit (loss) recognized in the current period is based on the weighted average shareholding ratio of eLaser.

Note 5: Please refer to Table 5 for relevant information on investment in Mainland China.

Note 6: The highest capital investment does not change in this period, and there is no pledge.

Note 7: eLaser Technologies Co., Ltd. was approved for dissolution and liquidation at the shareholders' meeting exercised by the Board of Directors on December 22, 2022, and completed the registration of cancellation on January 10, 2023, and is in the process of liquidation.

Note 8: In December 2022, the Company acquired 22,500,000 outstanding shares of the subsidiary Centera Photonics Inc. (57.97% equity) at a price of NT$225,000 thousand.

Note 9: Refers to the net value per share.

Note 10: Refers to the closing price.

**ELITE ADVANCED LASER CORPORATION AND SUBSIDIARIES**

INFORMATION ON INVESTMENT IN MAINLAND CHINA

FOR THE YEAR ENDED DECEMBER 31, 2022

(Amounts in Thousands of New Taiwan Dollars/ foreign currency)

Table 5

1. Name of the investee company in Mainland China, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, shareholding ratio, current profit or loss, recognized investment gains or losses, carrying amount of the investment, and repatriated investment gains:

| Investee company in China | Main Business | Total Amount of Paid-in Capital | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2022 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2022 | Percentage of Ownership % | Net Income(Losses) of the Investee Company | Share of Profits/Losses | Carrying amount as of December 31, 2022 | Accumulated Inward Remittance of Earnings as of December 31, 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| GEM Electronics (Shanghai) Co., Ltd. (Note 4) | Manufacture and sales of electronic parts | $ 2,118,990 ( USD 69,000 ) (Note 5) | Reinvested by GEM Electronics Company Limited (Note 1(2)) | $ - | $ - | $ - | $ - | 51% | $ 316,561 | $ 161,435 (Note 2(2) 2.) | $ 1,290,977 | $ - |
| GEM Electronics (Hefei) Co., Ltd. (Note 4) | Manufacture and sales of electronic parts, factory leasing | 1,924,770 ( RMB 436,511 ) | Reinvested by GEM Electronics (Shanghai) Co., Ltd. (Note 1(3)) | - | - | - | - | 51% | 154,417 | 78,747 (Note 2(2) 2.) | 540,169 | - |
| Mitsubishi Electric GEM Power Device (Hefei) Co., Ltd. | Production, design, packaging and testing of power management electronic accessories | 153,550 ( USD 5,000 ) | Reinvested by GEM Electronics (Shanghai) Co., Ltd. (Note 1(3)) | - | - | - | - | 10.2% | 73,176 | 7,464 (Note 2(2) 1.) | 51,756 | - |

Note 1: There are three types of investment methods, and they indicated below:

(1) Directly conduct investment in China.

(2) Reinvestment in Mainland China through a third regional company (GEM Electronics Company Limited).

(3) Other methods. (reinvestment through GEM Electronics (Shanghai) Co., Ltd.).

Note 2: Share of Profits/Losses

(1) It shall be indicated If it is under preparation without investment profit or loss.

(2) The basis for recognition of investment gains and losses is divided into the following three types, which should be indicated.

1. Financial statements audited by an international accounting firm that has a cooperative relationship with an accounting firm of Republic of China.

2. Financial statements audited by the certified accounting firm by the parent company in Taiwan.

3. Based on the financial statements of the invested company that have not been audited by accountants during the same period.

Note 3: Relevant figures in this table should be denominated in New Taiwan Dollars.

Note 4: It has been written-off in the preparation of these consolidated financial statements.

Note 5: Part of it is reinvested with surplus funds from the third region.

Note 6: The highest capital investment of Elite Advanced Laser Corporation and subsidiaries in the above table does not change in this period, and there is no pledge.

2. Upper limit on investment in Mainland China:

| Accumulated Investment in Mainland China as of December 31, 2022 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|---|---|---|
| $ - (USD - ) | $ - | $ 3,743,051 |

Note 1: eLaser originally applied for an investment case of indirectly investing USD 9,000 thousand in GEM Electronics (Shanghai) Co., Ltd. in Mainland China according to the Official Letter Ching-Shen-Erh-Tzu No. 10100160030 dated May 16, 2012, and later, on August 15, 2013, the investment purpose of the case was changed to an overseas investment, which was approved by Official Letter Ching-Shen-Erh-Tzu No. 10200310550.

Note 2: eLaser originally applied for an indirect investment of USD 2,750 thousand in GEM Electronics (Hefei) Co., Ltd. in Mainland China according to the Official Letter Ching-Shen-Erh-Tzu No. 10100160040 dated May 16, 2012, and later, on August 15, 2013, the investment purpose of the case was changed to an overseas investment, which was approved by Official Letter Ching-Shen-Erh-Tzu No. 10200310550.

**ELITE ADVANCED LASER CORPORATION**

INFORMATION ON MAJOR SHAREHOLDERS

December 31, 2022

Table 6

| Shareholders | Shares | |
|---|---|---|
| | Total Shares Owned | Ownership Percentage |
| Chu-Liang, Cheng | 8,650,747 | 5.94% |

Note: Major shareholders are defined as shareholders with more than 5% collective holding interest in common and preferred shares that have been delivered via book entry (including treasury stocks), as shown in the records of TDCC on the final business day of the current quarter. Share capital, as shown in the financial statements, may differ from the number of shares that have been delivered via book entry due to differences in the preparation basis.