

English Translation of a Report and Financial Statements Originally Issued in Chinese

**KING YUAN ELECTRONICS CO., LTD.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

WITH

**INDEPENDENT AUDITOR'S REPORT TRANSLATED
FROM CHINESE**

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2021 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

King Yuan Electronics Co., Ltd.

Chairman: C. K. Lee

March 4, 2022

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

To the Board of Directors and Shareholders
of King Yuan Electronics Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of King Yuan Electronics Co., Ltd. and its subsidiaries as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of King Yuan Electronics Co., Ltd. and its subsidiaries as of December 31, 2021 and 2020, and their consolidated financial performance and cash flows for the years ended December 31, 2021 and 2020, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by 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 auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of King Yuan Electronics Co., Ltd. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. 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 2021 consolidated financial statements. 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.

Revenue recognition

King Yuan Electronics Co., Ltd. and its subsidiaries recognized NT\$33,759,389 thousand as net sales. Their main activities are providing testing and assembly services that represented 88%, or NT\$29,660,396 thousand in the amount, of the net operating revenues.

Since the primary activities of King Yuan Electronics Co., Ltd. and its subsidiaries are providing testing and assembly services, and the services comprise various wafers/integrated circuits testing and assembly processing and rental of machinery, timing of revenue recognition may vary due to varied nature of revenues that increases the complexity of the revenue recognition. Therefore, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal control relating to the timing of revenue recognition, analyzing the reasonableness of gross margin by products, performing cutoff testing for a period before and after the balance sheet date on a sampling basis, performing test of details on selected samples, reviewing the significant terms of sales agreements and examining relevant delivery documents, and reviewing the selected samples of the quantity, specification, period and relevant documents of machinery services.

We also considered the appropriateness of the disclosures of sales. Please refer to Note 4 and Note 6 in notes to the consolidated financial statements.

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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of the 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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate King Yuan Electronics Co., Ltd. and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of King Yuan Electronics Co., Ltd. and its subsidiaries.

Auditor's 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 auditor's 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 auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of King Yuan Electronics Co., Ltd. and its subsidiaries.
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 ability to continue as a going concern of King Yuan Electronics Co., Ltd. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause King Yuan Electronics Co., Ltd. and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within King Yuan Electronics Co., Ltd. and its subsidiaries 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 and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2021 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's 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.

Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of King Yuan Electronics Co., Ltd. as of and for the years ended December 31, 2021 and 2020.

Kuo, Shao-Pin

Fuh, Wen-Fun

Ernst & Young, Taiwan

March 4, 2022

Notice to Readers

- The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.
- Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Financial Statements Originally Issued in Chinese
KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2021 and 2020
(Amounts in thousands of New Taiwan Dollars)

ASSETS	Notes	December 31, 2021	%	December 31, 2020	%
Current assets					
Cash and cash equivalents	4, 6(1)	\$8,649,932	12	\$8,008,530	13
Contract assets-current	4, 6(16), 6(17), 7	178,880	-	202,972	-
Notes receivable, net	4, 6(3), 6(17)	7,706	-	3,049	-
Accounts receivable, net	4, 6(4), 6(17)	5,765,273	8	4,164,991	7
Accounts receivable from related parties, net	4, 6(4), 6(17), 7	2,151,913	3	1,724,951	3
Other receivables		352,477	1	161,712	-
Other receivables from related parties	4, 7	4,825	-	33,257	-
Current tax assets		315	-	315	-
Inventories, net	4, 6(5)	1,371,473	2	980,969	2
Prepayments	6(6)	299,259	-	479,283	1
Other current assets		67,160	-	51,843	-
Other financial assets-current	8	3	-	4	-
Total current assets		18,849,216	26	15,811,876	26
Non-current assets					
Financial assets at fair value through other comprehensive income-non-current	4, 6(2)	6,546,477	10	4,446,563	8
Investments accounted for using the equity method	4, 6(7)	79,126	-	69,856	-
Property, plant and equipment	4, 6(8), 7, 8	45,576,661	63	39,147,575	64
Right-of-use assets	4, 6(18)	677,896	1	1,328,232	2
Intangible assets	4, 6(9)	73,599	-	86,442	-
Deferred tax assets	4, 6(21), 6(22)	261,675	-	227,623	-
Other financial assets-non-current	8	105,972	-	115,669	-
Other non-current assets		49,561	-	81,682	-
Total non-current assets		53,370,967	74	45,503,642	74
Total assets		\$72,220,183	100	\$61,315,518	100

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

(continued)

English Translation of Financial Statements Originally Issued in Chinese
KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2021 and 2020
(Amounts in thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	Notes	December 31, 2021	%	December 31, 2020	%
Current liabilities					
Short-term loans	4, 6(10), 9	\$566,856	1	\$100,854	-
Contract liabilities-current	4, 6(16), 7	157,024	-	229,603	-
Notes payable		10,066	-	4,435	-
Accounts payable		1,119,144	2	1,117,955	2
Accounts payable to related parties	7	21,414	-	19,487	-
Other payables		3,731,749	5	2,914,621	5
Other payables to related parties	7	98,930	-	65,456	-
Payables on equipment		1,778,300	3	623,324	1
Current tax liabilities	4, 6(22)	666,596	1	408,303	1
Lease liabilities-current	4, 6(18)	92,050	-	310,144	1
Current portion of long-term loans	4, 6(12), 8, 9	2,017,322	3	1,844,759	3
Other current liabilities	6(11)	884,648	1	580,856	1
Total current liabilities		<u>11,144,099</u>	<u>16</u>	<u>8,219,797</u>	<u>14</u>
Non-current liabilities					
Long-term loans	4, 6(12), 8, 9	23,517,245	32	21,966,029	36
Deferred tax liabilities	4, 6(21), 6(22)	1,527,445	2	667,968	1
Lease liabilities-non-current	4, 6(18)	492,615	1	566,437	1
Long-term deferred income		16,538	-	-	-
Net defined benefit liabilities	4, 6(13)	610,222	1	566,456	1
Guarantee deposits		33,851	-	2,755	-
Total non-current liabilities		<u>26,197,916</u>	<u>36</u>	<u>23,769,645</u>	<u>39</u>
Total liabilities		<u>37,342,015</u>	<u>52</u>	<u>31,989,442</u>	<u>53</u>
Equity attributable to owners of the parent company					
Share capital	4, 6(14)				
Common stock		12,227,451	17	12,227,451	20
Capital surplus	4, 6(14), 6(15), 6(24)	4,885,134	7	4,588,172	7
Retained earnings	4, 6(2), 6(14)				
Legal reserve		3,019,879	4	2,656,958	4
Special reserve		201,416	-	402,406	1
Undistributed earnings		10,580,312	15	8,147,631	13
Total retained earnings		<u>13,801,607</u>	<u>19</u>	<u>11,206,995</u>	<u>18</u>
Other equity	4, 6(14)	3,270,083	4	1,296,453	2
Equity attributable to owners of the parent company		<u>34,184,275</u>	<u>47</u>	<u>29,319,071</u>	<u>47</u>
Non-controlling interests	4, 6(14), 6(24)	693,893	1	7,005	-
Total equity		<u>34,878,168</u>	<u>48</u>	<u>29,326,076</u>	<u>47</u>
Total liabilities and equities		<u>\$72,220,183</u>	<u>100</u>	<u>\$61,315,518</u>	<u>100</u>

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

English Translation of Financial Statements Originally Issued in Chinese
KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020
(Amounts in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2021	%	2020	%
Net sales	4, 6(16), 6(18), 7	\$33,759,389	100	\$28,959,304	100
Operating costs	4, 6(5), 6(8), 6(9), 6(13), 6(18), 6(19), 7	(23,407,322)	(69)	(21,005,316)	(73)
Gross profit		<u>10,352,067</u>	<u>31</u>	<u>7,953,988</u>	<u>27</u>
Operating expenses	4, 6(8), 6(9), 6(13), 6(17), 6(18), 6(19), 7				
Selling expenses		(363,529)	(1)	(387,045)	(1)
Administrative expenses		(2,178,521)	(6)	(1,710,532)	(6)
Research and development expenses		(1,202,856)	(4)	(1,202,520)	(4)
Expected credit losses		(645)	-	(3,180)	-
Total operating expenses		<u>(3,745,551)</u>	<u>(11)</u>	<u>(3,303,277)</u>	<u>(11)</u>
Operating income		<u>6,606,516</u>	<u>20</u>	<u>4,650,711</u>	<u>16</u>
Non-operating income and expenses	4, 6(2), 6(7), 6(8), 6(20), 7				
Interest income		22,692	-	19,335	-
Other income		320,231	1	260,488	1
Other gains and losses		227,074	-	(23,928)	-
Finance costs		(343,526)	(1)	(379,039)	(1)
Share of profit of associates accounted for using the equity method		22,260	-	16,088	-
Total non-operating income and expenses		<u>248,731</u>	<u>-</u>	<u>(107,056)</u>	<u>-</u>
Net income before income tax		6,855,247	20	4,543,655	16
Income tax expense	4, 6(22)	(1,621,005)	(5)	(906,515)	(3)
Net income		<u>5,234,242</u>	<u>15</u>	<u>3,637,140</u>	<u>13</u>
Other comprehensive income	4, 6(13), 6(21)				
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of the defined benefit plan		(53,368)	-	(45,906)	-
Unrealized gains from equity instrument investments measured at fair value through other comprehensive income		2,101,279	6	2,056,310	7
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		(419,982)	(1)	(403,570)	(2)
Items that will be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of foreign operations		(41,254)	-	105,729	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss		8,448	-	(21,145)	-
Other comprehensive income, net of tax		<u>1,595,123</u>	<u>5</u>	<u>1,691,418</u>	<u>5</u>
Total comprehensive income		<u>\$6,829,365</u>	<u>20</u>	<u>\$5,328,558</u>	<u>18</u>
Net income attributable to :					
Owners of the parent company		\$5,175,046	15	\$3,636,653	13
Non-controlling interests		59,196	-	487	-
		<u>\$5,234,242</u>	<u>15</u>	<u>\$3,637,140</u>	<u>13</u>
Total comprehensive income attributable to :					
Owners of the parent company		\$6,769,183	20	\$5,328,068	18
Non-controlling interests		60,182	-	490	-
		<u>\$6,829,365</u>	<u>20</u>	<u>\$5,328,558</u>	<u>18</u>
Earnings per share(NT\$)	4, 6(23)				
Basic Earnings Per Share		\$4.23		\$2.97	
Diluted Earnings Per Share		<u>\$4.18</u>		<u>\$2.94</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2021 and 2020

(Amounts in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent company								Non-controlling interests	Total Equity
	Common stock	Capital surplus	Retained earnings			Other equity		Equity attributable to owners of the parent company		
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income			
Balance as of January 1, 2020	\$12,227,451	\$4,832,721	\$2,359,299	\$803,172	\$6,371,702	\$(441,617)	\$39,211	\$26,191,939	\$6,515	\$26,198,454
Appropriation and distribution of 2019 earnings:										
Legal reserve	-	-	297,659	-	(297,659)	-	-	-	-	-
Cash dividends	-	(244,549)	-	-	(1,956,392)	-	-	(2,200,941)	-	(2,200,941)
Reversal of special reserve	-	-	-	(400,766)	400,766	-	-	-	-	-
Profit for the year ended December 31, 2020	-	-	-	-	3,636,653	-	-	3,636,653	487	3,637,140
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	(45,906)	84,581	1,652,740	1,691,415	3	1,691,418
Total comprehensive income	-	-	-	-	3,590,747	84,581	1,652,740	5,328,068	490	5,328,558
Changes in ownership interests in subsidiaries	-	-	-	-	5	-	-	5	-	5
Disposal of equity instrument investments measured at fair value through other comprehensive income	-	-	-	-	38,462	-	(38,462)	-	-	-
Balance as of December 31, 2020	\$12,227,451	\$4,588,172	\$2,656,958	\$402,406	\$8,147,631	\$(357,036)	\$1,653,489	\$29,319,071	\$7,005	\$29,326,076
Balance as of January 1, 2021	\$12,227,451	\$4,588,172	\$2,656,958	\$402,406	\$8,147,631	\$(357,036)	\$1,653,489	\$29,319,071	\$7,005	\$29,326,076
Appropriation and distribution of 2020 earnings:										
Legal reserve	-	-	362,921	-	(362,921)	-	-	-	-	-
Cash dividends	-	(244,549)	-	-	(2,200,941)	-	-	(2,445,490)	-	(2,445,490)
Reversal of special reserve	-	-	-	(200,990)	200,990	-	-	-	-	-
Profit for the year ended December 31, 2021	-	-	-	-	5,175,046	-	-	5,175,046	59,196	5,234,242
Other comprehensive income for the year ended December 31, 2021	-	-	-	-	(53,368)	(33,792)	1,681,297	1,594,137	986	1,595,123
Total comprehensive income	-	-	-	-	5,121,678	(33,792)	1,681,297	6,769,183	60,182	6,829,365
Changes in ownership interests in subsidiaries	-	541,511	-	-	-	-	-	541,511	626,706	1,168,217
Disposal of equity instrument investments measured at fair value through other comprehensive income	-	-	-	-	(326,125)	-	326,125	-	-	-
Balance as of December 31, 2021	\$12,227,451	\$4,885,134	\$3,019,879	\$201,416	\$10,580,312	\$(390,828)	\$3,660,911	\$34,184,275	\$693,893	\$34,878,168

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2021 and 2020

(Amounts in thousands of New Taiwan Dollars)

Description	2021	2020	Description	2021	2020
Cash flows from operating activities :			Cash flows from investing activities :		
Profit before tax from continuing operations	\$6,855,247	\$4,543,655	Proceeds from disposal of financial assets at fair value through other comprehensive income	\$1,365	\$65,027
Adjustments for :			Acquisition of property, plant and equipment	(13,963,127)	(10,935,021)
The profit or loss items which did not affect cash flows:			Proceeds from disposal of property, plant and equipment	341,578	89,917
Depreciation	9,162,765	8,355,775	Increase in refundable deposits	-	(65,528)
Amortization	49,593	52,193	Decrease in refundable deposits	32,109	-
Expected credit losses	645	3,180	Acquisition of intangible assets	(36,793)	(64,763)
Interest expenses	343,526	379,039	Increase in other financial assets	-	(2,544)
Interest income	(22,692)	(19,335)	Decrease in other financial assets	9,698	-
Dividend income	(85,016)	(50,966)	Dividends received	98,006	62,426
Share-based payment expenses	20,452	-	Net cash used in investing activities	(13,517,164)	(10,850,486)
Investment gain accounted for using the equity method	(22,260)	(16,088)			
(Gain) loss on disposal of property, plant and equipment	(164,810)	15,524	Cash flows from financing activities :		
Impairment of non-financial assets	59,461	153,955	Increase in short-term loans	598,369	145,628
Unrealized foreign exchange gain	(164,411)	(264,212)	Decrease in short-term loans	(131,812)	(535,872)
Changes in operating assets and liabilities :			Borrowing in long-term loans	16,299,865	28,934,872
Contract assets	24,092	(76,790)	Repayments of long-term loans	(14,433,360)	(25,212,072)
Notes receivable	(4,657)	1,219	Increase in guarantee deposits	31,096	822
Accounts receivable	(1,600,926)	791,252	Cash payments for the principal portion of the lease liabilities	(310,374)	(510,312)
Accounts receivable from related parties	(426,962)	(813,924)	Cash dividends	(2,445,490)	(2,200,941)
Other receivables	(195,069)	99,768	Interest paid	(329,548)	(372,098)
Other receivables from related parties	22,977	(18,780)	Change in non-controlling interests	1,147,767	-
Inventories	(390,504)	100,066	Net cash provided by financing activities	426,513	250,027
Prepayments	115,685	(266,952)			
Other current assets	(15,317)	25,527	Effect of changes in exchange rate on cash and cash equivalents	8,999	40,259
Contract liabilities	(72,579)	161,273	Net increase in cash and cash equivalents	641,402	1,842,525
Notes payable	5,631	2,802	Cash and cash equivalents at the beginning of the year	8,008,530	6,166,005
Accounts payable	1,189	62,992	Cash and cash equivalents at the end of the year	\$8,649,932	\$8,008,530
Accounts payable to related parties	1,927	(11,226)			
Other payables	820,074	(50,354)			
Other payables to related parties	18,225	(25,592)			
Other current liabilities	303,792	276,933			
Accrued pension liabilities	(9,602)	(7,619)			
Other operating liabilities	16,538	-			
Cash generated from operating activities	14,647,014	13,403,315			
Interest received	24,861	15,623			
Income tax paid	(948,821)	(1,016,213)			
Net cash provided by operating activities	13,723,054	12,402,725			

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

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

1. Organization and Operation

King Yuan Electronics Co., Ltd. ("KYEC") was incorporated under the Company Law of the Republic of China ("R.O.C") on May 28, 1987, and commenced operations on July 23, 1987. The Company primarily engages in the business of design, manufacturing, selling, testing and assembly service of integrated circuits, and also engages in manufacturing and selling of IC Monitoring Burn-In machinery and related components. On May 9, 2001, the shares of KYEC were listed on the Taiwan Stock Exchange. KYEC's registered office and the main business location is at No. 81, Sec. 2, Gongdaowu Road, Hsinchu City 300, Republic of China (R.O.C.).

2. Date and Procedures of Authorization of Financial Statements for Issue

The accompanying consolidated financial statements of KYEC and its subsidiaries ("the Company") were approved and authorized for issue by the Board of Directors on March 4, 2022.

3. Newly Issued or Revised Standards and Interpretations

- (1) Change in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2021. The application of these new standards and amendments had no material effect on the Company.

- (2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
A	Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements	January 1, 2022

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A. Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements

a. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments updated IFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. The amendments also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities. Besides, the amendments clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Conceptual Framework.

b. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

c. Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

d. Annual Improvements to IFRS Standards 2018 - 2020

Amendment to IFRS 1

The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.

Amendment to IFRS 9 Financial Instruments

The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

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Amendment to Illustrative Examples Accompanying IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee's leasehold improvements.

Amendment to IAS 41

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2022 and have no material impact on the Company.

- (3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, and not yet adopted by the Company as at the end of the reporting period are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
A	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B	IFRS 17 "Insurance Contracts"	January 1, 2023
C	Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 1, 2023
D	Disclosure Initiative - Accounting Policies – Amendments to IAS 1	January 1, 2023
E	Definition of Accounting Estimates – Amendments to IAS 8	January 1, 2023
F	Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	January 1, 2023

- A. IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

B. IFRS 17 “Insurance Contracts”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

IFRS 17 was issued in May 2017 and it was amended in 2020. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after January 1, 2023 (from the original effective date of January 1, 2021); provide additional transition reliefs; simplify some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim Standard – IFRS 4 Insurance Contracts – from annual reporting periods beginning on or after January 1, 2023.

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C. Classification of Liabilities as Current or Non-current – Amendments to IAS 1

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

D. Disclosure Initiative - Accounting Policies – Amendments to IAS 1

The amendments improve accounting policy disclosures that to provide more useful information to investors and other primary users of the financial statements.

E. Definition of Accounting Estimates – Amendments to IAS 8

The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to help companies distinguish changes in accounting estimates from changes in accounting policies.

F. Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The new or amended standards and interpretations have no material impact on the Company.

4. Summary of Significant Accounting Policies

Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and TIFRS as endorsed by FSC.

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Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The accompanying consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

Basis of Consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a. the contractual arrangement with the other vote holders of the investee;
- b. rights arising from other contractual arrangements;
- c. the Company’s voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date the Company ceases to control the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting period with the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- a. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- b. derecognizes the carrying amount of any non-controlling interest;
- c. recognizes the fair value of the consideration received;
- d. recognizes the fair value of any investment retained;
- e. recognizes any surplus or deficit in profit or loss; and
- f. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Percentage of Ownership(%)	
			2021.12.31	2020.12.31
KYEC	KYEC USA Corp.	Sales agent and business communication in USA	100.00	100.00
KYEC	KYEC Investment International Co., Ltd.	General investing	100.00	100.00
KYEC	KYEC Technology Management Co., Ltd.	General investing	100.00	100.00
KYEC	KYEC Japan K.K.	Manufacturing and sales of electronic parts and components, sales agent and business communication in Japan	89.83	89.83
KYEC	KYEC SINGAPORE PTE. Ltd.	Sales agent and business communication in Southeast Asia and Europe	100.00	100.00
KYEC	King Ding Precision Incorporated Company	Manufacturing, selling and wholesale of electronics parts and components and repairing of electronics related products	100.00	100.00

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Investor	Subsidiary	Business nature	Percentage of Ownership(%)	
			2021.12.31	2020.12.31
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	94.02	94.02
KYEC Technology Management Co., Ltd.	KYEC Microelectronics Co., Ltd.	General investing	5.98	5.98
KYEC Microelectronics Co., Ltd.	King Long Technology (Suzhou) Ltd. (Note)	Research and development, design, manufacture, packaging, testing, processing and maintenance of semiconductor integrated circuits, transistors, electronic components, electronic materials, analog or hybrid automatic data processors, solid-state memory systems, heating ovens and related products and components. Integrated circuit related technology transfer, technical consultation, technical services, sales of self-produced products and provision of related after-sales services	92.46	100.00
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	R&D, production (assembly and testing), processing of large-scale integrated circuits for electronic components, electronic materials, analog or hybrid automatic data processors, solid-state memory systems, heating oven controllers, etc., sales of self-produced products, and provision of relevant after-sales service; integrated circuit related technology transfer, technical consultation, technical service	100.00	100.00

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Note:

On August 3, 2021, the Company's shareholders' meeting resolved to approve the proposal for King Long Technology (Suzhou) Ltd. to launch an initial public offering of RMB denominated ordinary shares(A-shares) on the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

Foreign currency transactions

The Company's consolidated financial statements are presented in NT\$, which is also the parent company's functional currency. Each entity in the Company determines its functional currency upon its primary economic environment and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. foreign currency items within the scope of IFRS 9 "Financial Instruments" are accounted for based on the accounting policy for financial instruments.
- C. exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following partial disposals are accounted for as disposals:

- A. when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- B. when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to non-controlling interests in that foreign operation. In partial disposal of an associate or jointly arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

Current and non-current distinction

An asset is classified as current when:

- A. the Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- B. the Company holds the asset primarily for the purpose of trading;
- C. the Company expects to realize the asset within twelve months after the reporting period; or
- D. the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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All other assets are classified as non-current.

A liability is classified as current when:

- A. the Company expects to settle the liability in its normal operating cycle;
- B. the Company holds the liability primarily for the purpose of trading;
- C. the liability is due to be settled within twelve months after the reporting period; or
- D. the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within twelve months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 “Financial Instruments” are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- a. the Company’s business model for managing the financial assets and
- b. the contractual cash flow characteristics of the financial asset.

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Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables, financial assets measured at amortized cost and other receivables, etc., on balance sheet as at the reporting date:

- a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- b. 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.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- a. purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- b. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- b. 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.

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Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income is described as below:

- a. A gain or loss on a financial asset measured at fair value through other comprehensive income is recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- b. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- c. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - (a) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investments are recognized in profit or loss unless the dividends clearly represent a recovery of part of the cost of investment.

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Financial assets measured at fair value through profit or loss

Financial assets are classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets are measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

B. Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial assets measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

- a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b. the time value of money; and
- c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- a. at an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

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- b. at an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- c. for trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.
- d. For lease receivables arising from transactions within the scope of IFRS 16, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

C. Derecognition of financial assets

A financial asset is derecognized when:

- a. the rights to receive cash flows from the asset have expired.
- b. the Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- c. the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

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Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 “Financial Instruments”.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

Financial liabilities

Financial liabilities within the scope of IFRS 9 “Financial Instruments” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

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Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. Gains or losses on the subsequent measurement of liabilities held for trading including interest paid are recognized in profit or loss.

A financial liability is classified as held for trading if:

- a. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- b. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- c. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- a. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- b. a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

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Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative financial instruments

The Company uses derivative instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as assets or liabilities at fair value through profit or loss except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of hedges, which is recognized in either profit or loss or equity according to types of hedges used.

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When the host contracts are either non-financial assets or liabilities, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not designated at fair value through profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- a. in the principal market for the asset or liability, or
- b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Inventories

Inventories are valued at lower of cost and net realizable value item by item.

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Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – Purchase cost on weighted average method

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

Investments accounted for using the equity method

The Company's investment in its associates is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company's related interest in the associate or joint venture.

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When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new shares, and the Company's interest in an associate or a joint venture is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 "Investments in Associates and Joint Ventures". If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 "Impairment of Assets". In determining the value in use of the investment, the Company estimates:

- A. its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

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B. the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 “Impairment of Assets”.

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, Plant and Equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and facilities	20~31 years
Plant equipment	5~16 years
Machinery and equipment	2~ 8 years
Transportation equipment	3~ 6 years
Office equipment	3~ 5 years
Right-of-use assets (Note)	4~58 years
Leased assets	3~11 years
Leasehold improvements	10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leases

The Company assesses whether the contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the contract, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset;
and
- (b) the right to direct the use of the identified asset.

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For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximizing the use of observable information.

A. The Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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After the commencement date, the Company measures the lease liability on an amortized cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

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

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use asset applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset 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.

The Company applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company accounted for as short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statement of consolidated comprehensive income.

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

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B. The Company as a lessor

At inception of a contract, the Company classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company recognizes assets held under a finance lease in its balance sheet and presents them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

The Company recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

A. Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Company can demonstrate:

- a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b. its intention to complete and its ability to use or sell the asset;
- c. how the asset will generate future economic benefits;
- d. the availability of resources to complete the asset; and
- e. the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

B. Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3~5 years).

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Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 “Impairment of Assets” may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, The Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, The Company estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

Treasury shares

Acquisitions of the shares of the Company (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration, if reissues, is recognized in capital surplus under equity.

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When the retirement of treasury shares, capital surplus – share premiums and share capital are debited proportionately, gains on retirement of treasury shares should be recognized under existing capital surplus arising from similar types of treasury shares; losses on retirement of treasury shares should be offset against existing capital surplus from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

Revenue recognition

The Company's revenues arising from contracts with customers are mainly rendering of processing services and rental of testing machinery. The accounting policies are explained as follows:

A. Rendering of services

The Company's primary activity is to conduct testing and assembly services based on customer's specification demand. According to the customer contract, the ownership of the work in process belongs to the customer. The customer controls the work in process when the Company provides services to create or enhance it. Accordingly, the Company's performance obligation is satisfied over time and the Company, based on the consideration stated in the customer contract (less estimated volume discount), recognizes service revenues over time. The Company estimates the volume discounts using the expected value method based on historical experiences. However, revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the expected volume discounts.

The credit period of the Company's service revenue is from 30 to 120 days. For most of the contracts, when the Company transfers those processed assets to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transferring those processed assets to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Company transfers those processed assets to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

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B. Revenues from rental of machinery

The Company provides rental of testing machineries based on customers' demand. According to the contract, the Company provides tailored machineries to customers for testing purposes for a certain period of time. During the contract period, those machineries are for the contracted customers' use only, and will not be mixed with other testing machineries. Meanwhile, during the contract period, those machineries are still under control of the Company, the customer does not have the right to control over or to direct the right of use of the rented machineries. Usually, the unit rental price is fixed and is stated in the contract. Accordingly, the Company's performance obligations is satisfied over time and the Company recognizes revenues from rental of the machinery by rental hours or testing volume multiplied by the fixed unit price, or over the rental period on a straight line basis.

The credit period of the Company's service revenues is from 30 to 120 days. For most of the contracts, the Company recognizes trade receivables upon the completion of rental period. These trade receivables usually have short period and no significant financing component is arisen.

For some machinery rental contracts, prepayments are received from customers upon signing the contract, the Company then has the obligation to provide the services subsequently. Accordingly, these amounts are recognized as contract liabilities.

C. Sales of machinery

The Company manufactures and sells professional testing machinery. Those machineries must be tested for specifications according to the contract signed by both parties before being delivered to customers. The Company performs the specification test in accordance with the contract and issues a machinery inspection report to the customer. After the customer's confirmation that the operating data and function of the machineries have met the specification stated in the inspection report, the machinery can be delivered to the customer's designated location stated in the contract and the control of the machinery can be transferred. At this time, the customer has the right to determine the sales channels and price of those testing machineries, and has the ability to prevent other companies from directing the use and obtaining the benefits of these products. Thus, the Company recognizes the revenue generated from the sales of machineries.

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Considering the fact that assisting customers for the machinery installation and providing safety guidance are not significant, so the Company issues an invoice with total consideration to the customer and recognizes the amount as trade receivables upon the delivery of the machinery. In addition, the period between the sales of machinery and the actual receipt of the payment is within one year, therefore, there is no significant financing component. The Company provides its customer with a warranty for refund for defectives products. Such warranty is accounted for in accordance with IAS 17 as liability provision.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period when they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Post-employment benefits

All regular employees of KYEC are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence not associated with KYEC. Therefore, fund assets are not included in the Company's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

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For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. the date of the plan amendment or curtailment, and
- B. the date that the Company recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Share-based payment transactions

The cost of equity-settled transactions between the Company and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

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No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognizes unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

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A. Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for unappropriated earnings is recognized as income tax expense in the subsequent year when distribution proposal is approved by the shareholders' meeting.

B. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilized, except:

- a. where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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- b. in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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A. Fair value of Level 3 financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

B. Revenue recognition - sales returns and discounts

The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, on the basis of highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Please refer to Note 6. (11) for more details.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash on hand	\$750	\$814
Checking and savings accounts	6,916,202	6,761,722
Time deposits	1,732,980	1,245,994
Total	<u>\$8,649,932</u>	<u>\$8,008,530</u>

(2) Financial assets at fair value through other comprehensive income

	December 31, 2021	December 31, 2020
Equity instrument investments measured at fair value through other comprehensive income- non-current		
Listed company's stocks	\$43,028	\$28,117
Unlisted company's stocks	6,503,449	4,418,446
Total	<u>\$6,546,477</u>	<u>\$4,446,563</u>

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The Company has equity instrument investments measured at fair value through other comprehensive income. Details on dividends recognized for the years of 2021 and 2020 are as follows:

	For the years ended	
	December 31	
	2021	2020
Related to investments held at the end of the reporting period	\$85,016	\$50,183
Related to investments derecognized during the period	-	783
Dividends recognized during the period	<u>\$85,016</u>	<u>\$50,966</u>

In consideration of disposition or liquidation of certain investments according to the Company's investment strategy, the Company derecognized certain equity instrument investments measured at fair value through other comprehensive income. Details on derecognition of the investments for the years ended December 31, 2021 and 2020 are as follows:

	December 31,	December 31,
	2021	2020
The fair value of the investments at the date of derecognition	<u>\$1,365</u>	<u>\$65,027</u>
The cumulative gain (loss) on disposal	<u>\$(326,125)</u>	<u>38,462</u>

Financial assets at fair value through other comprehensive income were not pledged.

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(3) Notes receivable

	December 31, 2021	December 31, 2020
Notes receivable from operating activities	\$7,706	\$3,049
Less: loss allowance	-	-
Total	<u>\$7,706</u>	<u>\$3,049</u>

Notes receivable were not pledged.

The Company adopted IFRS 9 for impairment assessment. Please refer to Note 6 (17) for more details on accumulated impairment. Please refer to Note 12 for more details on credit risk.

(4) Trade receivables and trade receivables from related parties

	December 31, 2021	December 31, 2020
Trade receivables	\$5,791,559	\$4,190,171
Less: loss allowance	(26,286)	(25,180)
Subtotal	<u>5,765,273</u>	<u>4,164,991</u>
Trade receivables from related parties	2,151,913	1,724,951
Less: loss allowance	-	-
Subtotal	<u>2,151,913</u>	<u>1,724,951</u>
Total	<u>\$7,917,186</u>	<u>\$5,889,942</u>

No trade receivables were pledged.

The receivables are generally on 30 to 120 days terms. Please refer to Note 6 (17) for more details on loss allowance of trade receivables for the years ended December 31, 2021 and 2020. Please refer to Note 12 for more details on credit risk.

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(5) Inventories

	December 31, 2021	December 31, 2020
Raw materials	\$967,833	\$719,695
Work in progress	308,687	200,562
Finished goods	94,953	60,712
Total	<u>\$1,371,473</u>	<u>\$980,969</u>

The cost of inventories recognized in operating costs for the year ended December 31, 2021 amounted to NT\$23,407,322 thousand, including the reversal gain of inventories of NT\$18,523 thousand, and scrap loss of NT\$42,674 thousand, respectively. The reversal is due to the fact that the previous write-down of inventories had been scrapped.

The cost of inventories recognized in operating costs for the year ended December 31, 2020 amounted to NT\$21,005,316 thousand, including the write-down of inventories of NT\$40,342 thousand, and scrap loss of NT\$3,931 thousand, respectively.

No inventories were pledged.

(6) Prepayments

	December 31, 2021	December 31, 2020
Prepaid equipment	\$198,251	\$336,191
Prepaid expenses	57,994	91,026
Input tax	27,735	41,895
Others	15,279	10,171
Total	<u>\$299,259</u>	<u>\$479,283</u>

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(7) Investments accounted for using the equity method

	December 31, 2021		December 31, 2020	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
Fixwell Technology Corp.	\$50,400	23.33%	\$46,981	23.33%
Wei Jiu Industrial Co., Ltd.	28,726	34.00%	22,875	34.00%
Total	\$79,126		\$69,856	

The Company's investments in Fixwell Technology Corp. and Wei Jiu Industrial Co., Ltd. are not individually material. The summarized financial information of the Company's ownership in those associates is as follows:

	For the years ended	
	December 31	
	2021	2020
Net income	\$22,260	\$16,088
Other comprehensive income, net of tax	-	-
Total comprehensive income	\$22,260	\$16,088

The investments mentioned above were not pledged.

(8) Property, plant and equipment

	December 31,	December 31,
	2021	2020
Owner occupied property, plant and equipment	\$45,442,522	\$38,960,077
Property, plant and equipment leased out under operating leases	134,139	187,498
Total	\$45,576,661	\$39,147,575

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A. Owner occupied property, plant and equipment

	Land	Buildings and facilities	Plant equipment	Machinery and equipment	Office equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2021	\$1,146,274	\$4,703,395	\$9,270,901	\$92,792,664	\$766,201	\$56,522	\$5,763,620	\$4,425	\$2,009,292	\$116,513,294
Additions	504,773	681,743	1,313,586	7,095,953	85,931	8,177	507,473	-	4,935,716	15,133,352
Disposals	-	(21,214)	(55,895)	(3,433,743)	(8,490)	(4,056)	(239,311)	-	-	(3,762,709)
Transfers	-	478,659	-	5,179,660	2,040	-	84,568	-	(4,950,212)	794,715
Exchange differences	-	(6,137)	(4,847)	(65,955)	(442)	(29)	(8,922)	-	(2,804)	(89,136)
As of December 31, 2021	<u>\$1,651,047</u>	<u>\$5,836,446</u>	<u>\$10,523,745</u>	<u>\$101,568,579</u>	<u>\$845,240</u>	<u>\$60,614</u>	<u>\$6,107,428</u>	<u>\$4,425</u>	<u>\$1,991,992</u>	<u>\$128,589,516</u>
As of January 1, 2020	\$1,143,394	\$4,682,938	\$8,697,635	\$86,063,081	\$694,066	\$53,957	\$5,339,081	\$4,425	\$1,532,268	\$108,210,845
Additions	2,880	37,596	646,772	6,246,740	71,529	2,485	403,643	-	3,170,651	10,582,296
Disposals	-	-	(82,939)	(2,428,569)	(1,258)	-	(56,125)	-	(9,697)	(2,578,588)
Transfers	-	(32,986)	-	2,776,823	1,169	-	55,765	-	(2,689,031)	111,740
Exchange differences	-	15,847	9,433	134,589	695	80	21,256	-	5,101	187,001
As of December 31, 2020	<u>\$1,146,274</u>	<u>\$4,703,395</u>	<u>\$9,270,901</u>	<u>\$92,792,664</u>	<u>\$766,201</u>	<u>\$56,522</u>	<u>\$5,763,620</u>	<u>\$4,425</u>	<u>\$2,009,292</u>	<u>\$116,513,294</u>

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	Land	Buildings and facilities	Plant equipment	Machinery and equipment	Office equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and equipment awaiting examination	Total
Accumulated depreciations and impairment:										
As of January 1, 2021	\$-	\$1,987,607	\$6,362,024	\$64,375,903	\$628,781	\$43,540	\$4,152,855	\$2,507	\$-	\$77,553,217
Depreciation	-	206,169	592,812	7,680,174	44,681	5,851	469,558	443	-	8,999,688
Disposals	-	(5,068)	(55,896)	(3,293,691)	(8,206)	(3,559)	(230,246)	-	-	(3,596,666)
Transfers	-	7,537	-	165,520	-	-	(79)	-	-	172,978
Impairment	-	-	-	59,461	-	-	-	-	-	59,461
Exchange differences	-	(3,122)	(1,885)	(31,044)	(331)	(28)	(5,274)	-	-	(41,684)
As of December 31, 2021	\$-	\$2,193,123	\$6,897,055	\$68,956,323	\$664,925	\$45,804	\$4,386,814	\$2,950	\$-	\$83,146,994
As of January 1, 2020	\$-	\$1,834,937	\$5,931,834	\$59,219,514	\$593,520	\$37,065	\$3,812,555	\$2,065	\$-	\$71,431,490
Depreciation	-	165,837	507,379	7,100,725	35,964	6,403	380,139	442	-	8,196,889
Disposals	-	-	(82,939)	(2,324,940)	(1,249)	-	(54,715)	-	-	(2,463,843)
Transfers	-	(21,577)	-	134,518	-	-	-	-	-	112,941
Impairment	-	-	-	153,955	-	-	-	-	-	153,955
Exchange differences	-	8,410	5,750	92,131	546	72	14,876	-	-	121,785
As of December 31, 2020	\$-	\$1,987,607	\$6,362,024	\$64,375,903	\$628,781	\$43,540	\$4,152,855	\$2,507	\$-	\$77,553,217
Net carrying amount as at:										
December 31, 2021	\$1,651,047	\$3,643,323	\$3,626,690	\$32,612,256	\$180,315	\$14,810	\$1,720,614	\$1,475	\$1,991,992	\$45,442,522
December 31, 2020	\$1,146,274	\$2,715,788	\$2,908,877	\$28,416,761	\$137,420	\$12,982	\$1,610,765	\$1,918	\$2,009,292	\$38,960,077

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B. Property, plant and equipment leased out under operating leases

	Buildings and facilities	Machinery and equipment	Total
Cost:			
As at January 1, 2021	\$179,609	\$253,103	\$432,712
Additions	-	-	-
Disposals	-	(5,700)	(5,700)
Transfers	(11,140)	3,470	(7,670)
Exchange differences	(53)	-	(53)
As at December 31, 2021	<u>\$168,416</u>	<u>\$250,873</u>	<u>\$419,289</u>
As at January 1, 2020	\$146,480	\$220,026	\$366,506
Additions	-	12,537	12,537
Disposals	-	-	-
Transfers	32,986	20,540	53,526
Exchange differences	143	-	143
As at December 31, 2020	<u>\$179,609</u>	<u>\$253,103</u>	<u>\$432,712</u>
Accumulated depreciation and impairment:			
As at January 1, 2021	\$110,378	\$134,836	\$245,214
Depreciation	5,755	25,324	31,079
Disposals	-	(2,565)	(2,565)
Transfers	(7,537)	18,992	11,455
Exchange differences	(33)	-	(33)
As at December 31, 2021	<u>\$108,563</u>	<u>\$176,587</u>	<u>\$285,150</u>
As at January 1, 2020	\$83,760	\$171,214	\$254,974
Depreciation	4,949	25,831	30,780
Disposals	-	-	-
Transfers	21,577	(62,209)	(40,632)
Exchange differences	92	-	92
As at December 31, 2020	<u>\$110,378</u>	<u>\$134,836</u>	<u>\$245,214</u>
Net carrying amounts as at:			
December 31, 2021	<u>\$59,853</u>	<u>\$74,286</u>	<u>\$134,139</u>
December 31, 2020	<u>\$69,231</u>	<u>\$118,267</u>	<u>\$187,498</u>

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C. Capitalized borrowing costs of property, plant and equipment are as follows:

	For the years ended December 31,	
	2021	2020
Construction in progress	\$43,685	\$49,810
Capitalization rate of borrowing costs	0.87~ 1.02%	0.95~ 5.23%

D. The investing activities partially influenced the cash flow are as follows:

	For the years ended December 31,	
	2021	2020
Acquisition of property, plant and equipment	\$15,133,352	\$10,594,833
Net decrease (increase) in payables to equipment suppliers	(1,154,976)	340,188
Net decrease in other payables - related parties	(15,249)	-
Total	<u>\$13,963,127</u>	<u>\$10,935,021</u>

	For the years ended December 31,	
	2021	2020
Disposal of property, plant and equipment	\$333,988	\$99,221
Net decrease (increase) in other receivables	2,135	(2,783)
Net decrease (increase) in other receivables - related parties	5,455	(6,521)
Total	<u>\$341,578</u>	<u>\$89,917</u>

E. In order to meet the needs of future operation and development, the Company decided to purchase three lots of land and buildings located in Miaoli County for operational use. The total purchase price was NT \$850 million (including tax). As of December 31, 2020, the Company has paid off the total consideration. The ownership transfer registration has been completed in April 2021.

In order to meet the needs of future operation and development, the Company decided to acquire the additional floors of the abovementioned buildings for production efficiency improvement. The expected purchase price was NT \$350 million (including tax). As of December 31, 2021, the Company has paid off the total consideration. The ownership transfer registration has been completed in April 2021. No such transaction occurred in 2020.

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F. As of December 31, 2021 and 2020, the Company recognized an impairment loss of NT\$ 59,461 and NT\$153,955 thousand, respectively, for certain machinery and equipment which were either damaged or idle and could no longer be used.

G. Please refer to Note 8 for property, plant and equipment under pledges as collateral.

(9) Intangible assets

	<u>Software</u>
Cost:	
As of January 1, 2021	\$320,090
Additions from acquisitions	36,793
Disposals	(70,163)
Exchange differences	(341)
As of December 31, 2021	<u>\$286,379</u>
As of January 1, 2020	\$326,722
Additions from acquisitions	64,763
Disposals	(72,287)
Exchange differences	892
As of December 31, 2020	<u>\$320,090</u>
Amortization and impairment:	
As of January 1, 2021	\$233,648
Amortization	49,593
Disposals	(70,163)
Exchange differences	(298)
As of December 31, 2021	<u>\$212,780</u>
As of January 1, 2020	\$252,927
Amortization	52,193
Disposals	(72,287)
Exchange differences	815
As of December 31, 2020	<u>\$233,648</u>

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Net carrying amount as of:

December 31, 2021	<u><u>\$73,599</u></u>
December 31, 2020	<u><u>\$86,442</u></u>

Amortization expenses of intangible assets recognized are as follows:

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Operating costs	\$19,775	\$28,937
Selling and administrative expenses	23,357	18,403
Research and development expenses	6,461	4,853
Total	<u><u>\$49,593</u></u>	<u><u>\$52,193</u></u>

(10) Short-term loan

	<u>Interest Rates</u>	<u>December 31,</u>	<u>December 31,</u>
	(%)	2021	2020
Unsecured bank loans	3.70~3.92%	<u><u>\$566,856</u></u>	<u><u>\$100,854</u></u>

The Company's unused short-term lines of credits amounted to NT\$7,497,900 thousand and NT\$6,395,233 thousand as of December 31, 2021 and 2020, respectively.

(11) Other current liabilities

	<u>December 31,</u>	<u>December 31,</u>
	2021	2020
Refund liabilities	\$398,110	\$194,956
Receipts on behalf of others	482,752	380,540
Others	3,786	5,360
Total	<u><u>\$884,648</u></u>	<u><u>\$580,856</u></u>

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(12) Long-term borrowings

As of December 31, 2021

<u>Lenders</u>	<u>Nature</u>	<u>Maturity Date</u>	<u>Balance</u>	<u>Terms of repayment</u>
Shanghai Commercial Bank	Unsecured bank loans	2023.03.27	\$40,151	Revolving Credit
Shanghai Commercial Bank	Unsecured bank loans	2024.03.15	885,760	Revolving Credit
Standard Chartered Bank	Unsecured bank loans	2023.06.30	332,160	Revolving Credit
Citibank	Unsecured bank loans	2023.11.22	138,400	Revolving Credit
Bank of China	Unsecured bank loans	2023.10.14	968,800	Revolving Credit
Cathay United Bank	Unsecured bank loans	2023.12.25	442,880	Revolving Credit
Mizuho Bank	Unsecured bank loans	2024.01.01	500,000	Revolving Credit
Shin Kong Commercial Bank	Unsecured bank loans	2024.12.15	138,400	Revolving Credit
Taiwan Business Bank	Unsecured bank loans	2023.04.07	276,800	Revolving Credit
Hua Nan Commercial Bank	Unsecured bank loans	2023.04.09	138,400	Revolving Credit
Mega Bank	Unsecured bank loans	2023.04.28	138,400	Revolving Credit
Taishin Bank	Unsecured bank loans	2025.06.03	1,106,636	Revolving Credit
HSBC Taiwan Bank	Unsecured bank loans	2024.09.28	110,720	Revolving Credit
HSBC Taiwan Bank	Unsecured bank loans	2024.12.20	58,967	50% of principal will be repaid on December 21, 2023. The remaining principal will be repaid on maturity day.
HSBC Taiwan Bank	Unsecured bank loans	2024.12.02	7,920	Repay at maturity

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Lenders	Nature	Maturity Date	Balance	Terms of repayment
First Bank	Unsecured bank loans	2026.07.01	830,400	25% of principal will be repaid in 3 annual payments starting from January 1, 2024. The remaining principal will be repaid on maturity day.
Yuanta Commercial Bank	Unsecured bank loans	2025.06.22	811,983	50% of principal will be repaid on December 22, 2024. The remaining principal will be repaid on maturity day.
E. Sun Commercial Bank	Unsecured bank loans	2025.12.26	34,649	Repayable semi-annually starting from December 27, 2023.
KGI Bank	Unsecured bank loans	2024.07.15	240,000	The principal will be repaid in 5 semi-annual payments starting from July 15, 2022.
O Bank	Unsecured bank loans	2025.02.07	171,429	The principal will be repaid in 7 semi-annual payments starting from February 7, 2022.
Mega Bank	Unsecured bank loans	2025.02.07	680,000	50% of principal will be repaid on August 7, 2023. The remaining principal will be repaid on maturity day.
Chang Hwa Commercial Bank	Unsecured bank loans	2025.01.20	556,000	The principal will be repaid in 5 semi-annual payments starting from January 20, 2023.
Bank of Taiwan	Unsecured bank loans	2024.01.20	600,000	50% of principal will be repaid on July 20, 2022. The remaining principal will be repaid on maturity day.
First Bank	Unsecured bank loans	2025.01.20	814,398	The principal will be repaid in 5 semi-annual payments starting from July 20, 2022.

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Lenders	Nature	Maturity Date	Balance	Terms of repayment
Far Eastern Bank	Unsecured bank loans	2023.02.07	600,000	Repay at maturity
CTBC Bank	Unsecured bank loans	2024.02.07	300,000	50% of principal will be repaid on August 7, 2023. The remaining principal will be repaid on maturity day.
JihSun Bank	Unsecured bank loans	2024.03.12	500,000	50% of principal will be repaid on September 12, 2023. The remaining principal will be repaid on maturity day.
Mega Bank and 17 others	Commercial paper loans	2023.12.06	2,500,000	Revolving credit. Renewable every three months. Credit has not been fully utilized.
Mega Bank and 13 others	Commercial paper loans	2025.10.11	7,380,000	Revolving credit. Renewable every three months. Credit has not been fully utilized.
Bank of Taiwan and 6 others (King Long)	Secured bank loans	2024.02.01	1,485,029	Repayable in 6 semi-annual instalments from August 01, 2021.
Bank of Taiwan and 8 others (King Long)	Secured bank loans	2025.01.05	710,438	Repayable in 6 semi-annual instalments from July 05, 2022.
Shanghai Commercial Bank (King Long)	Unsecured bank loans	2022.05.23	69,180	Repayable in 4 semi-annual instalments from December 5, 2020.
Taishin Bank (King Long)	Unsecured bank loans	2022.05.29	69,180	Repayable in 4 semi-annual instalments from December 5, 2020.
Taishin Bank (King Long)	Unsecured bank loans	2024.12.27	276,720	Repayable in 4 semi-annual instalments from June 27, 2023.
Bank of Taiwan (King Long)	Unsecured bank loans	2022.07.17	177,891	Repayable in 7 quarterly instalments from January 17, 2021.

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Lenders	Nature	Maturity Date	Balance	Terms of repayment
Shin Kong Commercial Bank (King Long)	Unsecured bank loans	2022.07.17	184,480	Repayable in 3 semi-annual instalments from July 17, 2021.
Yuanta Commercial Bank (King Long)	Unsecured bank loans	2022.08.12	138,360	Repayable in 6 quarterly instalments from May 30, 2021.
O Bank (King Long)	Unsecured bank loans	2022.10.10	46,120	Repayable in 6 semi-annual instalments from April 29, 2020.
E. Sun Bank (King Long)	Unsecured bank loans	2022.10.11	138,360	Repayable in 4 semi-annual instalments from April 30, 2021.
Fubon Bank (King Long)	Unsecured bank loans	2022.11.27	46,489	After paying US\$480 thousand on May 28, 2021, repayable in 6 quarterly instalments.
Taiwan Cooperative Commercial Bank (King Long)	Unsecured bank loans	2022.12.16	158,125	Repayable in 7 quarterly instalments from June 16, 2021.
HSBC Bank (King Long)	Unsecured bank loans	2022.12.17	166,032	Repayable in 5 semi-annual instalments from December 31, 2020.
Chang Hwa Commercial Bank (King Long)	Unsecured bank loans	2023.04.23	415,079	Repay at maturity
CTBC Bank (King Long)	Unsecured bank loans	2023.05.08	117,606	Repayable in 4 semi-annual instalments of US\$750 thousand (except for the last payment which is US\$2,750 thousand) from November 8, 2021.
Shanghai Commercial Bank (Zhengkuan)	Unsecured bank loans	2022.11.07	69,180	Repayable in 4 semi-annual instalments from May 7, 2022.
Subtotal			25,571,522	
Less: current portion			(2,017,322)	
Less: arrangement fee			(21,458)	
Less: unamortized discount			(15,497)	
Total			\$ 23,517,245	
Interest Rates			0.50%~4.65%	

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As of December 31, 2020

<u>Lenders</u>	<u>Nature</u>	<u>Maturity Date</u>	<u>Balance</u>	<u>Terms of repayment</u>
Shanghai Commercial Bank	Unsecured bank loans	2023.03.19	\$911,360	Revolving Credit
Shanghai Commercial Bank	Unsecured bank loans	2022.03.27	375,105	Revolving Credit
Taishin Bank	Unsecured bank loans	2023.02.07	1,300,000	Revolving Credit
Mega Bank	Unsecured bank loans	2022.09.18	313,280	Revolving Credit
Land Bank	Unsecured bank loans	2022.03.03	170,880	Revolving Credit
First Commercial Bank	Unsecured bank loans	2022.07.20	12,463	Revolving Credit
MUFG Bank	Unsecured bank loans	2022.12.04	56,960	Revolving Credit
Bank of China	Unsecured bank loans	2022.10.14	712,000	Revolving Credit
Taiwan Business Bank	Unsecured bank loans	2022.03.11	541,120	Revolving Credit
Cathay United Bank	Unsecured bank loans	2022.12.25	227,840	Revolving Credit
HSBC Taiwan Bank	Unsecured bank loans	2022.10.27	703,485	Revolving Credit
Shin Kong Commercial Bank	Unsecured bank loans	2022.12.11	284,800	Revolving Credit
Mizuho Bank	Unsecured bank loans	2023.01.01	500,000	Revolving Credit
KGI Bank	Unsecured bank loans	2024.07.15	400,000	The principal will be repaid in 5 semi-annual payments starting from July 15, 2022.
O Bank	Unsecured bank loans	2025.02.07	300,000	The principal will be repaid in 7 semi-annual payments starting from February 7, 2022.

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Lenders	Nature	Maturity Date	Balance	Terms of repayment
Mega Bank	Unsecured bank loans	2025.02.07	680,000	50% of principal will be repaid on August 7, 2023. The remaining principal will be repaid on maturity day.
Chang Hwa Commercial Bank	Unsecured bank loans	2025.01.20	695,000	The principal will be repaid in 5 semi-annual payments starting from January 20, 2023.
Fubon Bank	Unsecured bank loans	2023.02.07	800,000	50% of principal will be repaid on August 7, 2022. The remaining principal will be repaid on maturity day.
Bank of Taiwan	Unsecured bank loans	2024.01.20	1,200,000	50% of principal will be repaid on July 20, 2022. The remaining principal will be repaid on maturity day.
First Commercial Bank	Unsecured bank loans	2025.01.20	895,497	The principal will be repaid in 5 semi-annual payments starting from July 20, 2022.
Far Eastern Bank	Unsecured bank loans	2023.02.07	1,100,000	Repay at maturity
CTBC Bank	Unsecured bank loans	2024.02.07	300,000	50% of principal will be repaid on August 7, 2023. The remaining principal will be repaid on maturity day.
Mega Bank and 17 others	Commercial paper loans	2023.12.06	5,680,000	Revolving credit. Renewable every three months. Credit has not been fully utilized.
Mega Bank and 13 others	Commercial paper loans	2025.10.11	200,000	Revolving credit. Renewable every three months. Credit has not been fully utilized.
Bank of Taiwan and 6 others (King Long)	Secured bank loans	2024.02.01	1,799,746	Repayable in 6 semi-annual instalments from August 01, 2021.
Bank of Taiwan and 8 others (King Long)	Secured bank loans	2025.01.05	310,912	Repayable in 6 semi-annual instalments from July 05, 2022.

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Shanghai Commercial Bank (King Long)	Unsecured bank loans	2022.05.23	213,657	Repayable in 4 semi-annual instalments from December 5, 2020.
Taishin Bank (King Long)	Unsecured bank loans	2022.05.29	213,657	Repayable in 4 semi-annual instalments from December 5, 2020.
Bank of Taiwan (King Long)	Unsecured bank loans	2022.07.17	427,314	Repayable in 7 quarterly instalments from January 17, 2021.
Shin Kong Commercial Bank (King Long)	Unsecured bank loans	2022.07.17	284,876	Repayable in 3 semi-annual instalments from July 17, 2021.
Yuanta Commercial Bank (King Long)	Unsecured bank loans	2022.08.12	284,876	Repayable in 6 quarterly instalments from May 30, 2021.
O Bank (King Long)	Unsecured bank loans	2022.10.10	94,959	Repayable in 6 semi-annual instalments from April 29, 2020.
E. Sun Bank (King Long)	Unsecured bank loans	2022.10.11	284,876	Repayable in 4 semi-annual instalments from April 30, 2021.
Fubon Bank (King Long)	Unsecured bank loans	2022.11.27	85,463	After paying US\$160 thousand on May 28, 2021, repayable in 6 quarterly instalments.
Taiwan Cooperative Commercial Bank (King Long)	Unsecured bank loans	2022.12.16	284,876	Repayable in 7 quarterly instalments from June 16, 2021.
HSBC Bank (King Long)	Unsecured bank loans	2022.12.17	341,851	Repayable in 5 semi-annual instalments from December 31, 2020.
Chang Hwa Commercial Bank (King Long)	Unsecured bank loans	2023.04.23	427,314	Repay at maturity
CTBC Bank (King Long)	Unsecured bank loans	2023.05.08	142,438	Repayable in 4 semi-annual instalments of US\$750 thousand (except for the last payment which is US\$2,750 thousand) from November 8, 2021.

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<u>Lenders</u>	<u>Nature</u>	<u>Maturity Date</u>	<u>Balance</u>	<u>Terms of repayment</u>
HSBC Taiwan Bank (Zhengkuan)	Unsecured bank loans	2021.04.09	28,488	Repayable in 5 semi-annual instalments (except for the last payment which is due in 5 months) from April 27, 2019.
KGI Bank (Zhengkuan)	Unsecured bank loans	2022.11.08	136,741	Repayable in 5 semi-annual instalments (except for the last payment which is due in 3 months) from January 26, 2020.
Shanghai Commercial Bank (Zhengkuan)	Unsecured bank loans	2022.11.07	142,438	Repayable in 4 semi-annual instalments from May 7, 2021.
Subtotal			23,864,272	
Less: current portion			(1,844,759)	
Less: arrangement fee			(42,717)	
Less: unamortized discount			(10,767)	
Total			<u>\$21,966,029</u>	
Interest Rates			<u>0.50%~4.65%</u>	

- a. Certain property, plant and equipment were pledged. Please refer to Note 8 for more details.
- b. Please refer to Note 9 for the financial covenants during the loan period.

(13) Post-employment benefits

Defined contribution plan

The Company adopted a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. The Company has made monthly contribution of 6% of each individual employee's salaries or wages to employee's pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employee's salaries or wages to the employee's individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

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Pension expenses under the defined contribution plan for the years ended December 31, 2021 and 2020 were NT\$338,317 thousand and NT\$247,250 thousand, respectively.

Defined benefit plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statements shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$17,659 thousand to its defined benefit plan during the 12 months beginning December 31, 2021.

The maturities of the defined benefits plan as at December 31, 2021 and 2020 are both in 2025.

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Pension costs recognized in profit or loss for the years ended December 31, 2021 and 2020.

	For the years ended December 31,	
	2021	2020
Current period service costs	\$5,791	\$5,655
Interest income or expense	2,266	4,226
Overestimate (underestimate)	19	(4)
Total	<u>\$8,076</u>	<u>\$9,877</u>

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	For the years ended December 31,	
	2021	2020
Defined benefit obligation	\$902,431	\$849,561
Plan assets at fair value	(292,209)	(283,105)
Other non-current liabilities - accrued pension liabilities recognized on the consolidated balance sheets	<u>\$610,222</u>	<u>\$566,456</u>

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As at January 1, 2020	\$802,898	\$(274,729)	\$528,169
Current period service costs	5,655	-	5,655
Net interest expense (income)	6,424	(2,198)	4,226
Subtotal	814,977	(276,927)	538,050
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	-	-	-
Actuarial gains and losses arising from changes in financial assumptions	56,665	-	56,665
Experience adjustments	(1,354)	-	(1,354)

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	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
Return on plan assets	-	(9,405)	(9,405)
Subtotal	55,311	(9,405)	45,906
Payments from the plan	(20,727)	20,727	-
Contributions by employer	-	(17,500)	(17,500)
As at December 31, 2020	\$849,561	\$(283,105)	\$566,456
Current period service costs	5,791	-	5,791
Net interest expense (income)	3,398	(1,132)	2,266
Subtotal	858,750	(284,237)	574,513
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	(2,110)	-	(2,110)
Actuarial gains and losses arising from changes in financial assumptions	31,335	-	31,335
Experience adjustments	28,135	-	28,135
Return on plan assets	-	(3,992)	(3,992)
Subtotal	57,360	(3,992)	53,368
Payments from the plan	(13,679)	13,679	-
Contributions by employer	-	(17,659)	(17,659)
As at December 31, 2021	\$902,431	\$(292,209)	\$610,222

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	December 31, 2021	December 31, 2020
Discount rate	0.68%	0.40%
Expected rate of salary increases	2.00%	1.50%

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A sensitivity analysis for significant assumption as at December 31, 2021 and 2020 is shown as below:

	Effect on the defined benefit obligation			
	2021		2020	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increase by 0.5%	\$-	\$(70,995)	\$-	\$(70,049)
Discount rate decrease by 0.5%	78,279	-	77,657	-
Future salary increase by 0.5%	76,821	-	76,376	-
Future salary decrease by 0.5%	-	(70,449)	-	(69,659)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(14) Equity

A. Share capital

As of December 31, 2021 and 2020, KYEC's authorized share capital was both NT\$15,000,000 thousand; issued share capital was both NT\$12,227,451 thousand (1,222,745 thousand shares), with par value of NT\$10 per share. Each share has one voting right and a right to receive dividends.

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B. Capital surplus

	December 31, 2021	December 31, 2020
Additional paid-in capital	\$333,919	\$578,468
Arising from conversion of bonds	3,588,848	3,588,848
Treasury share transactions	390,101	390,101
Arising from the exercise of employee restricted shares	30,755	30,755
Changes in ownership interests in subsidiaries	541,511	-
Total	<u>\$4,885,134</u>	<u>\$4,588,172</u>

According to the Company Act, the capital surplus shall not be used except for offset the deficit of the company. When a company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the par value of share capital and donations. The distribution could be made in cash to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policy

According to KYEC's Articles of Incorporation, net profits for each fiscal year, if any, shall be distributed in following order:

- a. reserve for tax payments;
- b. offset prior year's losses;
- c. set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
- d. set aside or reverse special reserve in accordance with law and regulations; and
- e. the distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

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The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning, etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting. As the Company currently is still in the growth stage, funding may be required in the near future for expansion. Therefore, the current policy is to distribute cash dividends at no less than 20% of total dividends to be distributed.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to offset the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Pursuant to existing regulations, the Company is required to set aside additional special reserve equivalent to the net debit balance of the other components of shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

Following the adoption of TIFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded in shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, the Company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity" for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

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As of December 31, 2021 and 2020, special reserve set aside for the first-time adoption of TIFRS amounted to NT\$201,416 thousand.

The appropriations for earnings for 2020 and 2019 were resolved by the shareholders in its meeting on August 3, 2021 and June 10, 2020, respectively. The appropriations and dividends per share were as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2020	2019	2020	2019
Legal reserve	\$362,921	\$297,659		
Special reserve	(200,990)	(400,766)		
Cash dividends-common stock	2,200,941	1,956,392	\$1.80	\$1.60
Total	<u>\$2,362,872</u>	<u>\$1,853,285</u>		

On August 3, 2021 and June 10, 2020, the shareholders' meeting resolved to debit capital surplus by NT\$244,549 thousand and NT\$244,549 thousand, respectively, and distribute the same amounts of cash to shareholders.

Please refer to Note 6(19) for information regarding the employees' compensation (bonuses) and remuneration to directors.

D. Non-controlling interests

	For the years ended December 31,	
	2021	2020
Beginning balance	\$7,005	\$6,515
Net gain attributable to non-controlling interests	59,196	487
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of foreign operations	986	3
Changes in ownership interests in subsidiaries	626,706	-
Ending balance	<u>\$693,893</u>	<u>\$7,005</u>

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(15) Share-based payment plans

Certain employees of the Company are entitled to share-based payment as part of their remuneration. Services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

Restricted stocks plan for employees of subsidiaries

On May 17, 2021, the Board of Directors of King Long Technology (Suzhou) Ltd., (“ King Long ”) resolved to issue registered capital of CNY\$34,784,936, which can be granted to qualified employees. Restricted stocks for employees with a total number of 12,502,187 units and 22,282,749 units at the exercising prices of CNY\$4.18 and CNY\$7.42 per unit, respectively. Restriction on the rights and vesting conditions of restricted stocks for employees is as follows:

- A. To issue registered capital of King Long with each unit.
- B. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, restricted employee shares, excluding inheritance.
- C. Before employees are allocated new shares with restricted employees' rights and the acquired conditions have not been met, the voting rights of shareholders shall be exercised by trust or centralized custodian institution in accordance with the contract.
- D. Employee's continuous employment with the King Long through the vesting dates, with no violation on any terms of the King Long's employment agreement and employee policies, are eligible to receive the vested shares.
- E. The fair value information of restricted stocks for employees are as follows:

<u>Grant date</u>	<u>Cut-off date of lock-up period</u>	<u>Total units of restricted stocks issued</u>	<u>Total unit outstanding</u>	<u>Fair value per unit</u>
2021.05.20	2026.05.19	34,784,936	34,784,936	CNY\$7.38

The compensation cost was recognized under the fair value method and the Black-Scholes Option Pricing model was used to estimate the fair value of options granted. The estimated compensation expenses amounted to NT\$173,162 thousand in total based on the vesting conditions and will be recognized during the vesting period.

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Assumptions used in calculating the fair value are disclosed as follows:

	<u>Restricted stocks for employees</u>
Expected volatility (%)	44.88%
Risk free interest rate (%)	0.08%
Expected life (Year)	5 years

The expected life of the restricted stocks is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the restricted stocks is indicative of future trends, which may also not necessarily be the actual outcome.

Share-based compensation expenses recognized for employee services received are shown in the following table:

	<u>For the year ended December 31,</u> <u>2021</u>
Restricted stocks for employees	<u>\$20,452</u>

The Company did not modify or cancel any share-based payment plans for the years ended December 31, 2021.

(16) Operating revenues

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Assembly and testing processing revenues	\$29,660,396	\$25,066,252
Revenues from rental of machinery	2,555,932	2,075,224
Rental income from property	25,237	26,010
Other operating revenues	1,517,824	1,791,818
Total revenues	<u>\$33,759,389</u>	<u>\$28,959,304</u>

Relevant information of revenues from contracts with customers for the years ended December 31, 2021 and 2020 are as follows:

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A. Disaggregation of revenues

Nature of revenues	Timing of revenue recognition	For the years ended December 31,	
		2021	2020
Rendering of services	Over time	\$29,660,396	\$25,066,252
Revenues from rental of machinery	Over time	2,555,932	2,075,224
Rental income from property	On a straight-line basis or on a systematic basis (Note)	25,237	26,010
Other operating revenues	At a point in time	1,517,824	1,791,818
Total		<u>\$33,759,389</u>	<u>\$28,959,304</u>

Note: Please refer to Note 6(18) for information regarding leases.

B. Contract balances

(a) Contract assets – current

Nature of revenues	December 31, 2021	December 31, 2020	January 1, 2020
Rendering of services	<u>\$178,880</u>	<u>\$202,972</u>	<u>\$126,182</u>

Please refer to Note 6(17) for more details on effect of impairment. Relevant information of revenues from contracts with customers for the years ended December 31, 2021 and 2020 are as follows:

	For the years ended December 31,	
	2021	2020
The opening balance transferred to trade receivables	<u>\$202,972</u>	<u>\$126,182</u>
Degree of completion measurement	<u>\$178,880</u>	<u>\$202,972</u>

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(b) Contract liabilities - current

Nature of revenues	December 31, 2021	December 31, 2020	January 1, 2020
Revenues from rental of machinery	\$-	\$11,591	\$52,486
Assembly and testing processing revenues	154,167	70,512	14,428
Other operating revenues	2,857	147,500	1,416
Total	<u>\$157,024</u>	<u>\$229,603</u>	<u>\$68,330</u>

The difference of the beginning and ending balances is the net effect of the completion of performance obligations for old contracts signed before the opening date and new contracts signed before the ending date.

(17) Expected credit losses

Operating expenses - expected credit losses

	For the years ended December 31,	
	2021	2020
Contract assets	\$-	\$-
Notes receivable	-	-
Trade receivables	645	3,180
Total	<u>\$645</u>	<u>\$3,180</u>

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of its contract assets and receivables (including notes receivable and trade receivables) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at December 31, 2021 and 2020 are as follows:

A. The gross carrying amount of contract assets is NT\$178,880 thousand and NT\$202,972 thousand, respectively. Expected credit loss ratio is estimated to be 0%.

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B. The Company considers the grouping of trade receivables by counterparties' credit ratings, geographical regions and industry sectors. Loss allowance is measured by using a provision matrix. Details are as follows:

As at December 31, 2021

Group 1	Not yet due	Overdue				Total
	(Note)	1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	\$7,841,319	\$84,082	\$5,227	\$1,373	\$20	\$7,932,021
Loss ratio	-	-	1%	2%	5%	
Lifetime expected credit losses	(7,049)	-	(52)	(27)	(1)	(7,129)
Subtotal	7,834,270	84,082	5,175	1,346	19	7,924,892

Group 2	Not yet due	Overdue				Total
	(Note)	1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	171	217	-	1,097	17,672	19,157
Loss ratio	100%	-	-	100%	100%	
Lifetime expected credit losses	(171)	(217)	-	(1,097)	(17,672)	(19,157)
Subtotal	-	-	-	-	-	-
Total						<u>\$7,924,892</u>

As at December 31, 2020

Group 1	Not yet due	Overdue				Total
	(Note)	1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	\$5,694,839	\$189,765	\$10,986	\$1,115	\$365	\$5,897,070
Loss ratio	-	-	1%	2%	5%	
Lifetime expected credit losses	(3,929)	-	(110)	(22)	(18)	(4,079)
Subtotal	5,690,910	189,765	10,876	1,093	347	5,892,991

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Group 2	Not yet due (Note)	Overdue				Total
		1-90 days	91-180 days	181-365 days	>366 days	
Gross carrying amount	\$571	\$-	\$-	\$45	\$20,485	\$21,101
Loss ratio	100%	-%	-%	100%	100%	
Lifetime expected credit losses	(571)	-	-	(45)	(20,485)	(21,101)
Subtotal	-	-	-	-	-	-
Total						<u>\$5,892,991</u>

Note: The Company's notes receivable are not overdue.

The movement in the provision for impairment of contract assets, notes receivable, and trade receivables for the years ended December 31, 2021 and 2020 is as follows:

	Contract assets	Notes receivable	Trade receivables	Other receivables
Beginning balance as at January 1, 2021	\$-	\$-	\$25,180	\$23,149
Addition for the current period	-	-	645	-
Write off (Note)	-	-	-	-
Effect of changes in exchange rate			461	-
Ending balance as at December 31, 2021	<u>\$-</u>	<u>\$-</u>	<u>\$26,286</u>	<u>\$23,149</u>
Beginning balance as at January 1, 2020	\$-	\$-	\$47,083	\$-
Addition for the current period	-	-	3,180	-
Write off (Note)	-	-	(1,941)	-
Transfer	-	-	(23,149)	23,149
Effect of changes in exchange rate	-	-	7	-
Ending balance as at December 31, 2020	<u>\$-</u>	<u>\$-</u>	<u>\$25,180</u>	<u>\$23,149</u>

Note: Although the Company wrote off the financial assets during 2021 and 2020, collection activities are still underway.

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(18) Leases

A. The Company as a lessee

The Company leases land and buildings with lease terms ranging from 4 to 58 years. At the end of the lease terms, the Company does not have the purchase option to acquire the leasehold land and buildings.

The Company leases machinery and equipment for operational use with lease terms of 2 years. The Company has purchase options to acquire leasehold machinery and equipment at the end of the lease terms.

The Company leases transportation equipment for operational use with lease terms of 3 years. The Company has purchase options to acquire leasehold transportation equipment at the end of the lease terms.

The effect that leases have on the financial position, financial performance and cash flows of the Company are as follows:

a. Amounts recognized in the balance sheet

(a) Right-of-use assets

The carrying amount of right-of-use assets

	December 31, 2021	December 31, 2020
Land	\$554,903	\$576,345
Buildings	36,949	37,257
Machinery and equipment	72,922	714,630
Transportation equipment	13,122	-
Total	<u>\$677,896</u>	<u>\$1,328,232</u>

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During the years ended December 31, 2021 and 2020, the Company's additions to right-of-use assets amounted to NT\$24,275 thousand and NT\$89,750 thousand, respectively.

During the years ended December 31, 2021 and 2020, the Company exercised the purchase options and transferred the right-of-use assets to machinery and equipment in the amount of NT\$538,273 thousand and NT\$32,681 thousand, respectively.

(b) Lease liabilities

	December 31, 2021	December 31, 2020
Lease liabilities- current	\$92,050	\$310,144
Lease liabilities- non-current	492,615	566,437
Total	<u>\$584,665</u>	<u>\$876,581</u>

Please refer to Note 6 (20)C for the interest on lease liabilities recognized during the years ended December 31, 2021 and 2020, and refer to Note 12 (3) section E Liquidity Risk Management for the maturity analysis for lease liabilities as at December 31, 2021 and 2020.

b. Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	For the years ended December 31,	
	2021	2020
Land	\$20,853	\$20,867
Buildings	6,069	5,184
Machinery and equipment	103,436	102,055
Transportation equipment	1,640	-
Total	<u>\$131,998</u>	<u>\$128,106</u>

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c. Income and costs relating to leasing activities

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
The expenses relating to short-term leases	\$100,462	\$67,682
The expenses relating to leases of low-value assets (not including the expenses relating to short-term leases of low-value assets)	4,805	3,752
Total	<u>\$105,267</u>	<u>\$71,434</u>

d. Cash outflows relating to leasing activities

During the years ended December 31, 2021 and 2020, the Company's total cash outflows for leases amounted to NT\$427,287 thousand and NT\$601,739 thousand, respectively.

e. Other information relating to leasing activities

Extension and termination options

Some of the Company's property rental agreements contain extension and termination options. In determining the lease terms, the non-cancellable period for which the Company has the right to use an underlying asset, together with periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. These options are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company.

After the commencement date, the Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

B. The Company as a lessor

The Company entered into commercial property leases with remaining terms between one to two years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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	For the years ended December 31,	
	2021	2020
Lease income for operating leases		
Income relating to fixed lease payments and variable lease payments that depend on an index or a rate	\$25,237	\$26,010

Please refer to Note 6 (8) for relevant disclosure of property, plant and equipment for operating leases under IFRS 16. For operating leases entered by the Company, the undiscounted lease payments to be received and a total of the amounts for the remaining years as at December 31, 2021 and 2020 are as follow:

	December 31, 2021	December 31, 2020
Not later than one year	\$17,175	\$17,025
Later than one year and not later than five years	347	601
Total	\$17,522	\$17,626

(19) Summary statement of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2021 and 2020:

	For the years ended December 31,					
	2021			2020		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$5,399,164	\$1,422,375	\$6,821,539	\$4,721,179	\$1,307,172	\$6,028,351
Labor and health insurance	443,706	79,745	523,451	403,209	78,411	481,620
Pension	262,216	84,177	346,393	195,103	62,024	257,127
Remuneration of directors	-	56,934	56,934	-	38,212	38,212
Other employee benefits expense	261,467	45,543	307,010	331,506	49,079	380,585
Total	\$6,366,553	\$1,688,774	\$8,055,327	\$5,650,997	\$1,534,898	\$7,185,895
Depreciation	\$8,279,561	\$883,204	\$9,162,765	\$7,657,092	\$698,683	\$8,355,775
Amortization	\$19,775	\$29,818	\$49,593	\$28,937	\$23,256	\$52,193

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In accordance with the Articles of Incorporation, no higher than 1% of the profit of the current year is distributable as remuneration to directors (including independent directors). However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. In addition, according to the Company's Articles of Incorporation, the remuneration paid to directors (including independent directors) is determined based on the Company's overall operating performance with consideration of the contribution of each director to the Company and reference to industry norm. The remuneration proposal shall be approved by more than half members of the Compensation Committee and submitted to the Board of Directors for further approval.

According to the Company's Articles of Incorporation and the Company Law, the remuneration of the Company's executives is determined based on the positions of the executives, contribution to the Company's operations, individual performance, and consideration of the Company's future risk and reference to the industry norm. The remuneration is to be reviewed by the Compensation Committee for its plausibility and submitted to the Board of Directors for resolution.

The employee's compensation policy of the Company takes into account various factors such as individual's salary, rank, and performance evaluation, the industry norm and the Company's operating results, etc.

In accordance with the Articles of Incorporation, 8% to 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors. However, KYEC's accumulated losses shall have been covered (if any). KYEC may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

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Based on profit of current period, KYEC estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2021 to be 8% of profit of current period (or NT\$569,336 thousand) and 0.8% of profit of current period (or NT\$56,934 thousand), respectively, which were recognized as salary expense. If the Board of Directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed is calculated based on the closing price one day prior to the date of resolution. If the estimated amounts differ from the actual distribution resolved by the Board of Directors, the difference will be recognized in the profit or loss in the subsequent year. A resolution was passed at a Board of Directors meeting held on March 4, 2022 to distribute NT\$569,336 thousand and NT\$56,934 thousand in cash as employees' compensation and remuneration to directors, respectively, which were consistent with the estimated amounts recognized for the year ended December 31, 2021.

Actual distribution of employees' compensation and remuneration to directors of 2020 amounted to NT\$382,118 thousand and NT\$38,212 thousand, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors for the year ended 31 December 2020.

(20) Non-operating income and expenses

A. Other income

	For the years ended December 31,	
	2021	2020
Dividend income	\$85,016	\$50,966
Government grant	108,392	76,551
Others	126,823	132,971
Total	\$320,231	\$260,488

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B. Other gains and losses

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Gain (loss) on disposal of property, plant and equipment	\$164,810	\$(15,524)
Foreign exchange gains, net	134,139	242,514
Impairment losses – Property, plant and equipment	(59,461)	(153,955)
Others	(12,414)	(96,963)
Total	<u>\$227,074</u>	<u>\$(23,928)</u>

C. Finance costs

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Interest expenses on borrowings from bank	\$331,880	\$359,046
Interest expenses on lease liabilities	11,646	19,993
Total	<u>\$343,526</u>	<u>\$379,039</u>

(21) Components of other comprehensive income

For the year ended December 31, 2021

	Reclassification				
	Arising during the period	adjustments during the period	Other comprehensive income	Income tax expenses	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(53,368)	\$-	\$(53,368)	\$-	\$(53,368)

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Unrealized gains (losses)					
from equity instrument					
investments measured at					
fair value through other					
comprehensive income	2,101,279	-	2,101,279	(419,982)	1,681,297
To be reclassified to profit or					
loss in subsequent periods:					
Exchange differences					
resulting from translating					
the financial statements					
of a foreign operations	(41,254)	-	(41,254)	8,448	(32,806)
Total other comprehensive					
income	<u>\$2,006,657</u>	<u>\$-</u>	<u>\$2,006,657</u>	<u>\$(411,534)</u>	<u>\$1,595,123</u>

For the year ended December 31, 2020

	Arising	Reclassification	Other	Income tax	Other
	during the	adjustments	comprehensive	expenses	comprehensive
	period	during the	income		income, net of tax
	period	period	income	expenses	income, net of tax
Not to be reclassified to profit					
or loss in subsequent					
periods:					
Remeasurements of defined					
benefit plans	\$(45,906)	\$-	\$(45,906)	\$-	\$(45,906)
Unrealized gains (losses)					
from equity instrument					
investments measured at					
fair value through other					
comprehensive income	2,094,772	(38,462)	2,056,310	(403,570)	1,652,740
To be reclassified to profit or					
loss in subsequent periods:					
Exchange differences					
resulting from translating					
the financial statements					
of a foreign operations	105,729	-	105,729	(21,145)	84,584
Total other comprehensive					
income	<u>\$2,154,595</u>	<u>\$(38,462)</u>	<u>\$2,116,133</u>	<u>\$(424,715)</u>	<u>\$1,691,418</u>

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(22) Income tax

The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current income tax expense:		
Current income tax charge	\$1,224,207	\$899,168
Adjustments in respect of current income tax of prior periods	(17,093)	(198,244)
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	413,891	205,591
Income tax expense recognized in profit or loss	<u>\$1,621,005</u>	<u>\$906,515</u>

Income tax relating to components of other comprehensive income

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Deferred tax expense (income):		
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	\$419,982	\$403,570
Exchange differences resulting from translating the financial statements of foreign operations	(8,448)	21,145
Income tax relating to components of other comprehensive income	<u>\$411,534</u>	<u>\$424,715</u>

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

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	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Accounting profit before tax from continuing operations	<u>\$6,855,247</u>	<u>\$4,543,655</u>
Tax at the domestic rates applicable to profits in the country concerned	\$1,371,049	\$908,731
Tax effect of expenses not deductible for tax purposes	(363,774)	(150,106)
Tax effect of deferred tax assets/liabilities	413,891	205,591
Different tax rates application between the parent company and subsidiaries	216,932	140,543
Adjustments in respect of current income tax of prior periods	<u>(17,093)</u>	<u>(198,244)</u>
Total income tax expense recognized in profit or loss	<u>\$1,621,005</u>	<u>\$906,515</u>

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2021

	Beginning balance	Recognized			Exchange differences	Ending balance
		Recognized in profit or loss	in other comprehensive income	Charged directly to equity		
Temporary differences						
Unrealized exchange gains and losses	\$(29,772)	\$1,251	\$-	\$-	\$-	\$(28,521)
Impairment loss of goodwill	12,650	-	-	-	-	12,650
Other impairment loss	35,393	(20,580)	-	-	-	14,813
Depreciation difference for tax purpose	23,235	9,232	-	-	-	32,467
Unrealized sales discount	38,991	40,631	-	-	-	79,622
Investments accounted for using the equity method	(200,006)	(375,570)	-	-	-	(575,576)

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Exchange differences						
resulting from translating						
the financial statements of						
foreign operations	89,259	-	8,448	-	-	97,707
Unrealized investment gains						
and losses	(438,190)	(65,175)	(419,982)	-	-	(923,347)
Others	28,095	(3,680)	-	-	-	24,415
Deferred tax income/ (expense)		<u>\$ (413,891)</u>	<u>\$ (411,534)</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax						
assets/(liabilities)		<u>\$ (440,345)</u>				<u>\$ (1,265,770)</u>
Reflected in balance sheet as						
follows:						
Deferred tax assets		<u>\$ 227,623</u>				<u>\$ 261,675</u>
Deferred tax liabilities		<u>\$ 667,968</u>				<u>\$ 1,527,445</u>

For the year ended December 31, 2020

		Recognized				
	Beginning	Recognized	in other	Charged	Exchange	Ending
	balance	in profit or	comprehensive	directly to	differences	balance
		loss	income	equity		
Temporary differences						
Unrealized exchange gains						
and losses	\$ (5,624)	\$ (24,148)	\$-	\$-	\$-	\$ (29,772)
Impairment loss of goodwill	12,650	-	-	-	-	12,650
Other impairment loss	11,054	24,339	-	-	-	35,393
Depreciation difference for						
tax purpose	24,219	(984)	-	-	-	23,235
Unrealized sales discount	7,816	31,175	-	-	-	38,991
Investments accounted for						
using the equity method	29,151	(229,157)	-	-	-	(200,006)
Exchange differences						
resulting from translating						
the financial statements of						
foreign operations	110,404	-	(21,145)	-	-	89,259

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Unrealized investment gains						
and losses	(34,297)	(323)	(403,570)	-	-	(438,190)
Others	11,540	16,555	-	-	-	28,095
Unused tax losses	23,048	(23,048)	-	-	-	-
Deferred tax income/ (expense)		<u>\$(205,591)</u>	<u>\$(424,715)</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax						
assets/(liabilities)		<u>\$189,961</u>				<u>\$(440,345)</u>
Reflected in balance sheet as follows:						
Deferred tax assets		<u>\$229,882</u>				<u>\$227,623</u>
Deferred tax liabilities		<u>\$39,921</u>				<u>\$667,968</u>

The following table contains information of the unused tax losses of the Company:

Entities	Year	Tax losses for the period	Unused tax losses as at (Note)		Expiration year
			December 31, 2021	December 31, 2020	
Foreign Subsidiaries	2014	\$118,606	\$-	\$37,471	2024
	2015	134,650	-	135,449	2025
	2016	40,531	27,705	40,771	2026
	2017	32,269	32,269	32,461	2027
	2018	75,458	75,458	75,906	2028
			<u>\$135,432</u>	<u>\$322,058</u>	

Note: Amounts are converted using the exchange rate at the balance sheet date for each year.

Unrecognized deferred tax assets

As of December 31, 2021 and 2020, deferred tax assets that have not been recognized amounted to NT\$33,858 thousand and NT\$80,515 thousand, respectively.

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The assessment of income tax returns

As of December 31, 2021, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

Entities	The assessment of income tax returns
KYEC	Assessed and approved up to 2019
Subsidiary:	
King Long Technology (Suzhou) Ltd.	Filed up to 2020
Suzhou Zhengkuan Technology Ltd.	Filed up to 2020
KYEC USA Corp.	Filed up to 2020
KYEC Japan K.K.	Filed up to 2020
KYEC SINGAPORE PTE. Ltd.	Filed up to 2020
King Ding Precision Incorporated Company	Assessed and approved up to 2019

(23) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity owners of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended December 31,	
	2021	2020
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent	\$5,175,046	\$3,636,653
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand share)	1,222,745	1,222,745
Basic earnings per share (NT\$)	\$4.23	\$2.97

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	For the years ended December 31,	
	2021	2020
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent	\$5,175,046	\$3,636,653
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	1,222,745	1,222,745
Effect of dilution:		
Employee compensation—stock (in thousands)	14,512	13,079
Weighted average number of ordinary shares outstanding after dilution (in thousands)	1,237,257	1,235,824
Diluted earnings per share (NT\$)	\$4.18	\$2.94

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were issued.

(24) Changes in the ownership interest of subsidiaries

A. Not subscribe to the new shares proportionate to its original ownership interest

King Long Technology (Suzhou) Ltd. increased its capital by cash in August, 2021, and the Company did not subscribe to the new shares proportionate to its original ownership interest and its ownership was reduced to 92.46%. The increase in the investment amounted to NT\$1,147,767 thousand. The change of the ownership interest was accounted for as an equity transaction:

	For the year ended December 31, 2021
Cash for capital increase	\$1,147,767
Increase in non-controlling interest	(626,706)
Differences in equity capital surplus	\$521,061

B. Share-based payment plans

On May 17, 2021, Board of Directors of King Long Technology (Suzhou) Ltd. approved an employee share-based payment compensation plan. The compensation cost was recognized during the vesting period. Please refer to Note 6.(15) for relevant disclosures. The abovementioned transaction effected the changes in the ownership interest of subsidiaries, which were recorded as capital surplus in equity.

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7. Related Party Transactions

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

A. Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
MediaTek Inc.	The chairman of the Company and the chairman of MediaTek Inc. are close relatives
Mediatek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.
Airoha Technology Corp.	Subsidiary of MediaTek Inc.
Airoha Technology (Suzhou) Limited	Subsidiary of MediaTek Inc.
Other related parties (Note)	Subsidiary of MediaTek Inc.
Fixwell Technology Corp.	Associates
Wei Jiu Industrial Co., Ltd.	Associates

Note: The Company's transactions with these companies are not material.

B. Significant transactions with related parties

(a) Operating income

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
MediaTek Inc.	\$5,044,632	\$2,917,792
Mediatek Singapore Pte. Ltd.	3,098,723	2,214,857
Other related parties	737,953	405,734
Associates	5,626	5,585
Total	<u>\$8,886,934</u>	<u>\$5,543,968</u>

Trading prices with related parties were determined through mutual agreement based on the market demands. The trade credit terms with related parties were 45 to 90 days, while the terms with non-related parties were 30 to 120 days. The outstanding balance due from related parties as of December 31, 2021 and 2020 was unsecured, non-interest bearing and must be settled in cash. The receivables from the related parties were not guaranteed.

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- (b) The Company purchased inventories from associates. For the years ended December 31, 2021 and 2020, the purchase amounts were NT\$164,287 thousand and NT\$77,608 thousand, respectively. The purchase price was based on the market demands. The payment terms with related parties were 30 days, while the terms with non-related parties were 30 to 120 days.
- (c) The Company engaged an associate to perform machinery maintenance services. For the years ended December 31, 2021 and 2020, related operating costs recognized amounted to NT\$313,541 thousand and NT\$300,855 thousand, respectively.
- (d) The Company paid rental expenses for renting machines from associates. For the years ended December 2021 and 2020, the rental expenses amounted to NT\$11,079 thousand and NT\$6,605 thousand, respectively. The rental price was based on the similar machine's rental price in the market. The payment terms with related parties were 30 to 90 days, while terms with non-related parties were 0 to 30 days.
- (e) Significant property transactions with related parties:

i. Disposal of property, plant and equipment

Related party	For the year ended December 31, 2021		For the year ended December 31, 2020	
	Sales price	Disposal gain	Sales price	Disposal gain
Associates	\$14,969	\$4,613	\$14,869	\$5,678

The Company deferred the disposal gain derived from sales of property, plant and equipment to related parties, and then recognized such gain over depreciable lives of the disposed assets.

ii. Acquisition of property, plant and equipment

Related party	For the year ended December 31, 2021	For the year ended December 31, 2020
	Purchase price	Purchase price
Associates	\$190,112	\$123,070

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The purchase price was determined through mutual agreement based on the market demand.

(f) Contract assets

Contract assets - current

	December 31, 2021	December 31, 2020
Other related parties	\$2,249	\$-
MediaTek Inc.	\$30	-
Total	2,279	-
Less: loss allowance	-	-
Net	\$2,279	\$-

(g) Trade receivables from related parties

	December 31, 2021	December 31, 2020
MediaTek Inc.	\$1,127,631	\$1,086,058
Mediatek Singapore Pte. Ltd.	809,590	535,143
Other related parties	214,225	103,289
Associates	467	461
Less: loss allowance	-	-
Net	\$2,151,913	\$1,724,951

(h) Other receivables from related parties

	December 31, 2021	December 31, 2020
MediaTek Inc.	\$4,361	\$25,708
Other related parties	464	598
Fixwell Technology Corp.	-	6,951
Net	\$4,825	\$33,257

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(i) Contract liabilities

	December 31, 2021	December 31, 2020
MediaTek Inc.	\$178	\$183

(j) Account payables to related parties

	December 31, 2021	December 31, 2020
Wei Jiu Industrial Co., Ltd.	\$19,961	\$16,512
Associates	1,453	2,975
Total	\$21,414	\$19,487

(k) Other payables to related parties

	December 31, 2021	December 31, 2020
Fixwell Technology Corp.	\$75,127	\$46,612
Wei Jiu Industrial Co., Ltd.	22,365	18,013
Other related parties	1,438	831
Total	\$98,930	\$65,456

(l) Other income

	For the years ended December 31,	
	2021	2020
Associate	\$141	\$681

(m) Key management personnel compensation

	For the years ended December 31,	
	2021	2020
Short-term employee benefits	\$189,086	\$142,306
Post-employment benefits	1,183	1,509
Total	\$190,269	\$143,815

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8. Assets Pledged as Security

The following table lists assets of the Company pledged as security:

Items	Carrying amount		Purpose of pledge
	December 31, 2021	December 31, 2020	
Other current financial assets	\$3	\$4	L/C guarantee deposits
Other non-current financial assets	105,972	115,669	Customs clearance
Land	914,594	914,594	Long-term borrowings
Building and facility	2,053,506	1,740,093	Long-term borrowings
Machinery and equipment	8,004,788	8,199,112	Long-term borrowings
Construction-in-progress	-	475,287	Long-term borrowings
Right-of-use assets	62,790	64,589	Long-term borrowings
Total	<u>\$11,141,653</u>	<u>\$11,509,348</u>	

9. Significant Contingent Liabilities and Unrecognized Commitments

As of December 31, 2021, the following contingencies and material commitments were not included in the Company's consolidated financial statements:

- A. The Company's issued and outstanding letters of credit totaled approximately NT\$497,089 thousand.
- B. To construct the plant and factory premises, the Company had entered into several construction contracts in an aggregate amount of NT\$2,085,646 thousand with NT\$1,385,914 thousand already paid and NT\$699,732 thousand remaining unpaid (promissory notes have been issued).
- C. The promissory notes issued for secured bank loans amounted to NT\$41,917,725 thousand.
- D. The Company also provided guarantees to Suzhou Zhengkuan Technology Ltd.'s lines of credit. The lines of credit were provided by The Shanghai Commercial & Savings Bank in the amount of US\$5,000 thousand.
- E. The Company entered into loan agreements with Mega International Commercial Bank and First Commercial Bank, the following financial covenants shall be maintained on an annual basis during the period from 2020 to 2025:

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- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 150%;
- (c) Interest coverage ratio no less than 300%.

The Company entered into a loan agreement with Far Eastern Int'l Bank, the following financial covenants shall be maintained on a semi-annual and annual basis during the period from 2020 to 2023:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 150%;
- (c) Interest coverage ratio no less than 300%.

The Company entered into a loan agreement with JihSun International Commercial Bank, the following financial covenants shall be maintained on a semi-annual and annual basis during the period from 2021 to 2024:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 150%;
- (c) Interest coverage ratio no less than 300%.

The Company entered into a loan agreement with Yuanta Commercial Bank, the following financial covenants shall be maintained on a semi-annual and annual basis during the period from 2021 to 2025:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 150%;
- (c) Interest coverage ratio no less than 300%.

The Company entered into a syndicated loan agreement with 17 banks, led by Mega International Commercial Bank of Taiwan, and the Company shall maintain the following financial covenants on a semi-annual and annual basis during the period from 2018 to 2023:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 150%;
- (c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2018 to 2023, Mega International Commercial Bank of Taiwan may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

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The Company entered into a syndicated loan agreement with 13 banks, led by Mega International Commercial Bank of Taiwan, and the Company shall maintain the following financial covenants on a semi-annual and annual basis during the period from 2020 to 2025:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 150%;
- (c) Interest coverage ratio not less than 300%.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2020 to 2025, Mega International Commercial Bank of Taiwan may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

The subsidiary of King Long Technology (Suzhou) Ltd. entered into a syndicated loan agreement with 6 banks, led by Taiwan Bank in Shanghai branch, and the Company shall maintain the following financial covenants on a semi-annual and annual basis during the period from 2018 to 2024:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 140%;
- (c) Interest coverage ratio not less than 100%;
- (d) Equity not less than CNY 800 million.

In the case of failure to adhere to the aforementioned financial covenants during the period from 2018 to 2024, Taiwan Bank in Shanghai branch may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

The subsidiary of King Long Technology (Suzhou) Ltd. entered into a syndicated loan agreement with 8 banks, led by Taiwan Bank in Shanghai branch, and the Company shall maintain the following financial covenants on a semi-annual and annual basis during the period from 2019 to 2025:

- (a) Current ratio not less than 100%;
- (b) Debt ratio not more than 140%;
- (c) Interest coverage ratio not less than 100%;
- (d) Equity not less than CNY 800 million.

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In the case of failure to adhere to the aforementioned financial covenants during the period from 2019 to 2025, Taiwan Bank in Shanghai branch may assemble a meeting among the banks to govern the matter to decide on a course of action or request for each bank's written approval for such course of action, when necessary.

As of December 31, 2021, the Company did not violate any financial covenants.

10. Losses due to Major Disasters

None.

11. Significant Subsequent Events

None.

12. Others

(1) Categories of financial instruments

A. Categories of financial instruments

	December 31, 2021	December 31, 2020
<u>Financial assets</u>		
Financial assets at fair value through other comprehensive income	\$6,546,477	\$4,446,563
Financial assets measured at amortized cost (Note)	17,086,494	14,292,601
Total	<u>\$23,632,971</u>	<u>\$18,739,164</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Short-term borrowings	\$566,856	\$100,854
Payables (including related parties)	1,150,624	1,141,877
Other payables (including related parties)	5,608,979	3,603,401
Long-term loans (including current portion)	25,534,567	23,810,788
Lease liabilities	584,665	876,581
Guarantee deposits	33,851	2,755
Total	<u>\$33,479,542</u>	<u>\$29,536,256</u>

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Note: Includes cash and cash equivalents, notes receivable, trade receivables (including related parties), other receivables (including related parties), other financial assets and refundable deposits.

(2) Financial risk management objectives

The objective of the Company's financial risk management is mainly to manage the market risk, credit risk and liquidity risk derived from its operating activities. The Company identified, measured and managed the aforementioned risks based on the Company's policy and risk tendency.

The Company has established appropriate policies, procedures and internal controls for financial risk management. The plans for material treasury activities are reviewed by Board of Directors and Audit committee in accordance with relevant regulations and internal controls. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise foreign currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables, there are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

A. Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenues or expenses are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign operations.

Some receivables and payables are denominated in the same foreign currency, and it will result in economic hedging effect. Further, net investments in foreign operations are primary for strategic purposes, and they are not hedged by the Company.

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The Company's sensitivity analysis to foreign currency risk mainly focuses on foreign currency monetary items at the end of the reporting period. The Company's foreign currency risk is mainly from the volatility in the exchange rates of US\$ and CNY. The sensitivity analysis is as follows:

When NT\$ appreciates or depreciates against US\$ by 1%, the profit for the years ended December 31, 2021 and 2020 would have increased/decreased by NT\$24,631 thousand and NT\$33,527 thousand, respectively.

When NT\$ appreciates or depreciates against CNY by 1%, the profit for the years ended December 31, 2021 and 2020 would have decreased/increased by NT\$1,843 thousand and NT\$9,081 thousand, respectively.

B. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The Company manages its risk by having a balanced portfolio of financial instruments with fixed and floating interest rates. The Company did not apply hedging accounting since such hedging activities did not qualify for criteria of hedge accounting.

The Company's sensitivity analysis to interest rate risk mainly focuses on items exposed to interest rate risk at the end of the reporting period, including investments with floating interest rates and bank borrowings with floating rates. Assuming investments and bank borrowings had been outstanding for the entire period and all other variables were constant, a hypothetical increase/decrease of 10 basis points of interest rate in a reporting period would have resulted in a decrease/increase in profit by NT\$26,138 thousand and NT\$23,965 thousand for the years ended December 31, 2021 and 2020, respectively.

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C. Equity price risk

The Company's equity investments, including listed and unlisted equity securities, are exposed to market price risk arising from uncertainties of future values of equity securities. The Company's investments in listed and unlisted equity securities are classified under financial assets at fair value through other comprehensive income. The Company manages the equity price risk through diversification and placing limits on individual and total equity investments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves certain significant equity investments according to level of authority.

At the reporting date ended December 31, 2021 and 2020, a change of 20% in the price of the listed equity securities classified under equity instrument investments measured at fair value through other comprehensive income would have impact of NT\$8,606 thousand and NT\$5,623 thousand on the equity attributable to the Company.

Please refer to Note 12(3) section H for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

D. Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for contract assets, trade receivables and notes receivable) and from its financing activities (including bank deposits and other financial instruments).

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and controls relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment and insurance.

As of December 31, 2021 and 2020, receivables from top ten customers represented 48% and 48% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivable was insignificant.

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The Company manages its exposure to credit risk arising from bank deposits, fixed income securities and other financial instruments in accordance with established group policies. Since the counter-parties are selected reputable financial institutions and companies, the Company believes its exposure to credit risk is not significant.

E. Liquidity risk management

The Company maintained financial flexibility through the holding of cash and cash equivalents, investments in securities with high liquidity, and facilities of bank borrowings. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity, and the payment amount also includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Longer than 4 years	Total
<u>December 31, 2021</u>						
Payables	\$6,759,603	\$-	\$-	\$-	\$-	\$6,759,603
Borrowings	2,854,313	8,554,285	4,617,292	10,469,870	418,026	26,913,786
Lease liabilities (Note)	92,050	28,894	29,501	22,906	411,314	584,665
<u>December 31, 2020</u>						
Payables	\$4,745,278	\$-	\$-	\$-	\$-	\$4,745,278
Borrowings	2,207,096	8,543,302	10,888,485	2,074,113	963,275	24,676,271
Lease liabilities (Note)	310,144	85,396	22,189	22,662	436,190	876,581

Notes: Information about the maturities of lease liabilities is provided in the table below:

	<u>Maturities Period</u>				
	Less than 1 year	1 to 5 years	6 to 10 years	>10 years	Total
Lease liabilities					
December 31, 2021	\$92,050	\$99,337	\$88,142	\$305,136	\$584,665
December 31, 2020	\$310,144	\$153,194	\$108,107	\$305,136	\$876,581

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F. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for year ended December 31, 2021:

	Short-term borrowings	Long-term loans	Lease liabilities	Total liabilities from financing activities
As of January 1, 2021	\$100,854	\$23,810,788	\$876,581	\$24,788,223
Cash flows	466,557	1,866,505	(310,374)	2,022,688
Non-cash changes				
Syndicated loan issuance costs	-	21,654	-	21,654
Amortization on bonds payable	-	(4,730)	-	(4,730)
Additions to right-of-use assets	-	-	24,275	24,275
Remeasurement of lease liabilities	-	-	(1,611)	(1,611)
Foreign exchange movement	(555)	(159,650)	(4,206)	(164,411)
As of December 31, 2021	<u>\$566,856</u>	<u>\$25,534,567</u>	<u>\$584,665</u>	<u>\$26,686,088</u>

Reconciliation of liabilities for year ended December 31, 2020:

	Short-term borrowings	Long-term loans	Lease liabilities	Total liabilities from financing activities
As of January 1, 2020	\$493,383	\$20,328,045	\$1,278,243	\$22,099,671
Cash flows	(390,244)	3,722,800	(510,312)	2,822,244
Non-cash changes				
Syndicated loan issuance costs	-	19,333	-	19,333
Amortization on bonds payable	-	(3,765)	-	(3,765)
Additions to right-of-use assets	-	-	89,750	89,750
Remeasure adjustment of lease liabilities	-	-	25,202	25,202
Foreign exchange movement	(2,285)	(255,625)	(6,302)	(264,212)
As of December 31, 2020	<u>\$100,854</u>	<u>\$23,810,788</u>	<u>\$876,581</u>	<u>\$24,788,223</u>

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G. Fair values of financial instruments

- a. The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

- (a) The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and other payables approximate their fair value due to their short maturities.
 - (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price at the reporting date.
 - (c) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
 - (d) Fair value of debt instruments without market quotations, bank loans and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instruments.
- b. Fair value of financial instruments measured at amortized cost

The carrying amounts of the Company's financial assets and financial liabilities measured at amortized cost approximate their fair value.

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c. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(3) section H for fair value measurement hierarchy for financial instruments of the Company.

H. Fair value measurement hierarchy

a. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

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

Level 3: Unobservable inputs for the assets or liabilities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

b. Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets measured at fair value on a non-recurring basis; the following table presents the fair value measurement hierarchy of the Company's assets and liabilities on a recurring basis:

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December 31, 2021

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through other comprehensive income				
Equity instruments measured at fair value through other comprehensive income	\$43,028	\$-	\$6,503,449	\$6,546,477

December 31, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through other comprehensive income				
Equity instruments measured at fair value through other comprehensive income	\$28,117	\$-	\$4,418,446	\$4,446,563

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

For the year ended December 31, 2021 :

	<u>Assets</u>
	<u>At fair value through other comprehensive income</u>
	<u>Stocks</u>
Beginning balance as at January 1, 2021	\$4,418,446
The fair value of the investments of derecognition	(1,365)
Total gains and losses recognized for the year ended December 31, 2021:	
Amount recognized in OCI (presented in “unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income”)	2,086,368
Ending balance as at December 31, 2021	<u>\$6,503,449</u>

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For the year ended December 31, 2020 :

	<u>Assets</u>
	<u>At fair value through other comprehensive income</u>
	<u>Stocks</u>
Beginning balance as at January 1, 2020	\$2,400,157
Total gains and losses recognized for the year ended December 31, 2020:	
Amount recognized in OCI (presented in “unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income”)	<u>2,018,289</u>
Ending balance as at December 31, 2020	<u><u>\$4,418,446</u></u>

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As at December 31, 2021

	<u>Valuation</u>	<u>Significant</u>		<u>Relationship</u>	
Financial assets:	<u>techniques</u>	<u>unobservable</u>	<u>Quantitative</u>	<u>between inputs and</u>	<u>Sensitivity of the input to</u>
Financial assets at fair		<u>inputs</u>	<u>information</u>	<u>fair value</u>	<u>fair value</u>
value through other					
comprehensive					
income					
Stocks	Assets approach	Discount for lack of marketability	10%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$714,919 thousand.
Stocks	Markets approach	P/E, P/B, EV/EBITDA, EV/EBIT and EV/Sales	30%	The higher the proportion of similar quantified information, the higher the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$9,883 thousand.

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As at December 31, 2020

Financial assets:	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets at fair value through other comprehensive income					
Stocks	Assets approach	Discount for lack of marketability	10%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$489,775 thousand.
Stocks	Markets approach	P/E, P/B, EV/EBITDA, EV/EBIT and EV/Sales	30%	The higher the proportion of similar quantified information, the higher the fair value of the stocks	10% increase/decrease in the discount for lack of marketability would result in decrease/increase in the Company's equity by NT\$1,495 thousand.

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company's Finance Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date.

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I. Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	December 31, 2021		
	Foreign Currency	Exchange rate	NT\$
	(thousand)		(thousand)
<u>Monetary financial assets</u>			
US\$	\$254,361	27.68	\$7,040,714
CNY	787,799	4.344	3,422,198
JPY	870,111	0.2405	209,262
<u>Monetary financial liabilities</u>			
US\$	343,348	27.68	9,503,862
CNY	745,364	4.344	3,237,863
JPY	927,990	0.2405	223,182
	December 31, 2020		
	Foreign Currency	Exchange rate	NT\$
	(thousand)		(thousand)
<u>Monetary financial assets</u>			
US\$	\$190,855	28.48	\$5,435,546
CNY	768,237	4.377	3,362,575
JPY	440,924	0.2763	121,827
<u>Monetary financial liabilities</u>			
US\$	308,578	28.48	8,788,289
CNY	560,758	4.377	2,454,439
JPY	277,443	0.2763	76,657

Functional currencies of entities of the Company are varied. Accordingly, the Company is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant asset and liability denominated in foreign currencies. The foreign exchange gains were NT\$134,139 thousand and NT\$242,514 thousand for the years ended December 31, 2021 and 2020, respectively.

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

J. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

K. The impact of the COVID-19 pandemic on the Company

Since the outbreak of COVID -19, the pandemic has been controlled appropriately in the countries where the Company's main operations and production are located. Therefore, no significant impact was incurred on the Company due to the pandemic.

Near the end of May 2021, a foreign migrant worker cluster infection occurred at the Company's premises. The Company, following the guidance from the Central Epidemic Command Center, decisively adopted series of measures to contain the infection. The measures included quarantine of infected workers, 48 hours production suspension and load reduction, etc. It is estimated that this cluster infection reduced approximately 30% of the Company's monthly sales in June 2021. Other than this one-time impact, COVID-19 does not have any significant impact on the Company's going concern basis, funding ability and operations.

13. Additional Disclosures

- (1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau for the year ended December 31, 2021:
 - A. Financing provided to others: None.
 - B. Endorsement/Guarantee provided to others: Please refer to Attachment 1.
 - C. Securities held as of December 31, 2021: Please refer to Attachment 2.
 - D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the capital stock: None.

English Translation of Financial Statements Originally Issued in Chinese

KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock: Please refer to Attachment 3.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock: None.
- G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock: Please refer to Attachment 4.
- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock: Please refer to Attachment 5.
- I. Financial instruments and derivative transactions: None.
- J. Parent-subsidary relationship between business dealings and important circumstances: Please refer to Attachment 6.

(2) Information on investees

Information regarding investee companies over which the Company can exercise significant influence or control: Please refer to Attachment 7.

(3) Investment in Mainland China: Please refer to Attachment 6 and Attachment 8.

(4) Major shareholders information: There is no shareholder who owns above 5% securities of the Company as at December 31, 2021 °

14. Segment Information

A. General information

The main revenue stream of the Company comes from testing and assembly services. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Company is aggregated into a single segment.

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KING YUAN ELECTRONICS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan dollars unless otherwise stated)

B. Regional information

(a) From external customer revenue:

	<u>For the years ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Taiwan	\$11,539,373	\$8,184,190
Asia	15,345,062	14,551,928
North America	6,243,330	5,565,380
Others	631,624	657,806
Total	<u>\$33,759,389</u>	<u>\$28,959,304</u>

(b) Non-current assets information is as follows:

	<u>December 31,</u>	<u>December 31,</u>
	<u>2021</u>	<u>2020</u>
Taiwan	\$35,221,439	\$32,645,996
Asia	11,089,124	7,893,696
Others	17,593	22,557
Total	<u>\$46,328,156</u>	<u>\$40,562,249</u>

(c) Important customer information

For the years ended December 31, 2021 and 2020, the information of external customer's revenue which exceeds 10% of the Company's consolidated revenues is as follows:

	<u>For the years ended December 31,</u>			
	<u>2021</u>		<u>2020</u>	
MediaTek Inc.	<u>\$5,044,632</u>	<u>15%</u>	<u>\$2,917,792</u>	<u>10%</u>

ENDORSEMENTS/GUARANTEES PROVIDED

For the year ended December 31, 2021

(Amounts in New Taiwan Thousand Dollars, Unless Specified otherwise)

NO.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 3)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship										
1	The Company	Suzhou Zhengkuan Technology Ltd.	(Note 1)	\$6,836,855	\$993,260	\$138,400	\$69,200	-	0.40%	\$13,673,710	Y	N	Y

Note1: A subsidiary in which endorser/guarantor holds directly over 50% of equity interest.

Note2: The amount of guarantees/endorsements for any single entity shall not exceed 20% of net worth of endorser/guarantor.

Note3: The maximum endorsement/guarantee amount allowable shall not exceed 40% of the Company's net worth as of December 31, 2021.

MARKTEABLE SECURITIES HELD

As of December 31, 2021

(Amounts in New Taiwan Thousand Dollars, Unless Specified otherwise)

Held Company Name	Securities Type	Securities Name	Relationship with the Company	Financial Statement Account	Balances as of December 31, 2021				Note
					Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
The Company	Stock	Shieh Yong Investment Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	121,840,431	1,669,533	7.58%	1,669,533	
	Stock	APM Communication, Inc.	-	Non-current financial assets at fair value through other comprehensive income	10,456	-	0.11%	-	
	Stock	Greenliant Systems, Ltd.	-	Non-current financial assets at fair value through other comprehensive income	2,333,333	-	3.10%	-	
	Stock	YANN YUAN Investment Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	25,000,000	4,764,734	15.34%	4,764,734	
	Stock	Movella Inc. (Note)	-	Non-current financial assets at fair value through other comprehensive income	528,745	-	0.81%	-	
	Stock	IROC Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	315,999	12,877	1.23%	12,877	
	Stock	Subtron Technology Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	927,147	30,151	0.32%	30,151	
	Stock	CAL-COMP INDÚSTRIA DE SEMICONDUCTORES S.A.	-	Non-current financial assets at fair value through other comprehensive income	11,965,500	69,182	17.16%	69,182	

Note: The security was renamed from Mcube Inc.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL

As of December 31, 2021

(Amounts in New Taiwan Thousand Dollars, Unless Specified otherwise)

Held Company Name	Type of Properties	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose and Usage of Acquisition	Other Commitments
							Owner	Relationship with the Issuer	Transfer Date	Amount			
The Company	Land and building	2020.10.30 (Note)	\$350,000	According to the trading term of purchase order, the Company has paid off the total consideration as of December 31, 2021.	Henghou Xingye Co., Ltd.	None	Not applicable				Reference to valuation report	Purpose: to meet the needs of future operation and development usage status: ownership has been transferred	None
The Company	Land and building	2020.12.25 (Note)	\$639,000	According to the trading term of purchase order, the Company has paid \$447,300 as of December 31, 2021.	Weishun architecture Co., Ltd.	None	Not applicable				Price comparison and bargaining	Purpose: to meet the needs of future operation and development usage status: ownership not transferred	None

Note: Board of Directors approval date.

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

As of December 31, 2021

(Amounts in New Taiwan Thousand Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable (Including Contract Assets)	
			Purchase/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
The Company	MediaTek Inc.	The chairman of the Company and the chairman of Mediatek Inc. are close relatives	Sales	\$4,654,610	18.03%	Month-end 75 days	-	-	\$1,069,273	17.32 %
	Mediatek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	Sales	\$2,947,566	11.42%	Month-end 60 days	-	-	\$787,233	12.75 %
	Airoha Technology Corp.	Subsidiary of MediaTek Inc.	Sales	\$504,002	1.95%	Month-end 60 days	-	-	\$155,744	2.52 %
	Airoha Technology (Suzhou) Limited.	Subsidiary of MediaTek Inc.	Sales	\$114,130	0.44%	Month-end 75 days	-	-	\$32,178	0.52 %
King Long Technology (Suzhou) Ltd.	MediaTek Inc.	The chairman of the Company and the chairman of Mediatek Inc. are close relatives	Sales	\$390,022	5.82%	Month-end 75 days	-	-	\$58,388	3.45 %
	Mediatek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	Sales	\$151,158	2.26%	Month-end 75 days	-	-	\$22,357	1.32 %
	Suzhou Zhengkuan Technology Ltd.	Subsidiary	Sales	\$158,619	2.37%	Month-end 180 days	-	-	\$96,486	5.71 %

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

As of December 31, 2021

(Amounts in New Taiwan Thousand Dollars, Unless Specified otherwise)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rates	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
The Company	MediaTek Inc.	The chairman of the Company and the chairman of Mediatek Inc. are close relatives	\$1,073,634 (Note 1)	4.38	\$-	-	\$732,225	-
	Mediatek Singapore Pte. Ltd.	Subsidiary of MediaTek Inc.	\$787,565 (Note 2)	4.50	\$29	-	\$505,191	-
	Airoha Technology Corp.	Subsidiary of MediaTek Inc.	\$155,744	4.87	\$-	-	\$98,266	-
	King Long Technology (Suzhou) Ltd.	Subsidiary	\$436,705 (Note 3)	0.83	\$-	-	\$20,822	-
King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	Subsidiary	\$156,880 (Note 4)	1.89	\$-	-	\$28,164	-

Note 1: Includes other receivables - related party amounting to NT\$4,361 thousand arising from handling charges, freights and tax fees.

Note 2: Includes other receivables - related party amounting to NT\$332 thousand arising from customs clearance charges and freights.

Note 3: Includes other receivables - related party amounting to NT\$425,716 thousand arising from disposal of equipments and accessories.

Note 4: Includes other receivables - related party amounting to NT\$60,394 thousand arising from utility fees.

INTERCOMPANY RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS DURING THE REPORTING PERIOD

For the year ended December 31, 2021

(Amounts in New Taiwan Thousand Dollars, Unless Specified otherwise)

Number	Company name	Counterparty	Relationship				
				Financial Statement Account	Amount (Foreign Currency in Thousands)	Transaction Terms	% of Net Revenues or total Assets
0	KYEC	KYEC USA Corp.	1	Commission expense	\$46,330	according to contract	0.14%
				Accrued expenses	2,076		-
		King Long Technology (Suzhou) Ltd.		Disposal of equipment	1,140,684		1.58%
				Purchase equipment	20,018		0.03%
				Accounts receivable	10,989		0.02%
				Other receivables	425,716		0.59%
				Accrued expenses	10,168		0.01%
				Sales revenue	32,399		0.10%
				Equipment repair	1,182		-
				Deferred credits	148,074		0.21%
		KYEC Japan. K.K.		Accrued expenses	6,585		0.01%
				Commission expense	26,442		0.08%
KYEC Singapore PTE. LTD.	Commission expense	23,897	0.07%				
Suzhou Zhengkuan Technology Ltd.	Endorsement guarantee	138,400 (US\$5,000)	-				
	Disposal of equipment	32,195	0.04%				
	Purchase equipment	1,213	-				
	Accrued expenses	1,977	-				
	Sales revenue	2,350	0.01%				
	Deferred credits	14,265	0.02%				
1	King Long Technology (Suzhou) Ltd.	Suzhou Zhengkuan Technology Ltd.	3	Sales revenue	158,619	0.47%	
				Accounts receivable	96,486	0.13%	
				Other receivables	60,394	0.08%	

Note 1: The information of transactions between the Company and the consolidated subsidiaries should be noted in "Number" column.

- (1) Number 0 represents the Company.
- (2) The consolidated subsidiaries are numbered in order from number 1.

Note 2: The transaction relationships with the counterparties are as follows:

- (1) The Company to the consolidated subsidiary.
- (2) The consolidated subsidiary to the Company.
- (3) The consolidated subsidiary to another consolidated subsidiary.

Note 3: In calculating the ratio, the transaction amount is divided by consolidated total assets for balance sheet accounts and is divided by consolidated total revenues for income statement accounts.

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

For the year ended December 31, 2021

(Amounts in New Taiwan Thousand Dollars and United States Thousand Dollars, Unless Specified otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2021			Net Income (Loss) of the Investee	Investment income (loss) recognised by the Company for the year ended of December 31, 2021.	Note
				December 31, 2021	December 31, 2020	Shares	Percentage of Ownership	Carrying Value			
The Company	KYEC USA Corp.	Note 1	Sales agent and business communication in USA	\$4,973	\$4,973	160,000	100.00 %	\$11,367	\$(200)	\$(200)	
	KYEC Investment International Co., Ltd.	Note 2	Investing activities	5,292,315	5,292,315	164,923,636	100.00 %	7,925,792	1,757,293	1,757,293	
	KYEC Technology Management Co., Ltd.	Note 3	Investing activities	251,579	251,579	7,500,000	100.00 %	504,621	111,770	111,770	
	KYEC Japan. K.K.	Note 4	Manufacturing and sales of electronic parts and components, sales agent and business communication in Japan	102,735	102,735	1,899	89.83 %	53,553	4,863	4,368	
	KYEC SINGAPORE PTE. LTD.	Note 5	Sales agent and business communication in South East Asia and Europe	1,830	1,830	78,000	100.00 %	6,313	4,619	4,619	
	Fixwell Technology Corp.	Note 6	Manufacturing, selling and wholesale of electronics parts and components and repairing of electronics related products	28,000	28,000	2,800,000	23.33 %	50,400	50,698	11,819	
	Wei Jiu Industrial Co., Ltd.	Note 7	CNC center processing machine, lathe machining processing design and various precision mechanical components manufacturing	10,200	10,200	1,020,000	34.00 %	28,726	30,711	10,441	
	King Ding Precision Incorporated Company	Note 8	Manufacturing, selling and wholesale of electronics parts and components and repairing of electronics related products	72,600	72,600	6,600,000	100.00 %	71,337	1,375	1,375	
KYEC Investment International Co., Ltd.	KYEC Microelectronics Co., Ltd.	Note 9	Investing activities	USD 116,155	USD 116,155	118,000,000	94.02 %	USD 286,336	USD 66,791	-	
KYEC Technology Management Co., Ltd.	KYEC Microelectronics Co., Ltd.	Note 9	Investing activities	USD 7,500	USD 7,500	7,500,000	5.98 %	USD 18,231	USD 66,791	-	

Note 1 : 101 Meto Drive., #540 San Jose, CA 95110 USA.

Note 2 : Wickhams Cay II Road Town, Tortola, VG1110, British Virgin Islands.

Note 3 : Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa.

Note 4 : 5F 2-3-8 Momochihama, Sawara-ku, Fukuoka 814-0001 Japan.

Note 5 : 750A Chai Chee Road Unit 07-22 Technopark @Chai Chee, Singapore 469001.

Note 6 : No. 380, Huashan Rd., Dadu Dist., Taichung City 432, Taiwan (R.O.C.)

Note 7 : No. 8, Aly. 8, Ln. 48, Sec. 2, Nan'ai Rd., Xiangshan Dist., Hsinchu City 300, Taiwan (R.O.C.)

Note 8 : No. 118, Zhonghua Rd., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.)

Note 9 : P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

INFORMATION ON INVESTMENT IN MAINLAND CHINA

For the year ended December 31, 2021

(Amounts in New Taiwan Thousand Dollars, CNY thousand, and United States Thousand Dollars, Unless Specified otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2021	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2021	Net Income (Loss) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 5)	Carrying Amount as of December 31, 2021	Accumulated Inward Remittance of Earnings as of December 31, 2021
					Outflow	Inflow						
King Long Technology (Suzhou) Ltd.	Note 1	\$2,370,525 (CNY 546,176)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	\$3,422,770 (USD 123,655)	\$-	\$-	\$3,422,770 (USD 123,655)	\$1,927,763 (USD 68,902)	92.46%	\$1,869,063 (USD 66,791)	\$8,430,414 (USD 304,567)	\$-
Suzhou Zhengkuan Technology Ltd.	Note 3	\$2,314,850 (CNY 533,348)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	\$1,349,916 (USD 48,769)	\$-	\$-	\$1,349,916 (USD 48,769)	\$187,296 (USD 6,698)	92.46%	\$181,024 (USD 6,473)	\$690,448 (USD 24,944)	\$-

Accumulated Investment in Mainland China as of December 31, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$4,772,686 (USD 172,424)	\$4,772,686 (USD 172,424)	\$20,510,565

Note 1: Research and development, design, manufacture, packaging, testing, processing and maintenance of semiconductor integrated circuits, transistors, electronic components, electronic materials, analog or hybrid automatic data processors, solid-state memory systems, heating ovens and related products and components. Integrated circuit related technology transfer, technical consultation, technical services, sales of self-produced products and provision of related after-sales services.

Note 2: The Company obtained the approval from the Investment Commission, MOEA, to invest indirectly in King Long Technology (Suzhou) via KYEC Microelectronics Co., Ltd. which is registered in Cayman Island. KYEC Microelectronics Co., Ltd. is invested by KYEC Investment International Co., Ltd. which is registered in BVI.

Note 3: R&D, production (assembly and testing), processing of large-scale integrated circuits for electronic components, electronic materials, analog or hybrid automatic data processors, solid-state memory systems, heating oven controllers, etc., sales of self-produced products, and provision of relevant after-sales service; integrated circuit related technology transfer, technical consultation, technical service.

Note 4: Investment was through King Long Technology (Suzhou) Ltd.

Note 5: Recognition of investment gains (losses) was calculated based on the investee's audited financial statements.