

Stock Code: 6861

# **InnoCare Optoelectronics Corporation**

## **2022 Annual Report**

*Notice to readers*

*This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.*

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Printed on March 31, 2023

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# I. Letter to Shareholders

## 1.1 Report on operating results for 2022

At the beginning of 2022, the Russian-Ukrainian War broke out in a global accident. The war and related international sanctions directly impacted the European continent natural gas and oil supply chains, causing skyrocketing global energy prices, and the sharply rising inflation pressure. The U.S. Fed and the European Central Bank have adopted urgent interest rate hikes as a means to deal with severe inflation. The capital flow tightening has impacted on exchange rates and business operations, and also caused tightening pressure on consumption and employment, adding uncertain factors to the economic situation.

The Company's main product, the X-ray flat panel sensor, is mainly used in the fields of medical testing and industrial non-destructive testing. Despite the increasing global economy uncertainties, the medical industry still maintains steady growth. The new technologies and new products of the Company are gradually entering mass production, so that the sales volume maintains a growth trend. In addition, in the field of non-destructive testing, the Company expects that smart manufacturing will boost the demand for related products. The market promotion in 2022 has achieved preliminary results, and it is expected that there will be further development and growth in 2023.

This year, the Company's product and technology development has received external recognition. In addition to the ODM product Yushan flexible substrate series, which obtained the Medical Equipment License (TFDA) from the Ministry of Health and Welfare and the FDA license, Sylvia dynamic capture X-ray flat panel sensor, a next-generation IGZO snow mountain, won the bronze award of "2022 SDIA Award" in the fourth quarter, and subsequently won the "19th National Innovation Award-Enterprise" with "Smart X-ray Flat Panel Detector", reflecting the company's R&D achievements.

In addition, the Company actively participates in social welfare activities. Since July, the Company has joined hands with the National Cheng Kung University School of Medicine to launch the "Southwest Coast Ten Thousands People Action X-ray Early Lung Cancer Screening Project". The dual-energy X-ray flat panel sensor module produced by the Company is combined with the mobile X-ray vehicle to go deep into various towns and cities to assist in the early screening of lung cancer and contribute to the promotion of people's health.

The Company applied to the Taiwan Stock Exchange for initial listing of stocks in July 2022, and received the letter of approval at the end of December. The cash capital increase proposal for listing became effective on January 11, 2023 and listing and trading start date is March 27, 2023. Listing will enhance the Company's international visibility and stock liquidity, make the Company's future fundraising more convenient, and lay the foundation for subsequent expansion and development.

### 1.1.1 Results of Business Plan Implementation

The Company's net operating revenue in 2022 was NT\$1,886,619 thousand, a decrease of 2.8% compared to the previous year, mainly due to the product structure adjustment. The proportion of IGZO products sold in components and small-sized models increased, and the unit price of amorphous silicon component products fell due to market competition, resulting in revenue decline. For 2022, the Company achieved the after-tax income attributable to shareholders of NT\$198,717 thousand, a year-on-year increase of 0.1%, and the earnings per share was NT\$5.62.

### 1.1.2 Results of Budget Execution

No financial forecast has been disclosed for 2022, therefore there is no need to disclose budget execution.

### 1.1.3 Analysis of Financial Income and Expenditure and Profitability

Items		2021	2022
Capital Structure (%)	Debts to assets ratio	62.63	59.17
	Ratio of long-term capital to property, plant, and equipment	326.11	411.22
Solvency	Current ratio (%)	143.05	158.56
	Quick ratio (%)	93.63	112.14
	Time interest earned (times)	291.23	46.80
Profitability	Return on total assets (%)	10.64	10.96
	Return on equity (%)	38.39	27.35
	Operating profits as a percentage of paid-in capital (%)	29.93	24.11
	Net profits before tax as a percentage of paid-in capital (%)	66.62	67.63
	Net profit margin (%)	10.23	10.53
	Earnings per share (NT\$)	6.05	5.62

### 1.1.4 Status of Research and Development

The Company takes TFT-PD as the core technology, and mainly develops X-ray flat panel sensor-related products based on this core technology. The products are mainly used in digital X-ray testing systems in medical, industrial manufacturing and other testing fields. Since this type of testing system requires high precision, high reliability and durability, the product development and design verification often lasts for several years, so the product life cycle is generally over 5 to 7 years, and some even cost more than 10 years.

As the penetrability of X-rays makes the internal structure of the human body and objects visualized and interpreted, it is irreplaceable in the testing field. It is expected that with the advancement of image analysis technology, the X-ray detection application field will be further expanded in the future. In addition, the X-ray flat panel sensor using thin film transistor-photodiode technology has the advantage of building large-sized products, and it is easier to realize large-sized dynamic detection after upgrading with a new generation of high-frame-rate technology. The scale of this market is increasing rapidly, and is estimated to be the key factor driving the Company's growth in the next few years.

In order to continuously build the technology and product competitiveness, the Company is now committed to developing a new generation of IGZO structure, component design with high pixel filling factor, key scintillator process, increasing the product line of medical X-ray sensor module and industrial nondestructive testing equipment, and investing in AI image analysis technology development. The research and development costs of 2022 totaled NTD 248,437 thousand, accounting for 13.17% of the sales revenue. In the future, devotion of R&D resources will be continued and high value-added products will be introduced in order to enhance customer stickiness and competitive advantages on the market.

## 1.2 Summary of Business Plan for 2023

### 1.2.1 Business Guidelines

The Company is mainly engaged in the energy of thin-film transistor-photodiode (TFT-PD) technology, and continuously invests in the research and development of advanced technologies and products, and integrate the design, manufacturing, and supply chain dispatching capabilities of devices and modules downstream; our goal is to enhance customer adhesion and expand application fields, product application modes, and target market size through leading technologies and integrated one-stop services.

On this basis, our X-ray flat panel detector device products focus on increasing the penetration of new technologies and applications, increasing sales of high value products, and continuing to invest in the improvement of product specifications, yields, and quality stability to achieve better profits. The development of X-ray flat panel detector module (FPD) products will focus on expanding the product line and enhancing the breadth of customer base, moving from the development of static products to dynamic products; for market expansion, continue to expand the OEM/ODM customer bases for medical and veterinary FPD products, as well as exploring new sales channels to increase sales. On the other hand, the Company expects that X-ray detection has high development potential in the industrial and manufacturing sectors, and the penetration rate of TFT-PD technology products in medical dynamic

detection will gradually increase, so we plan to increase the R&D and sales layout of industrial detection systems.

The Company mainly implements the following operation management policies and guidelines:

- A. Continuously increase sales of new technology products
- B. Enhance OEM/ODM service capacity for module products:
- C. Expand the market of industrial non-destructive testing products
- D. Continuously improve product quality and cost competitiveness
- E. Accelerate the development of new technologies and products

With the mission of “providing a full range of reliable X-ray image sensing solutions”, the Company continues to promote R&D innovation in X-ray detection and medical imaging fields, and implement the product strategy of technical value maximization and profit orientation. Through innovative technologies, products and business models, the Company will cooperate with upstream and downstream partners in global supply chain to create new business opportunities, and make a global layout to achieve continuous growth in revenue and profit. The Company is also actively strengthening long-term competitiveness and financial position, and moving toward our corporate vision of “perceiving the future to enrich the current performance, and using AI smart vision to protect health and safety”, so that we can demonstrate the value of corporate contributions to society while increasing shareholders' interests. We hope all shareholders could continue to give your support and encouragement. Lastly, I wish everyone good health and the best of luck. Thank you.

### **1.2.2 Expected Sales Volume and Basis**

The Company's main products are X-ray flat panel detector devices and modules for digital radiography systems. At present, our products are mainly used in human and animal medical applications, as well as industrial testing products. Digital radiography system is a commercialized product and one of the widely used detection technologies, while the X-ray flat panel detector is its core component. According to the data of SPER Market Research (a market research company), the market of X-Ray Detectors, which cover veterinary, medical, dental, industrial and security detection fields, reached US\$2.95 billion in 2021 and is expected to reach US\$5.30 billion in 2030, with a compound annual growth rate of 6.8%. Therefore, this is a continuously and steadily growing market. In addition, technical progress improves the performance and application fields of the products. In such an industry environment, the Company expects the sales of X-ray flat panel detectors will continue to grow steadily in 2023.

### **1.2.3 Key Production and Sales Policies**

The Company is mainly engaged in customized products, and provide design, production, and supply chain dispatching services to OEM/ODM customers. The production capacity and inventory plan are adjusted based on customer orders and the market outlook of our sales team, and the safety inventory level of raw materials is adjusted taking into account the supply chain status.

## **1.3 Future Company Development Strategy**

As a provider of X-ray flat panel detector solutions, the Company mainly provides customers with a full range of one-stop products and services including X-ray flat panel detector device, module OEM/ODM, X-ray detection equipment, and supply chain services using TFT-PD as the main technology. Looking forward into the development of Smart Medicine and Industry 4.0, the Company will continue to invest in the development of AI image analysis, intelligent service platform, and industrial detection products to increase new growth potential.

## **1.4 The Effect of External Competition, the Legal Environment, and the Overall Business Environment**

With the gradual relief of COVID-19, global economic activities return to normal as they were. However, the Russian-Ukrainian Conflict and the inflation caused by the economic stimulus policies during the epidemic have brought about uncertainties to the global business environment. As inflation cools down and interest rate hikes in the USA and EU are expected to end in 2023, the overall business environment is expected to stabilize.

As of the Annual Report's publication date, there has been no adversely impact on financial or business of the Company and its subsidiaries due to any policy and law changed. The Company's quality system has passed ISO 13485 and ISO 9001 certifications, the Taiwan plant has obtained GMP certification, and the medical device products have been certified by TFDA of the Ministry of Health and Welfare and USA FDA for marketing. The Company and its subsidiaries have always operated in compliance with relevant domestic and foreign laws and regulations. All the Company's teammates would be closely watchful of potential changes in major policies and laws and ordinances concerned at home and abroad. Through such efforts we shall be able to take right countermeasures in real-time to minimize the potential impact upon the financial standing and business of the Company and its subsidiaries which might be incurred by major policies at home and abroad and change in laws.

Chairman: Chu-Hsiang Yang

Managerial Officer: Chih-Sheng Lee

Chief Accountant: Chung-Wei Huang



## II. Company Profile

### 2.1 Date of Incorporation: April 2, 2019

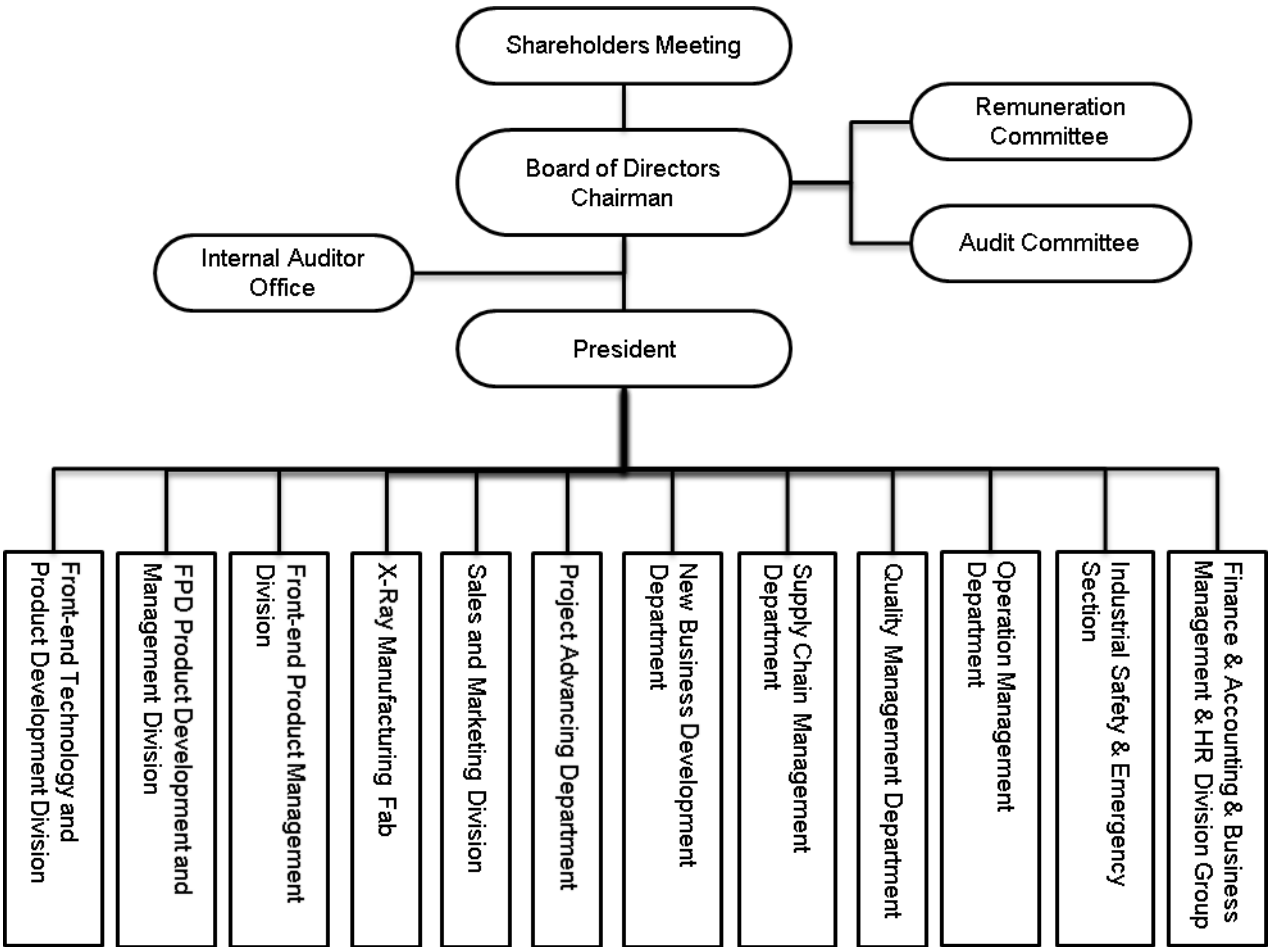
### 2.2 Company History

Year	Important Events
April 2019	Established InnoCare Optoelectronics Corporation Established the US subsidiary, InnoCare Optoelectronics USA, Inc.
June 2019	Established the Japanese subsidiary, InnoCare Optoelectronics Japan Co., Ltd.
September 2019	Obtained “License for Pharmaceutical Manufacturer” issued by the Republic of China
October 2019	Obtained the approval of USA FDA for FPD products
November 2019	Obtained ISO13485 certification
April 2020	Passed the Good Manufacturing Practice (GMP) for medical devices of the Republic of China
June 2020	Realized mass production of IGZO products Yushan series products obtained the medical device license (TFDA) from the Ministry of Health and Welfare, Republic of China
October 2020	Tainan plant obtained ISO14001 certification Tainan plant obtained ISO45001 certification Yushan series products passed FDA 510(k) review
March 2021	Yushan series products obtained EU CE certification Established the Netherlands subsidiary, Innocare Optoelectronics Europe B.V.
April 2021	Passed the “Industrial Upgrading and Innovation Platform Guidance Program” of Industrial Development Bureau, Ministry of Economic Affairs
May 2021	Obtained ISO9001 certification
September 2021	Effective registration of Public offering of the Company's shares
November 2021	Taipei Exchange approved the Company’s shares to be offered to the public
February 2022	Southern Precision Health Industry Cluster Promotion Program applied for approval
April 2022	Flexible substrate series of ODM product Yushan obtained the Medical Device License (TFDA) from the Ministry of Health and Welfare of the Republic of China and the USA FDA license
June 2022	Obtained "Opinions on the Marketability of Science and Technology Enterprises" from from Industrial Development Bureau, Ministry of Economic Affairs
July 2022	Launched the “Southwest Coast Ten Thousands People Action X-ray Early Lung Cancer Screening Project” with College of Medicine, National Cheng Kung University
November 2022	IGZO next-generation snow mountain Sylvia dynamic capture X-Ray flat panel detector won the Bronze Award of “2022 SDIA Award for Forward-Looking Displays”
December 2022	“Smart X-Ray Flat Panel Detector” won the “19th National Innovation Award - Enterprise Innovation Award”
March 2023	The Company was listed on the Taiwan Stock Exchange on March 27.

# III. Corporate Governance Report

## 3.1 Organization

### 3.1.1 Organization Chart



### 3.1.2 Major Corporate Functions

Name of Department	Responsibilities
Front-end Technology and Product Development Division	<ol style="list-style-type: none"> <li>1. Design and development of X-ray flat panel detector devices</li> <li>2. Research on next-generation detector devices technology and process</li> <li>3. Technical support for customers during product introduction</li> </ol>
FPD Product Development and Management Division	<ol style="list-style-type: none"> <li>1. Design and development and progress management of X-ray flat panel detector module (FPD) products</li> <li>2. Image analysis and software service development</li> <li>3. Technical service and after-sales service for X-ray flat panel detector module products</li> </ol>
Front-end Product Management Division	<ol style="list-style-type: none"> <li>1. Product planning and development progress management of X-ray flat panel detector devices</li> </ol>
X-Ray Manufacturing Fab	<ol style="list-style-type: none"> <li>1. Production of all products of the Company</li> <li>2. Automated development of production process</li> </ol>
Sales and Marketing Division	<ol style="list-style-type: none"> <li>1. Planning sales strategies and setting sales targets</li> <li>2. A window for understanding customer product demand and maintaining customer relationship</li> <li>3. Customer order quotation, review, shipment arrangement and collection follow-up</li> </ol>
New Business Development Department	<ol style="list-style-type: none"> <li>1. Promotion and management of various external cooperation projects</li> <li>2. Pre-planning and preparation of new products and services</li> </ol>
Project Advancing Department	<ol style="list-style-type: none"> <li>1. Development of sales channels in emerging markets</li> <li>2. Market development of new products and services</li> </ol>
Supply Chain Management Department	<ol style="list-style-type: none"> <li>1. Bargaining and procurement of raw materials, equipment and production tools</li> <li>2. Planning for strategic supplier</li> <li>3. Planning for inventory level of production materials and incoming schedule</li> <li>4. Import/export customs declaration and shipment arrangements</li> </ol>
Quality Management Department	<ol style="list-style-type: none"> <li>1. Planning and maintenance of quality management system</li> <li>2. Department responsible for planning, execution, and verification of the Company's quality management</li> </ol>
Operation Management Department	<ol style="list-style-type: none"> <li>1. Management of production scheduling and delivery plans</li> <li>2. Management of production capacity planning and capital expenditure in accordance with operational strategies</li> <li>3. Planning and management of company-wide information system and various information software and hardware equipment</li> </ol>
Industrial Safety & Emergency Section	<ol style="list-style-type: none"> <li>1. Planning for environmental protection and work safety, and supervision of the implementation</li> <li>2. Promotion of health and hygiene education of the Company</li> </ol>
Finance & Accounting & Business Management & HR Division Group	<ol style="list-style-type: none"> <li>1. Responsible for financing, investment, capital management and credit control of the Company</li> <li>2. Responsible for accounting, accounts receivable and payable management, and tax management</li> <li>3. Management accounting, expense management, and operating performance analysis</li> <li>4. Stock affairs, investor relations and public relations</li> <li>5. Planning and promotion of recruitment, education and training, compensation, rewards and punishments, and employee benefits</li> </ol>
Internal Auditor Office	<ol style="list-style-type: none"> <li>1. Drafting annual audit plan</li> <li>2. Conducting audits in accordance with the audit plan approved by the Board of Directors</li> <li>3. Conducting special audits as directed by the Board of Directors/Chairman</li> </ol>

## 3.2 Directors and Management Team

### 3.2.1 Directors

March 26, 2023; Unit: Shares

Title	Nationality/ Place of registration	Name (Note 1)	Gender /Age	Date Elected	Term (X)	Date First Elected	Shareholding when Elected		Current Shareholding		Shareholding of spouse and underage children		Shares held through nominees		Experience (Education)	Other Position	Spouse or relatives of second degree or closer acting as managerial officer or director		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	TW	Innolux Corporation	—	2021.11.05	3	2019.04.02	20,500,000	52.05	20,200,000	51.29	—	—	—	—	—	—	—	—	—
		Representative: Chu-Hsiang Yang	Male 50-59 yrs. old	2021.11.05		2019.04.02	N.A.	—	294,888	0.75	—	—	—	—	M.S., Chemical Engineering, National Central University Vice President, Innolux Corporation Associate VP, Chi Mei Optoelectronics Corporation Deputy Section Manager, Chunghwa Picture Tubes, Ltd.	Note 2	—	—	—
Corporate Director	TW	Innolux Corporation	—	2021.11.05	3	2019.04.02	20,500,000	52.05	20,200,000	51.29	—	—	—	—	—	—	—	—	—
		Representative: Tien-Jen Lin	Male 50-59 yrs. old	2021.11.05		2021.11.05	N.A.	—	4,000	0.01	—	—	—	—	M.S., Graduate Institute of Electronics Engineering, National Taiwan University Associate VP, Innolux Corporation Consultant of President Office, Unity Opto Technology Co., Ltd. Director of Product Development Department, Chi Mei Optoelectronics Corporation	Note 3	—	—	—

Title	Nationality/ Place of registration	Name (Note 1)	Gender /Age	Date Elected	Term (Y)	Date First Elected	Shareholding when Elected		Current Shareholding		Shareholding of spouse and underage children		Shares held through nominees		Experience (Education)	Other Position	Spouse or relatives of second degree or closer acting as managerial officer or director		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	TW	Jyh-Chau Wang	Male 60-69 yrs. old	2021.11.05	3	2021.11.05	20,588	0.05	24,838	0.06	—	—	—	—	M.S., Materials Engineering, National Tsing-Hua University Chairman, Innolux Corporation Vice President, Chi Lin Technology Co., Ltd. Deputy Plant Director, Unipac Optoelectronics Corp. Associate Research Fellow, Material Research laboratories, Industrial Technology Research Institute	Director, Innolux Corporation Chairman, Innolux Education Foundation	—	—	—
Director	TW	Ta-Lun Huang	Male 50-59 yrs. old	2021.11.05	3	2021.11.05	—	—	—	—	—	—	—	—	MBA, University of Michigan, Ann Arbor Partner, AsiaVest Partners, TCW/YFY Ltd.	Note 4	—	—	—
Independent Director	TW	Hung-Chi Li	Male 50-59 yrs. old	2021.11.05	3	2021.11.05	—	—	—	—	—	—	—	—	MBA, George Washington University, USA President, Yuanta Securities Co., Ltd. Managing Director, Deutsche Securities Asia, Taipei Branch, Hong Kong Managing Director, Credit Suisse Securities Limited, Taipei Branch, Switzerland Managing Director, Barclays Securities Limited, Taipei Branch, United Kingdom	CEO, Quantum International Corp.	—	—	—

Title	Nationality/ Place of registration	Name (Note 1)	Gender /Age	Date Elected	Term (Y)	Date First Elected	Shareholding when Elected		Current Shareholding		Shareholding of spouse and underage children		Shares held through nominees		Experience (Education)	Other Position	Spouse or relatives of second degree or closer acting as managerial officer or director		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Independent Director	TW	Chi-Tsung Huang	Male 60-69 yrs. old	2021.11.05	3	2021.11.05	—	—	—	—	—	—	—	—	Department of Mechanical Engineering, Tatung University President, Taiwan Medical and Biotech Industry Association Advisory Committee Member, Engineering Technology Promotion Center, Ministry of Science and Technology	Note 5	—	—	—
Independent Director	TW	Yi-Hung Chou	Male 70-79 yrs. old	2021.11.05	3	2021.11.05	—	—	—	—	—	—	—	—	School of Medicine, Taipei Medical University	Note 6	—	—	—

Note 1: Existing Directors as of the date of the annual report.

Note 2: Concurrently as Directors: CarUX Holding Limited, CarUX Technology Pte. Ltd., Innolux Japan Co., Ltd, Innolux Singapore Holding Pte. Ltd., InnoCare Optoelectronics USA, Inc., Yuan Chi investment co., Ltd (Statutory representative), Chi Lin Optoelectronics CO., LTD. (Statutory representative), InnoJoy Investment Corporation (Statutory representative), FI Medical Device Manufacturing Co., Ltd. (Statutory representative), CarUX Technology Inc. (Statutory representative), Ningbo CarUX Technology Co. Ltd, Epileds Technologies, Inc. (Statutory representative), INStek Corporation (Statutory representative), GIO Optoelectronics Corp. (Statutory representative), KA Imaging Inc.

Note 3: Concurrently as Directors: Innolux Europe B.V., Innolux Technology Germany GmbH

Note 4: Concurrently as Chairman of the Board: Chairman and Director of Strategic Development Office of GCS Holdings, Inc. (British Cayman Islands), Shanghai Zhoujia Optoelectronics Co., Ltd.  
Concurrently as Directors: Tcera Co., Ltd., Amulaire Thermal Technology, Inc., Unicorn Semiconductor Corp., GCS Device Technologies, Co., Ltd. (Statutory representative), Parade Technologies, Ltd.

Concurrently as Independent Directors: Egis Technology Inc., ALi Corporation, Mikobeaute International Co., Ltd.

Note 5: Chairman and President of Apex Health Care Mfg., Inc., Chairman of Road Social Enterprise Co., Ltd., Member of the Enterprise Advisory Committee of Yunlin-Chiayi-Tainan Area, Executive Yuan, and Advisor of Taiwan Bio-medical Care Association

Note 6: Academic Vice President of Yuanpei University of Medical Technology, Chair Professor of Yuanpei University of Medical Technology, Adjunct Professor of National Yang Ming Chiao Tung University

Note 7: Where the chairman and president or equivalent position (highest level executive officer) is the same person, the spouse, or a first-degree relative, provide information on the reason, reasonableness, necessity, and future improvement measures: None.

1. Major shareholders of the institutional shareholders

March 26, 2023

Name of institutional shareholders	Major shareholders of the institutional shareholders
Innolux Corporation (Note)	Hyield Venture Capital Co., Ltd. (1.67%), Norges Bank-fund mgr Neuberger Berman Europe Limited (1.53%), Hon Hai Precision Components Co., Ltd. (1.40%), TaipeiFubon Bank in custody for Innolux Corporation Trust Account (1.33%), Point72 Associates, LLC (1.23%), Foxconn Technology Co., Ltd. (1.21%), Hua Zhun Investments Co., Ltd. (1.15%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (0.88%), Government of Singapore (0.85%), iShares Core MSCI Emerging Markets ETF (0.82%)

Note: The information is derived from the close of registrar information of the Company dated April 2, 2023.

2. Major shareholders of the Company's major institutional shareholders

March 26, 2023

Name of institutional shareholders	Major shareholders
Hyield Venture Capital Co., Ltd.	Hon Hai Precision Components Co., Ltd. (97.95%), Pao Shin International Investment Co., Ltd. (2.05%)
Norges Bank-fund mgr Neuberger Berman Europe Limited	N.A.
Hon Hai Precision Ind. Co., Ltd. (Note)	Tai-Ming Gou (Terry Gou) (12.56%), Government of Singapore (2.78%), New Labor Pension Fund (1.64%), LGT Bank AG (1.20%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (1.19%), JPMorgan Chase Bank Hosting Vanguard STAR Developed Markets Index Fund (1.14%), Norges Bank-fund mgr Neuberger Berman Europe Limited (1.06%), Citibank Hosting Hon Hai Precision Industry Co., Ltd. Depository Receipts Account (1.06%), CTBC Bank Hosting Yuanta/P-shares Taiwan Top 50 ETF (0.89%), iShares Core MSCI Emerging Markets ETF (0.82%)
TaipeiFubon Bank in custody for Innolux Corporation Trust Account	N.A.
Point72 Associates, LLC	N.A.
Foxconn Technology Co., Ltd. (Note)	Hon Hai Precision Components Co., Ltd. (9.88%), Pao Shin International Investment Co., Ltd. (8.92%), Hyield Venture Capital Co., Ltd. (6.01%), Shin Shen Investments Co., Ltd. (4.70%), Hon Yuan International Investments Co., Ltd. (2.41%), Hon Chi International Investments Co., Ltd. (2.25%), LGT Bank AG (2.11%), Norges Bank-fund mgr Neuberger Berman Europe Limited (1.11%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (1.09%), JPMorgan Chase Bank Hosting Vanguard STAR Developed Markets Index Fund (1.04%),
Hua Zhun Investments Co., Ltd.	Foxconn Technology Co., Ltd. (100%)
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	N.A.
Government of Singapore	N.A.
iShares Core MSCI Emerging Markets ETF	N.A.

Note: The information is derived from the close of registrar information of the Company dated April 2, 2023.

### 3. Disclosure of professional qualifications and independence analysis of directors

#### (1) Professional qualifications and experience for directors

Name / Title	Professional qualifications and experience
Chairman Innolux Corporation Representative: Chu-Hsiang Yang	M.S., Chemical Engineering, National Central University. Mr. Yang is the Chairman of the Company. He possesses almost 30 years of display industry and over 5 years of work experience in Commerce, Finance and otherwise necessary for the Business of the Company. He possesses international perspectives and the ability to make professional market competition judgments, leading innovatively, conducting management administration, planning strategies and conducting crisis management to lead the Company to become an industry pioneer and move towards sustainable management.
Director Innolux Corporation Representative: Tien-Jen Lin	M.S., Graduate Institute of Electronics Engineering, National Taiwan University. He has nearly 28 years of experience in the complete TFT-LCD industry, and is specialized in IC design, CCD image and display drive circuit system design. He possesses over 5 years of work experience in Commerce and otherwise necessary for the Business of the Company, international perspectives and the ability to make professional market competition judgments, leading innovatively, and conducting management administration.
Director Jyh-Chau Wang	M.S., Materials Engineering, National Tsing-Hua University. Over 30 years of experience in flat display industry. He experiences in manufacturing and R&D of the display industry and has extensive business experience. He possesses over 5 years of work experience in Commerce, Finance and otherwise necessary for the Business of the Company, internal perspectives and the ability to make professional market competition judgments, leading innovatively, conducting management administration, planning strategies and conducting crisis management.
Director Ta-Lun Huang	M.B.A., University of Michigan, Ann Arbor. He is Chairman and Director of Strategic Development Office of GCS Holdings, Inc. (British Cayman Islands), and has over 14 years of rich industry experience, over 5 years of work experience in Commerce, Finance and otherwise necessary for the Business of the Company, and the ability to conduct corporate governance, finance, commerce, marketing, and industry-related operational planning.
Independent Director Hung-Chi Li	M.B.A., George Washington University, USA. He is now the CEO of Quantum International Corp. and the convener of the Company's Audit Committee and Remuneration Committee. He has more than 22 years of experience in finance, securities, finance, and investment related fields, with insight into corporate governance, financial analysis, and industry development.
Independent Director Chi-Tsung Huang	Bachelor, Department of Mechanical Engineering, Tatung University. He is now Chairman and President of Apex Health Care Mfg., Inc., and is a member of the Company's Audit Committee and Remuneration Committee. He has over 32 years of experience in industrial operations, with more than 5 years of experience in Commerce, Finance and otherwise necessary for the Business of the Company, and the ability to conduct corporate governance, finance, commerce, marketing and industry-related operational planning, operation and management practices.
Independent Director Yi-Hung Chou	Bachelor, School of Medicine, Taipei Medical University. He is now Academic Vice President of Yuanpei University of Medical Technology, Chair Professor of Department of Medical Imaging and Radiology Technology, Adjunct Professor of School of Medicine, National Yang Ming Chiao Tung University, and a member of the Company's Audit Committee and Remuneration Committee. He has over 18 years of academic research experience in medical imaging and radiology technology, and specializes in academic research on medical imaging and radiology technology. He has over 5 years of professional qualification as a lecturer or above in a public or private college or university with a department related to the Company's business.



## (2) Independence of directors

Name / Title	Independence	Number of positions as independent director in other public companies
<p>Chairman Innolux Corporation Representative: Chu-Hsiang Yang</p>	<p>Two years before being elected or during the term of office meets the following criteria in:</p> <ol style="list-style-type: none"> <li>(1) Not a Director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</li> <li>(2) Not a Director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's Director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</li> <li>(3) Not a Director, supervisor, or employee of other companies controlled by the same person with over half of the Company's Director seats or shares with voting rights (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</li> <li>(4) Not a Director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</li> <li>(5) Not a Director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</li> <li>(6) Not a professional individual who, or an owner, partner, Director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the Company or to any affiliate of the Company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.</li> <li>(7) Not having a marital relationship, or a relative within the second degree of kinship to any other Directors of the Company;</li> <li>(8) Not having any of the situations set forth in Article 30 of the Company Act of the ROC.</li> </ol>	None
<p>Director Innolux Corporation Representative: Tien-Jen Lin</p>	<p>Two years before being elected or during the term of office meets the following criteria in:</p> <ol style="list-style-type: none"> <li>(1) Not a Director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</li> <li>(2) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders.</li> <li>(3) Not a Director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's Director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not</li> </ol>	None

Name / Title	Independence	Number of positions as independent director in other public companies
	<p>applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(4) Not a Director, supervisor, or employee of other companies controlled by the same person with over half of the Company's Director seats or shares with voting rights (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(5) Not a Director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(6) Not a Director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(7) Not a professional individual who, or an owner, partner, Director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the Company or to any affiliate of the Company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.</p> <p>(8) Not having a marital relationship, or a relative within the second degree of kinship to any other Directors of the Company;</p> <p>(9) Not having any of the situations set forth in Article 30 of the Company Act of the ROC.</p>	
Director Jyh-Chau Wang	<p>Two years before being elected or during the term of office meets the following criteria in:</p> <p>(1) Not an employee of the Company or any of its affiliates.</p> <p>(2) Not a Director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders.</p> <p>(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).</p> <p>(5) Not a Director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's Director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(6) Not a Director, supervisor, or employee of other companies controlled by the same person with over half of the Company's Director seats or shares with voting rights (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of</p>	None

Name / Title	Independence	Number of positions as independent director in other public companies
	<p>the same parent company in accordance with the Act or with local laws).</p> <p>(7) Not a Director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(8) Not a Director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(9) Not a professional individual who, or an owner, partner, Director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the Company or to any affiliate of the Company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.</p> <p>(10) Not having a marital relationship, or a relative within the second degree of kinship to any other Directors of the Company;</p> <p>(11) Not having any of the situations set forth in Article 30 of the Company Act of the ROC.</p> <p>(12) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the ROC.</p>	
Director Ta-Lun Huang	<p>Two years before being elected or during the term of office meets the following criteria in:</p> <p>(1) Not an employee of the Company or any of its affiliates.</p> <p>(2) Not a Director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders.</p> <p>(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).</p> <p>(5) Not a Director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's Director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(6) Not a Director, supervisor, or employee of other companies controlled by the same person with over half of the Company's Director seats or shares with voting rights (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(7) Not a Director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the</p>	3

Name / Title	Independence	Number of positions as independent director in other public companies
	<p>subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(8) Not a Director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(9) Not a professional individual who, or an owner, partner, Director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the Company or to any affiliate of the Company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.</p> <p>(10) Not having a marital relationship, or a relative within the second degree of kinship to any other Directors of the Company;</p> <p>(11) Not having any of the situations set forth in Article 30 of the Company Act of the ROC.</p> <p>(12) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the ROC.</p>	
Independent Director Hung-Chi Li	<p>Two years before being elected or during the term of office meets the following criteria in:</p> <p>(1) Not an employee of the Company or any of its affiliates.</p> <p>(2) Not a Director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders.</p> <p>(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).</p> <p>(5) Not a Director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's Director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(6) Not a Director, supervisor, or employee of other companies controlled by the same person with over half of the Company's Director seats or shares with voting rights (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(7) Not a Director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(8) Not a Director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases</p>	None

Name / Title	Independence	Number of positions as independent director in other public companies
	<p>where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(9) Not a professional individual who, or an owner, partner, Director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the Company or to any affiliate of the Company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.</p> <p>(10) Not having a marital relationship, or a relative within the second degree of kinship to any other Directors of the Company;</p> <p>(11) Not having any of the situations set forth in Article 30 of the Company Act of the ROC.</p> <p>(12) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the ROC.</p>	
<p>Independent Director Chi-Tsung Huang</p>	<p>Two years before being elected or during the term of office meets the following criteria in:</p> <p>(1) Not an employee of the Company or any of its affiliates.</p> <p>(2) Not a Director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders.</p> <p>(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).</p> <p>(5) Not a Director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's Director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(6) Not a Director, supervisor, or employee of other companies controlled by the same person with over half of the Company's Director seats or shares with voting rights (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(7) Not a Director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(8) Not a Director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(9) Not a professional individual who, or an owner, partner, Director, supervisor,</p>	<p>None</p>

Name / Title	Independence	Number of positions as independent director in other public companies
	<p>or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the Company or to any affiliate of the Company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.</p> <p>(10) Not having a marital relationship, or a relative within the second degree of kinship to any other Directors of the Company;</p> <p>(11) Not having any of the situations set forth in Article 30 of the Company Act of the ROC.</p> <p>(12) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the ROC.</p>	
<p>Independent Director Yi-Hung Chou</p>	<p>Two years before being elected or during the term of office meets the following criteria in:</p> <p>(1) Not an employee of the Company or any of its affiliates.</p> <p>(2) Not a Director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an Independent Directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders.</p> <p>(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).</p> <p>(5) Not a Director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's Director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(6) Not a Director, supervisor, or employee of other companies controlled by the same person with over half of the Company's Director seats or shares with voting rights (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(7) Not a Director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(8) Not a Director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an Independent Director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).</p> <p>(9) Not a professional individual who, or an owner, partner, Director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the Company or to any affiliate of the Company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender</p>	<p>None</p>

Name / Title	Independence	Number of positions as independent director in other public companies
	Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions. (10) Not having a marital relationship, or a relative within the second degree of kinship to any other Directors of the Company; (11) Not having any of the situations set forth in Article 30 of the Company Act of the ROC. (12) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the ROC.	

#### 4. Diversity and independence of the Board

The Company stipulates guidelines for diversity in its Corporate Governance Principles to strengthen the function of the Board of Directors. The nomination and election of the Company's Board members are in accordance with the provisions of its Articles of Incorporation, adopting the candidates' nomination system and submitted to the shareholders meeting for election upon the Board of Directors' resolution. According to Article 20, Paragraph 4 of the Corporate Governance Principles of the Company, all Board members shall have the knowledge, skills and experience necessary to perform their duties. To achieve the ideal goal of corporate governance. The Board of Directors shall possess the following abilities:

- (1) Ability to make operating judgments.
- (2) Ability to perform accounting and financial analysis.
- (3) Ability to conduct management administration.
- (4) Ability to conduct crisis management.
- (5) Knowledge of the industry.
- (6) An international market perspective.
- (7) Ability to lead.
- (8) Ability to make policy decisions.

To strengthen corporate governance and promote the sound development of the Board of Directors' composition and structure, the Company's policy on diversity of board members per Article 20, Paragraph 3 of its Corporate Governance Principles indicates that: the composition of the board of directors shall be determined by taking diversity into consideration. It is advisable that directors concurrently serving as company managerial officers not exceed one-third of the total number of the board members, and that an appropriate policy on diversity based on the Company's business operations, operating dynamics, and development needs be formulated and include, without being limited to, the following two general standards:

- (1) Basic requirements and values: Gender, age, nationality, and culture.
- (2) Professional knowledge and skills: A professional background (e.g., law, accounting, industry, finance, marketing, technology,) professional skills and industry experience.

The Company's current Board of Directors consists of 7 directors, including 4 non-executive directors and 3 independent directors. All members possess knowledge of finance, business and industry; an international market perspective; and professional ability to lead, make an operating judgment, manage the business and do crisis management. There are not any matters specified in Paragraph 3 and 4 of Article 26-3 of the Securities and Exchange Act. Directors who are also employees of the Company account for 0% of the Board. Independent directors account for 43%. Female directors account for 0%. Three independent directors has served for less than 3 years. Four directors are aged 50-59. Two directors are aged 60-69 and one director is aged 70-79. The Company values gender equality in the

composition of the Board of Directors and has set a target of 15% or more female directors. We expect to elect one female director to the next Board of Directors to achieve the target. Implementation of the diversity of the Board members is as follows:

Title	Name	Basic requirements and values						Professional knowledge and skills								Seniority of Independent Director
		Nationality	Gender	Current positions in the Company	Age			Operational Judgments	Management Administration	Accounting & Financial analysis	Business & Economics	Crisis Management	Knowledge o f the industry	International market perspective	Ability to lead and to make policy decisions	Below 3 years
					50-59 yrs. old	60-69 yrs. old	70-79 yrs. old									
Corporate Director Chairman	Chu-Hsiang Yang	TW	Male	–	√	–	–	√	√	√	√	√	√	√	√	–
Representative of Corporate Director	Tien-Jen Lin	TW	Male	–	√	–	–	√	√	√	√	√	√	√	√	–
Director	Jyh-Chau Wang	TW	Male	–	–	√	–	√	√	√	√	√	√	√	√	–
Director	Ta-Lun Wang	TW	Male	–	√	–	–	√	√	√	√	√	√	√	√	–
Independent Director	Hung-Chi Li	TW	Male	–	√	–	–	√	√	√	√	√	√	√	√	√
Independent Director	Chi-Tsung Huang	TW	Male	–	–	√	–	√	√	√	√	√	√	√	√	√
Independent Director	Yi-Hung Chou	TW	Male	–	–	–	√	–	√	√	–	√	√	√	√	√



Specific management objectives of the Board’s diversity policy and their achievement

Management Objectives	Achievement
The number of directors who are also managerial officers of the Company should not exceed one-third of the total number of directors	Achieved
The Board members contains at least one female director	Not achieved
Independent directors shall serve no more than three consecutive terms	Achieved

The Board of Directors shall direct the Company’s strategy, supervise the management team, be responsible to the Company and shareholders, and make arrangements for the various operations and arrangements of the Company’s governance system to ensure that it exercises its authorities in accordance with laws and regulations, the Company’s Articles of Incorporation or the resolutions of the shareholders’ meeting. The Board of Directors emphasizes the function of independent operation and transparency, and the directors and independent directors are independent individuals who exercise their duties and powers independently. The three independent directors also comply with the relevant laws and regulations, together with the duties and powers of the Audit Committee, they will review the control of the Company's existing or potential risks, so as to supervise the effective implementation of the Company's internal controls, the election (dismissal) and independence of certified public accountants, and proper preparation of financial statements. In addition, in accordance with the Company's “Procedures for Election of Directors”, a cumulative voting system and a candidate nomination system are adopted for the election of directors and independent directors, and shareholders are encouraged to participate. Shareholders holding more than a certain number of shares can propose a list of candidates. The examination of the candidates' qualifications and the confirmation of whether there is any violation of Article 30 of the Company Act are conducted and announced in accordance with the law, so as to protect the shareholders' rights and interests, avoid monopoly or excessive abuse of nomination rights, and maintain independence.

### 3.2.2 Management Team

March 26, 2023; Unit: Shares

Title	Nationality	Name (Note 1)	Gender	Date Effective	Shareholding		Shareholdings of spouse and underage children		Shares held through nominees		Experience (Education)	Other Position	Spouse or relatives of second degree or closer acting as managerial officer		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	TW	Chih-Sheng Lee	Male	2019.09.01	30,000	0.08	—	—	—	—	M.S., Optoelectronics Research Institute, National Yang Ming Chiao Tung University Sales Deputy GM, Innolux Corporation	Chairman, Ningbo Innolux Electronics Ltd. Chairman, InnoCare Optoelectronics Japan Co., Ltd. Director, InnoCare Optoelectronics USA, Inc.	—	—	—
Associate VP	TW	Chien-Lang Lo	Male	2020.07.01	12,000	0.03	—	—	—	—	MBA, Financial Investment Institute, Bernard M. Baruch College-CUNY Division Group Director, Innolux Corporation Associate Manager, Sumitomo Mitsui Banking Corporation, Japan Associate Manager, The Hong Kong and Shanghai Banking Corporation Supervisor, MUFG Bank, Ltd., Japan	Director, InnoCare Optoelectronics Japan Co., Ltd. Director, Ningbo Innolux Optoelectronics Co., LTD Director, Ningbo Innolux Display LTD	—	—	—
Division Director	TW	Ming-Hsien Sun	Male	2019.09.01	9,200	0.02	—	—	—	—	M.S., Graduate Institute of Electronics Engineering, National Taiwan University Division Director, Innolux Corporation Associate Manager, TPO Displays Corp.	Director, InnoCare Optoelectronics Japan Co., Ltd.	—	—	—
Division Director	TW	Tun-Jen Cheng	Male	2019.09.01	4,200	0.01	—	—	—	—	M.S., Institute of Electronics Engineering, University of Southern California Deputy Business Director, Innolux Corporation Deputy Director, Chi Mei EL Corporation Manager, Chi Mei Optoelectronics Corporation	—	—	—	—

Title	Nationality	Name (Note 1)	Gender	Date Effective	Shareholding		Shareholdings of spouse and underage children		Shares held through nominees		Experience (Education)	Other Position	Spouse or relatives of second degree or closer acting as managerial officer		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Division Director	TW	Yung-Hsiang Liang	Male	2019.09.01	8,400	0.02	—	—	—	—	M.S., Materials Science and Engineering Research Institute of National Cheng Kung University Division Director, Innolux Corporation Engineer, Darfon Electronics Corp.	—	—	—	
Division Director	TW	Fujisawa Yoshinori	Male	2020.11.01	—	—	—	—	—	—	BA, in Economics, Chiba University-Chiba, Japan Director, Innolux Japan Co., Ltd.	President, InnoCare Optoelectronics Japan Co., Ltd.	—	—	—
Plant Director	TW	Yi-Chien Li	Male	2022.01.28	8,800	0.02	—	—	—	—	M.S., Institute of Microelectronics Engineering of National Cheng Kung University Manager, Innolux Corporation Assistant Engineer, Taiwan Semiconductor Manufacturing Company Limited	—	—	—	
Financial Officer Accounting Officer	TW	Chung-Wei Huang	Male	2021.08.01	8,149	0.02	—	—	—	—	MBA, International Business Institute of National Cheng Kung University Manager, Innolux Corporation Chief Internal Auditor, Taiwan Pulp & Paper Corp. Manager, Luxshare Precision Industry Co., Ltd.	Supervisor, Ningbo Innolux Electronics Ltd.	—	—	—

Note 1: Existing Managerial Officers as of the printed date of the annual report.

Note 2: Where the chairman and president or equivalent position (highest level executive officer) is the same person, the spouse, or a first-degree relative, provide information on the reason, reasonableness, necessity, and future improvement measures : None.

### 3.3 Remuneration of Directors, President, and Vice President

#### 3.3.1 Remuneration to Directors and Independent Directors

Unit: NT\$ thousand; Shares thousand; %

Title	Name (Note 1)	Remuneration of Directors								Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note8)		Relevant Remuneration Received by Directors Who are Also Employees						Ratio of Total Remuneration (A+B+C+D+E+F+G) to Net Income (%) (Note8)		Remuneration Paid to Directors from an Invested Company Other than the Company's Subsidiary (Note 9)		
		Base Remuneration (A) (Note 2)		Severance Pay (B)		Directors Remuneration (C) (Note 3)		Allowances (D) (Note 4)				Salary, Bonuses, and Special Disbursement (E) (Note 5)		Severance Pay (F) (Note 6)		Employees Remuneration (G) (Note 7)						
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company		All companies in the financial report		The Company	All companies in the financial report			
Chairman	Innolux Corporation Representative: Chu-Hsiang Yang	1,200	1,200	-	-	140	140	310	310	0.83	0.83	-	-	-	-	-	-	-	-	0.83	0.83	32,560
Director	Innolux Corporation Representative: Tien-Jen Lin																					
Director	Jyh-Chau Wang																					
Director	Ta-Lun Huang	900	900	-	-	105	105	240	240	0.63	0.63	-	-	-	-	-	-	-	-	0.63	0.63	-
Independent Director	Hung-Chi Li																					
Independent Director	Chi-Tsung Huang																					
Independent Director	Yi-Hung Chou																					

- Please describe the policy, system, standard, and structure of remuneration to Independent Directors, and the correlation between duties, risk, and time input with the amount of remuneration:  
For the remuneration of Independent Directors, besides referring to results of Directors performance evaluations, the Remuneration Committee considers each Director's degree of participation and contribution to the Company's operations, links the reasonableness and fairness of performance and risks to remuneration, considers the Company's business performance and the remuneration standards of competitors, and makes recommendations to the Board of Directors in accordance with the Company's Articles of Incorporation.
- Other than as disclosed in the above table, the remuneration earned by Directors providing services (e.g. providing consulting services as a non-employee) to the Company and all consolidated entities in the latest fiscal year: None.

Note 1: Refers to the remuneration information of directors (including independent directors) who served in 2022.

Note 2: Refers to directors' remuneration paid in 2022.

Note 3: The proposal of remuneration distribution resolved by the Board of Directors.

Note 4: Refers to the relevant service execution fees of directors in 2022.

Note 5: Refers to the total amount of various remunerations paid to the Company's directors by all companies (including the Company) in the consolidated financial statements in 2022.

Note 6: Refers to the amounts transferred to government authorities in 2022.

Note 7: These are proposed amounts; the amounts of individual employee remunerations have not been approved by the Board of Directors.

Note 8: Net income (loss) after tax refers to the net income (loss) after tax in the parent company only financial statements for the year ended December 31, 2022.

Note 9: These are proposed amounts; the total amount of remunerations has not been approved by the Board of Directors of the parent company.

Remuneration Bracket Table

Range of Remuneration	Name of Directors			
	Total (A+B+C+D)		Total (A+B+C+D+E+F+G)	
	The Company	All companies in the financial report	The Company	All companies in the financial report
Less than NT\$ 1,000,000	Innolux Corporation/Chu-Hsiang Yang/Tien-Jen Lin/Jyh-Chau Wang /Ta-Lun Huang/Hung-Chi Li/Chi-Tsung Huang/Yi-Hung Chou	Innolux Corporation/Chu-Hsiang Yang/Tien-Jen Lin/Jyh-Chau Wang /Ta-Lun Huang/Hung-Chi Li/Chi-Tsung Huang/Yi-Hung Chou	Innolux Corporation/Chu-Hsiang Yang/Tien-Jen Lin/Jyh-Chau Wang /Ta-Lun Huang/Hung-Chi Li/Chi-Tsung Huang/Yi-Hung Chou	Innolux Corporation/Ta-Lun Huang/Hung-Chi Li/Chi-Tsung Huang/Yi-Hung Chou
NT\$1,000,000 (inclusive) ~ NT\$2,000,000 (exclusive)				Tien-Jen Lin
NT\$2,000,000 (inclusive) ~ NT\$3,500,000 (exclusive)				
NT\$3,500,000 (inclusive) ~ NT\$5,000,000 (exclusive)				
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)				
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)				Jyh-Chau Wang
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)				Chu-Hsiang Yang
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)				
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)				
NT\$100,000,000 and above				
Total	8	8	8	8

## 3.3.2 Remuneration of the President and Vice Presidents

Unit: NT\$ thousand; Shares thousand; %

Title	Name (Note 1)	Salary (A) (Note 2)		Severance Pay (B) (Note 3)		Bonuses and Special Disbursement (C) (Note 4)		Employee Remuneration (D) (Note 5)				Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 6)		Remuneration Paid to the President and Vice Presidents from an Invested Company Other than the Company's Subsidiary
		The Company	All companies in the financial report	The Company	All companies in the financial report	The Company	All companies in the financial report	The Company		All companies in the financial report		The Company	All companies in the financial report	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Chih-Sheng Lee	3,147	3,147	108	108	4,510	4,510	190	—	190	—	4.00	4.00	—

Note 1: Please fill in the remuneration information of president and vice president who served in 2022.

Note 2: Refers to remuneration paid in 2022.

Note 3: Refers to the amounts transferred to government authorities in 2022.

Note 4: Refers to the bonuses and special disbursement, etc. received by employees in 2022. The bonuses and special disbursement are proposed amounts.

Note 5: These are proposed amounts; the amounts of individual employee remunerations have not been approved by the Board of Directors.

Note 6: Net income after tax refers to the net income after tax in the parent company only financial statements for the year ended December 31, 2022.

Note 7: According to the Company's organizational structure, there is no vice president or equivalent managerial officer, so the Remuneration Bracket Table is not disclosed separately.

### 3.3.3 Names and Distributions of Employee Profit-Sharing Remunerations to Managerial Officers

March 31, 2023; Unit: NT\$ thousand

	Title	Name (Note 1)	Stock amount	Cash amount (Note 2)	Total	Ratio of total amount to net income (%) (Note 3)
Managerial Officers	President	Chih-Sheng Lee	—	840	840	0.42%
	Associate VP	Chien-Lang Lo				
	Division Director	Ming-Hsien Sun				
	Division Director	Tun-Jen Cheng				
	Division Director	Yung-Hsiang Liang				
	Division Director	Fujisawa Yoshinori				
	Plant Director	Yi-Chien Li (Note 4)				
	Financial Officer Accounting Officer	Chung-Wei Huang				

Note 1: The managerial officers who served in 2022.

Note 2: These are proposed amounts; the amounts of individual employee remunerations have not been approved by the Board of Directors.

Note 3: Net income after tax refers to the net income after tax in the parent company only financial statements for the year ended December 31, 2022.

Note 4: Newly elected on January 28, 2022.

### 3.3.5 Comparison of Remuneration for Directors, Presidents, and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Presidents, and Vice Presidents

#### I. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to Directors, presidents, and vice presidents of the Company to the percentage of net income stated in the parent company only financial reports or individual financial reports.

Item	Fiscal Year		Ratio of total remuneration paid to net income							
			2021				2022 (Note)			
			Total remuneration		Ratio in net income		Total remuneration		Ratio in net income	
	The Company	All Companies in the consolidated financial statements	The Company	All Companies in the consolidated financial statements	The Company	All Companies in the consolidated financial statements	The Company	All Companies in the consolidated financial statements	The Company	All Companies in the consolidated financial statements
Director	16,417	16,417	8.27%	8.27%	2,895	2,895	1.46%	1.46%		
Presidents & Vice Presidents	8,759	8,759	4.41%	4.41%	7,955	7,955	4.00%	4.00%		

Note: The directors' remuneration has been approved by the Board of Directors. Remunerations of the President and Vice Presidents are proposed amounts.

#### II. The policies, standards, and packages, for the payment of remuneration, the procedures for determining remuneration, and its linkage to operating performance.

##### (I) Policies, standards and packages of remuneration of the Company

The remunerations of directors are paid in accordance with the Company's Articles of Incorporation, while considering each director's degree of participation and contribution to the Company's operations, and the remuneration standards of competitors. In cases of earnings upon annual general settlement, the Company shall set them aside to pay for taxes and to recover accumulated losses and then set aside legal reserve or special reserve. Then, the Remuneration Committee shall make a proposal after considering the industrial environment, the Company's operating conditions, as well as the directors' and the president's responsibilities, contribution and goal achievement, and submit it to the Board of Directors for resolution, and distribute the remuneration after being approved by the shareholders' meeting.

The remuneration of the president includes salaries, bonuses, special expenditures, employee bonuses, employee stock options and new shares with restricted employee rights, which is determined with reference to the work nature and responsibilities, the position and the responsibilities, as well as and the remuneration standards of competitors for similar positions.

##### (II) The procedure for determining remuneration, and its linkage to operating performance and future risk exposure.

In accordance with Article 32 of the Articles of Incorporation, in cases of profits for the year, the Company shall set aside no less than 5% as the remuneration to its employees and no higher than 1% as that to directors.

The Company allocates directors' and employees' remuneration based on the actual annual profit and the ratio specified in the Articles of Incorporation. The Remuneration Committee shall make a proposal after considering the industrial environment, the Company's operating conditions, as well as the directors' and the president's responsibilities, contribution and goal achievement, and then submit it to the Board of Directors for resolution, and distribute the remuneration after reporting to the shareholders' meeting.

The reasonableness of the remuneration shall be reviewed by the Remuneration Committee and the Board of Directors, and the remuneration system shall be reviewed from time to time according to the actual business situation and relevant laws and regulations, so as to achieve a balance between the Company's sustainable operation and risk control.

### 3.4 Implementation of Corporate Governance

#### 3.4.1 Operations of the Board of Directors

A total of 8 meetings of the Board of Directors were held in the previous (2022) period. Directors' attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%) (Note)	Remarks
Chairman	Innolux Corporation Representative: Chu-Hsiang Yang	8	—	100.00%	
Corporate Director	Innolux Corporation Representative: Tien-Jen Lin	8	—	100.00%	
Director	Jyh-Chau Wang	8	—	100.00%	
Director	Ta-Lun Huang	7	1	87.50%	
Independent Director	Hung-Chi Li	8	—	100.00%	
Independent Director	Chi-Tsung Huang	8	—	100.00%	
Independent Director	Yi-Hung Chou	8	—	100.00%	

Note: The actual attendance (%) was calculated based on the number of Board meetings and the actual number of attendances during his term.

Other items to be recorded:

**I. If any of the following circumstances occur, the dates of the meetings, sessions, and motion contents, all independent directors' opinions and the Company's response should be specified:**

(I) Matters referred to in Article 14-3 of the Securities and Exchange Act.

Total 9 meetings of the Board were held in the period from 2022 to the printed date of the annual report. For the resolutions please refer the pages 56-57 of the annual report. All independent directors did not object to the matters listed in Article 14-3 of the Securities Exchange Act and approved the resolution as presented.

(II) Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the Board of Directors : None.

**II. If there are directors' avoidance of motions in conflict of interest, the directors' names, motion contents, reasons for avoidance of interests and voting should be specified: None.**

**III. Execution of Board Performance Evaluation:**

(I) Evaluation cycle: Once a year

(II) Evaluation period: January 1, 2022 to December 31, 2022

(III) Scope of evaluation: Covers the performance evaluation of the Board as a whole, individual directors and functional committees.

(IV) Evaluation method: the internal evaluation of the Board and self-evaluation by individual Board members

(V) Evaluation items:

1. The evaluation of the Board as a whole: which should cover, participation in the Company's operation; improvement of the Board' decision making quality; the composition and structure of the Boards; the election and continuing education of directors; and internal control.
2. Individual directors: which should cover alignment of the goals and missions of the Company; understanding of the duties and responsibilities of directors; participation in the Company's operation; management of internal relationships and communications; professionalism and continuing education; and internal control.
3. Functional committees: which should cover participation in the Company's operation; understanding of the duties of functional committees; improvement of functional committees' decision-making quality; the composition of functional committees and the election of their members and internal control.



**IV. Targets for strengthening of the functions of the Board during the current and immediately preceding fiscal years (e.g. establishing an audit committee and enhancing information transparency) and the implementation status evaluation:**

- (I) In order to effectively establish the governance system of the Board of Directors and improve the supervisory function, the Company has established the Rules for Board of Directors Meetings, and material resolutions are announced on the MOPS in accordance with the law to achieve full disclosure of information and protect shareholders' interests. The Board of Directors shall direct the Company's strategy, supervise the management team, be responsible to the Company and shareholders' meeting, and make arrangements for the various operations and arrangements of the Company's governance system to ensure that it exercises its authorities in accordance with laws and regulations, the Company's Articles of Incorporation or the resolutions of the shareholders' meeting.
- (II) The Company has established an Audit Committee on November, 2021 to exercise the authorities required by the Securities and Exchange Act, the Company Act and other laws and regulations to assist the Board of Directors in supervising the Company's quality and integrity in the implementation of relevant accounting, auditing, financial reporting procedures and financial control. Please see page 30-33 for the detail of the Audit Committee's operation.
- (III) The Company has established Remuneration Committee on November, 2021 and set up standard for the directors and managers. The Remuneration Committee is also in charge of making regular review of performance of the directors and managers, and the related remuneration policy, system, standard, and structure. Please see page 41-42 for the detail of the Remuneration Committee's operation.
- (IV) The Company has re-elected its Board of Directors at extraordinary general meeting on November 5, 2021. The new Board is made of 7 Board members, including 3 independent directors for strengthening the Board function and corporate governance.
- (V) The Board members continuing education extending beyond the scope of the professional expertise of the Directors, and to select courses encompassing corporate governance related topics such as finance, risk management, business, commerce, legal affairs, accounting, and sustainable development, or courses relating to internal control systems or liability for financial reports to enhance the awareness and implementation of corporate governance by Board members. Please see page 52 for the detail of the status of directors' participation in corporate governance related courses and trainings.

**V. Attendance of independent directors at 2022 Board Meetings**

Board Meetings	Independent Director Hung-Chi Li	Independent Director Chi-Tsung Huang	Independent Director Yi-Hung Chou
3rd meeting of the 3rd session 2022.01.27	Attend in person	Attend in person	Attend in person
4th meeting of the 3rd session 2022.03.08	Attend in person	Attend in person	Attend in person
5th meeting of the 3rd session 2022.04.12	Attend in person	Attend in person	Attend in person
6th meeting of the 3rd session 2022.05.10	Attend in person	Attend in person	Attend in person
7th meeting of the 3rd session 2022.06.30	Attend in person	Attend in person	Attend in person
8th meeting of the 3rd session 2022.07.26	Attend in person	Attend in person	Attend in person
9th meeting of the 3rd session 2022.10.25	Attend in person	Attend in person	Attend in person
10th meeting of the 3rd session 2022.12.28	Attend in person	Attend in person	Attend in person

### 3.4.2 Operations of the Audit Committee

A total of 8 audit committee meetings were held in the previous (2022) period. The attendance of the independent directors was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director	Hung-Chi Li	8	—	100.00%	
Independent Director	Chi-Tsung Huang	8	—	100.00%	
Independent Director	Yi-Hung Chou	8	—	100.00%	

Note : The actual attendance (%) was calculated based on the number of meetings and the actual number of attendances during his term.

Other items to be recorded:

#### I. The annual work focus and authority of the audit committee

(I) The main function of the audit committee is to supervise the following matters:

1. Fair presentation of the financial reports of the Company.
2. The hiring or dismissal, independence of certificated public accountants and their performance.
3. The effective implementation of the internal control system of the Company.
4. Compliance with relevant laws and regulations by the Company.
5. Management and control of the existing or potential risks of the Company.

(II) The powers of the audit committee are as follows:

1. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Act.
2. Assessment of the effectiveness of the internal control system.
3. Adoption or amendment, pursuant to Article 36-1 of the Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, or endorsements or guarantees for others.
4. A matter bearing on the personal interest of a director.
5. A material asset or derivatives transaction.
6. A material monetary loan, endorsement, or provision of guarantee.
7. The offering, issuance, or private placement of any equity-type securities.
8. The hiring or dismissal of an attesting CPA, or the compensation given thereto.
9. The appointment or discharge of a financial, accounting, or internal auditing officer.
10. Annual financial reports and second quarter financial reports that must be audited and attested by a CPA, which are signed or sealed by the chairperson, managerial officer, and accounting officer.
11. Any other material matter so required by the Company or the competent authority.

#### II. If any of the following circumstances occur, the dates of Board meetings, sessions, motion contents, resolutions of the audit committee and the Company's response to the audit committee's opinion should be specified:

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

Board Meetings	Motion Contents	Resolution of the Audit Committee	The Company's response to the members' opinions
3rd meeting of the 3rd session 2022.01.27	<ol style="list-style-type: none"> <li>1. 2021 Business Report and Financial Statements of the Company</li> <li>2. The appointment, remuneration, and assessment of the independence and appropriateness of CPAs</li> <li>3. Proposal of the Company's 2021 Internal Control Statement</li> </ol>	Approved by all committee members present as proposed	Approved by all directors present as proposed
4th meeting of the 3rd session 2022.03.08	<ol style="list-style-type: none"> <li>1. Amendment to the Company's accounting policy</li> <li>2. Re-prepared of Partial Information and Financial Statement Notes of the Company's Parent Company Only and Consolidated Financial Statements for 2020, Parent Company Only and Consolidated Financial Statements for 2021, and Consolidated</li> </ol>	Approved by all committee members present as proposed	Approved by all directors present as proposed

Board Meetings	Motion Contents	Resolution of the Audit Committee	The Company's response to the members' opinions
	Financial Statements for the Second Quarter of 2021 3. Amendments to the Procedures for the Acquisition and Disposal of Assets 4. Amendments to some clauses of the Company's internal control system		
5th meeting of the 3rd session 2022.04.12	1. Prepare the 2022 Profit Distribution Table 2. Draft Financial Statements of the Company for 2019 3. Proposed acquisition of real estate right-of-use assets from related parties for business use 4. Proposed amendments to some clauses of the Company's internal control system	Approved by all committee members present as proposed	Approved by all directors present as proposed
6th meeting of the 3rd session 2022.05.10	1. Review the financial statements for the first quarter of 2022 2. Amendments to some clauses of the Company's internal control system 3. Proposal of the Company's Internal Control Statement	Approved by all committee members present as proposed	Approved by all directors present as proposed
8th meeting of the 3rd session 2022.07.26	1. Review the financial statements for the second quarter of 2022	Approved by all committee members present as proposed	Approved by all directors present as proposed
9th meeting of the 3rd session 2022.10.25	1. Review the financial statements for the third quarter of 2022	Approved by all committee members present as proposed	Approved by all directors present as proposed
10th meeting of the 3rd session 2022.12.28	1. Proposal of 2023 Audit plan 2. Amendments to the Company's Procedures for Handling Material Inside Information, the internal control system and the implementation rules for internal auditing 3. Proposal for cash capital increase through an issue of new shares to be sold in the public offering prior to initial listing.	Approved by all committee members present as proposed	Approved by all directors present as proposed

(II) Other matters which were not approved by the audit committee but were approved by two-thirds or more of all directors : None.

**III. If there are independent directors' avoidance of motions in conflict of interest, the Directors' names, motion contents, reasons for avoidance of interests and voting should be specified: None.**

#### IV. Communications between the independent directors, the Company's chief internal auditor and CPAs:

(I) Communication between independent directors and chief internal auditor:

The independent directors of the Company and the chief internal auditor shall meet regularly at least once a quarter and submit the audit report and deficiency tracking report for the previous month by the end of each month to report on the implementation status of the Company's annual audit plan and the improvement of internal control deficiency tracking; a meeting may be convened at any time in case of material unusual matters.

(II) The 2022 major matters of the communications between independent directors (audit committee) and chief internal auditor

Date	Descriptions of the major matters	Resolution
2022.01.10	December 2021 Audit Report was submitted to independent directors for review	No objection
2022.01.27 Audit Committee	1. Report on the implementation of the audit plan for the fourth quarter of 2021 2. Statement of Internal Control System for 2021	No objection
2022.02.10	January 2022 Audit Report was submitted to independent directors for review	No objection
2022.03.08 Audit Committee	1. Report on the implementation of the audit plan for January 2022 2. Amendments to the internal control system	No objection
2022.03.11	February 2022 Audit Report was submitted to independent directors for review	No objection
2022.04.11	March 2022 Audit Report was submitted to independent directors for review	No objection
2022.04.12 Audit Committee	1. Report on the implementation of the audit plan for February 2022 2. Amendments to the internal control system	No objection
2022.05.10 Audit Committee	1. Report on the implementation of the audit plan for March and April of 2022 2. Amendments to the internal control system 3. Application for Statement of Internal Control System for special audit of listing	No objection
2022.05.19	April 2022 Audit Report was submitted to independent directors for review	No objection
2022.06.16	May 2022 Audit Report was submitted to independent directors for review	No objection
2022.06.30 Audit Committee	Report on the implementation of the audit plan for April and May of 2022	No objection
2022.07.12	June 2022 Audit Report was submitted to independent directors for review	No objection
2022.07.26 Audit Committee	Report on the implementation of the audit plan for June 2022	No objection
2022.08.09	July 2022 Audit Report was submitted to independent directors for review	No objection
2022.09.14	August 2022 Audit Report was submitted to independent directors for review	No objection
2022.10.03	September 2022 Audit Report was submitted to independent directors for review	No objection
2022.10.25 Audit Committee	Report on the implementation of the audit plan in the third quarter of 2022	No objection
2022.11.07	October 2022 Audit Report was submitted to independent directors for review	No objection
2022.12.07	November 2022 Audit Report was submitted to independent directors for review	No objection
2022.12.28 Audit Committee	1. Report on the implementation of the audit plan in the fourth quarter of 2022 2. 2023 Audit plan 3. Amendments to the internal control system and the implementation rules for internal auditing	No objection

(III) Communication between independent directors (Audit Committee) and independent auditors:

The Company's independent directors and CPAs meet regularly at least once a quarter. The CPAs discuss the results of the audit/review of the Company's financial reports at the meeting of the Audit Committee, and communicate fully with the Company regarding whether the amendments to laws have any material impact on the Company.

(IV) The 2022 major matters of the communications between independent directors (Audit Committee) and independent auditors:

Date	Descriptions of the major matters	Resolution
2022.01.27	1. The audit results of the 2021 Business Report and Financial Statements of the Company	No objection
2022.03.08	1. Explanatory note for amendment to the Company's accounting policy 2. The audit results of the re-prepared of Partial Information and Financial Statement Notes of the Company's Parent Company Only and Consolidated Financial Statements for 2020, Parent Company Only and Consolidated Financial Statements for 2021, and Consolidated Financial Statements for the Second Quarter of 2021	No objection
2022.04.12	1. The audit results of the draft Financial Statements of the Company for 2019	No objection
2022.05.10	1. The review results of the 2022 first quarter of the financial statements	No objection
2022.07.26	1. The review results of the 2022 second quarter of the financial statements	No objection
2022.10.25	1. The review results of the 2022 third quarter of the financial statements	No objection

### 3.4.3 Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Does the Company establish and disclose the Corporate Governance Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	V		The Company has enacted Corporate Governance Principles and disclosed on the official website and M.O.P.S. in addition to protect the rights and interests of shareholders, strengthen the powers of the Board of Directors, respect the rights and interests of stakeholders and enhance information transparency. The INCX's Corporate Governance Principles” please refer to INCX official website.	No significant difference compared to Corporate Governance Best-Practice Principles
2. Shareholding structure & shareholders' rights (1) Does the Company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure? (2) Does the Company possess the list of its major shareholders as well as the ultimate owners of those shares?	V  V		(1) The Company has enacted the Procedures for Handling Material Inside Information and Preventing Insider Trading and has, besides, set up spokesman and deputy spokesman to take charge of proposals or disputes from shareholders.  (2) The Company keeps track of the shareholdings of major shareholders, directors and managerial officers based on the register of shareholders provided by the stock transfer agent when transfer is terminated. In addition, changes in the shareholdings of insiders (directors, managerial officers and shareholders holding more than 10% of the shares) are reported monthly to the MOPS designated by the competent authorities.	No significant difference compared to Corporate Governance Best-Practice Principles

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(3) Does the Company establish and execute the risk management and firewall system within its conglomerate structure?	V		(3) The Company has formulated internal rules such as “Procedures for Governing Lending of Funds” and “Procedures for the Acquisition and Disposal of Assets”, and established appropriate risk control mechanisms and firewalls.	
(4) Will the Company set up internal norms to prohibit insiders from utilizing the undisclosed information to trade securities?	V		(4) The Company has duly enacted the Procedures for Handling Material Inside Information and Preventing Insider Trading and Codes of Ethical Conduct for Directors and Managerial Officers and further in accordance with the Company’s internal control system, enacted Operating Procedures to Prevent Inside Trading and Management over Major Information to ban insiders from trading securities by taking advantage of the information which has not yet been made public in the market.	
<p>3. Composition and Responsibilities of the Board of Directors</p> <p>(1) Whether the Board of Directors has formulated diversity policy and specific management objectives, and implemented such policy?</p> <p>(2) Does the Company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?</p> <p>(3) Does the Company establish standards and method for evaluating Board performance, conduct annual performance evaluations, submit performance evaluation results to the Board, and use the results as a basis for determining the remuneration and nomination of individual directors?</p>	V	V	<p>(1) Please refer to on page 19-21 of this annual report for the Company's implementation of the diversity policy.</p> <p>(2) The Company has set up the Audit Committee and Remuneration Committee, the Company’s Independent Directors’ serve as the Committee members. For more details regarding the business performance of the Company’s Audit and Remuneration Committee, please refer to pages 30-33 &amp; 41-42 of this Annual Report. In the future, the Company will set up committees of other functions according to the legal requirements or practical needs.</p> <p>(3) In order to implement corporate governance and enhance the functions of the Company's Board of Directors, a performance evaluation will be conducted at the end of each year according to the Rules for Performance Evaluation of Board of Directors and the results of which, together with the directors' self-evaluation, will serve as the basis for nominating directors and setting their remunerations.</p>	No significant difference compared to Corporate Governance Best-Practice Principles

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Does the Company regularly evaluate the independence of CPAs?	V		(4) The Company evaluates the independence and competency of CPAs on the basis of the independence of Article 47 of the Certified Public Accountant Act and the content of the Norm of Professional Ethics for Certified Public Accountant No. 10, and all CPAs will issue a letter of independence, which was submitted to the Board of Directors for approval on February 9, 2023. For the evaluation form of the independence and competency of CPAs, please refer to Note 1 on page 39 of this annual report.	
4. Does the Company have a suitable number of competent corporate governance personnel, and has it appointed a corporate governance officer responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their duties, assisting directors and supervisors with regulatory compliance, handling matters related to Board meetings and shareholders’ meetings, and making minutes for Board meetings and shareholders’ meetings)?	V		<p>On December 28, 2021, the Board of Directors resolved to appoint Associate VP Chien-Lang Lo as the Corporate Governance Officer to be responsible for supervision and planning of the corporate governance. His qualification meets the requirements of paragraph 1, Article 3-1 of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies. The affairs of the Corporate Governance Officer include:</p> <ul style="list-style-type: none"> <li>I. Handling matters relating to board meetings and shareholders meetings according to laws.</li> <li>II. Producing minutes of board meetings and shareholders meetings.</li> <li>III. Assisting in onboarding and continuous development of directors.</li> <li>IV. Furnishing information required for business execution by directors.</li> <li>V. Assisting directors with legal compliance.</li> <li>VI. Report to the board of directors the results of its review on whether the qualifications of independent directors comply with relevant laws and regulations at the time of nomination, election and during their tenure.</li> <li>VII. Handle matters related to the change of directors.</li> <li>VIII. Other matters set out in the Articles of Incorporation or contracts.</li> </ul> <p>Report the operation of corporate governance to the Board of Directors on a regular basis every year. The detail of completed item in 2022 list as below, and is reported to the Board of Directors on February 9, 2023:</p> <ol style="list-style-type: none"> <li>1. The Company held 8 Board meeting, 8 Audit Committee meetings and 4 Remuneration Committee meetings in 2022.</li> <li>2. Held 1 annual general shareholders’</li> </ol>	No significant difference compared to Corporate Governance Best-Practice Principles

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			<p>meeting in 2022.</p> <p>3. Assisted board members in developing annual continuing education plans and arranging continuing education courses. All the members of Board of Directors completed 12 hours of entry education and 6 hours of continuing education courses in 2022.</p> <p>4. The Company maintains D&amp;O insurance for its directors and key officers and report to the Board meeting.</p> <p>5. Regularly communicate with independent directors and CPAs about the Company’s financial and business situation. Please refer to page 32-33 of annual report and our website (<a href="http://www.innocare-x.com">http://www.innocare-x.com</a>) for communication.</p> <p>6. The agenda and meeting materials of Board meeting mail/send to all directors 7 days before of the Board meeting and remind in advance if the issues require interest avoidance, and finished the meeting minutes in 20 days after the meeting.</p> <p>7. Booking the date of AGM, prepare meeting notice, meeting agenda and minutes within the statutory time limit, and handle change registration matters in the amendment of the Articles of Incorporation or the re-election of directors.</p> <p>8. The internal performance evaluation of the Board of Directors and functional committees was conducted. For the evaluation results of the Board of Directors, the Audit Committee, the Remuneration Committee and their individual members, please refer to page 28 of this annual report and the Company's website (<a href="http://www.innocare-x.com">http://www.innocare-x.com</a>).</p> <p>9. Please refer to page 53 of annual report for the training situation of Corporate Governance Officer.</p>	
5. Does the Company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		The Company has set up a Stakeholder area on the Company's website ( <a href="http://www.innocare-x.com">http://www.innocare-x.com</a> ) to provide a channel for stakeholders to contact the Company. The Company also regularly reports the communication status, implementation plan, goals and results related to all stakeholders to the Board of Directors each year. The communication status of all stakeholders in 2022 was reported to the Board of Directors on February 9, 2023. The issues of stakeholders	No significant difference compared to Corporate Governance Best-Practice Principles



Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			please refer to page 39-40 Note 2 of annual report.	
6. Does the Company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company mandates Registrar & Transfer Agency Department of Yuanta Securities Co., Ltd. to be the Company’s shareholder services agent, and to handle the affairs related to the shareholders’ meeting.	No significant difference compared to Corporate Governance Best-Practice Principles
7.Information Disclosure (1)Does the Company have a corporate website to disclose both financial standings and the status of corporate governance? (2)Does the Company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)? (3) Does the Company announce and report annual financial statements within two months after the end of each fiscal year, and announce and report Q1, Q2, and Q3 financial statements, as well as monthly operation results, before the prescribed time limit?	V  V  V		(1)The Company has set up a corporate website ( <a href="https://www.innocare-x.com">https://www.innocare-x.com</a> ) to disclose both financial standings and the status of corporate governance. (2)The Company has designated personnel responsible for the collection and disclosure of corporate information, and has implemented a spokesman and acting spokesman system in accordance with the regulations. The corporate briefings in each period will also be updated timely on the Company's website for the reference of investors. (3)The Company announced and reported annual financial statements within two months after the end of each fiscal year, and announced the operating conditions of each month and the interim financial statements within the prescribed time limit.	No significant difference compared to Corporate Governance Best-Practice Principles
8.Is there any other important information to facilitate a better understanding of the Company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, Directors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for Directors)? (1) Employee’s Rights The Company attaches great importance to the treatment and welfare of employees, and provides salary levels, leave systems, and retirement insurance that are superior to the legal requirements. Please refer to page 79 “V. Operational Highlights – 5.5 Labor Relations” of the annual report. (2) Employee Care The Company attaches great importance on the physical and mental balance of employees, and the Taiwan plant establishes the Staff Welfare Committee, organizes various leisure and cultural activities, promotes community activities and constructs a website of the Staff Welfare Association, so that employees can balance their health and life while working. In order to improve employees’ health awareness, we conduct regular health checkups and provide employee health consultations every year. In addition, in order to ensure the well-being of female employees, and in accordance with the labor regulations of the locality of the plant, the implementation of the maternity leave pay allowance, the strengthening of the fetus rest and the family care leave, etc., for the female employees of pregnancy, implement the health risk assessment, adjust the work as needed. Under the principle of maternity protection and employment equal rights, create a friendly working environment for female employees.				

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>(3)Investor relations, the rights of suppliers and stakeholders</p> <p>According to different interested groups, the Company has established multiple and unobstructed communication channels, such as setting up a stakeholders area on the Company’s webpage, so that we can keep communicating and getting feedback from those interests groups’ needs and expectations.</p> <ol style="list-style-type: none"> <li>1. Employees: Establish communication channels such as employee care hotline, employee care mailbox, mobilization meeting communication meeting, online publicity system of government decrees, labor-management meetings, and job welfare meetings.</li> <li>2. Shareholders/Investors: The Company treats our shareholders with the principle of fairness and openness. We call the shareholders meetings according to the Company Act and other related laws every year, encourage stockholders to actively participate in the stockholders meeting with proposals and questions.</li> <li>3. Customers: We have salespeople and customer service units to reply to customers’ demands effectively, establish a CRM system, monitor the progress of handling issues, field audits and questionnaire feedback, and customers’ satisfaction survey.</li> <li>4. Suppliers: Setting up an interactive platform for supplier purchasing and supplier management, and a buyer and procurement management department to hold irregular exchanges and meetings with suppliers, and provide anti-corruption reporting mailboxes.</li> <li>5. Society (communities, media, non-governmental organizations): set up full-time spokesman and deputy spokesman to respond in a timely manner, issue press releases and statement from time to time, and hold press conferences. Participate in seminars organized by non-governmental organizations to grasp the trend of the industry, as a reference for policy planning, and cooperate with non-governmental organizations to support the disadvantaged and promote environmental awareness projects to strengthen two-way communication.</li> </ol> <p>(4)Continuing education for directors</p> <p>The Company’s directors have both professional background and practical experience. The Company arranges continuing education for directors and every year. For the continuing education for directors in the latest year and as of the publication date of annual report, please refer to page 52 of this annual report.</p> <p>(5)Implementation of risk management policies and risk measurement standards</p> <p>The Board of the Company has established risk management policies and procedures to establish a risk management system to regularly monitor the related financial risks, regulation risks, climate change risks, hydropower risks, supplier chain risks, information safety risks, and the occupational safety and health risks to enhance the competitiveness of the industry.</p> <p>The risk management process mainly includes risk identification, risk assessment and risk response.</p> <p>Risk identification: Identify relevant risk items according to regulations, industry standards and international development trends.</p> <p>Risk assessment: The degree of risk is comprehensively considered according to the severity and frequency of occurrence</p> <p>Risk response: According to the degree of risk, formulate control measures and response plans. The criteria for evaluating control plans generally include effectiveness, feasibility and cost.</p> <p>(6)The implementation of customer policy</p> <p>The Company attaches importance to the confidentiality and privacy of customer information, and is committed to building information networks covering design, purchase, production and sales to optimize customer service through complete collection of information, deepen product competitiveness and customer dependency, and achieve customer satisfaction. In addition, we conduct annual customer satisfaction analysis surveys to understand and satisfy customer needs, regularly review customer feedback and opinions, and propose appropriate improvement plans to continuously improve the highest-quality products and services.</p> <p>(7) Purchase of liability insurance for Directors: The Company has purchased liability insurance for its directors.</p> <p>9.Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures for those unimproved: The Company has not been included in the evaluation list, which is therefore not applicable.</p>				

**Note 1: Evaluation form of the independence and competency of CPAs**

CPA Firm: Deloitte & Touche

CPAs: Ya-Ling Wong, Chih-Ming Shao

No.	Evaluation Item	Yes	No
1	Not an employee of the Company or any of its affiliates.	V	
2	Not a director of the Company or any of its affiliates (not applicable in cases where the person is an independent directors of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).	V	
3	Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders.	V	
4	Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager listed in the above three items.	V	
5	Not a director, supervisor or employee of an institutional shareholder who directly hold more than 5% of the total issued shares of the Company, nor a director, supervisor or employee of the top five institutional shareholders.	V	
6	Not a director, supervisor, manager, or shareholder holding 5% or more of the shares of a specific company or organization with which the Company has financial or business dealings.	V	
7	Not having a marital relationship, or a relative within the second degree of kinship to any other directors of the Company;	V	
8	Not having any of the situations set forth in Article 30 of the Company Act of the ROC.	V	
9	Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the ROC.	V	
10	Not holding director, manager or other position of the Company that may have a significant impact on the audit within the last two years.	V	
11	Not be involved in the Company's management function of making decisions.	V	

**Note 2: The concerned issues of stakeholders, communication channel and response method**

Stakeholder	Concerned issues	Major Communication Channel, Response Method, Frequency	Result in 2022
Employees	<ol style="list-style-type: none"> <li>1. Recruitment and staffing</li> <li>2. Immediate care and feedback during complaint</li> <li>3. On-the-job training</li> <li>4. Occupational health and safety</li> </ol>	Communication channel: <ol style="list-style-type: none"> <li>1. Labor-management meeting: quarterly</li> <li>2. Employee welfare meeting: quarterly</li> <li>3. Employee suggestion box: irregularly</li> </ol> Contact person: Ms. Yang / HR@innocare-x.com / 06-7007238#271401	<ol style="list-style-type: none"> <li>1. 4 labor-management meetings; 4 employee welfare meetings in a year</li> <li>2. 4 employee care cases in a year</li> </ol>
Shareholders/ Investors	<ol style="list-style-type: none"> <li>1. Financial Performance</li> <li>2. Recruitment and retention</li> </ol>	Communication channel: <ol style="list-style-type: none"> <li>1. AGM: yearly</li> <li>2. Institutional investor conference: half-yearly</li> <li>3. Annual report: yearly</li> <li>4. Investors mailbox: irregularly</li> <li>5. Releasing material information on MOPS: irregularly</li> </ol> Contact person: Investor Relations: Mr. Huang / IR@innocare-x.com / 06-7007238#22552	<ol style="list-style-type: none"> <li>1. Annual report, quarterly financial reports and monthly revenue are announced on time</li> <li>2. 19 inquiry emails from the Investors Mailbox were replied throughout the year</li> <li>3. Answered more than 5 inquiries from investors by phone</li> </ol>

Stakeholder	Concerned issues	Major Communication Channel, Response Method, Frequency	Result in 2022
Customers	<ol style="list-style-type: none"> <li>Continuously provide high-quality and high-tech products</li> <li>Customer Relationship Management</li> <li>Product design, manufacturing and storage procedures meet medical regulatory requirements</li> </ol>	<p>Communication channel:</p> <ol style="list-style-type: none"> <li>Daily meeting: daily, weekly, monthly</li> <li>Evaluation: quarterly, yearly</li> <li>Satisfaction survey: yearly</li> </ol> <p>Contact person: Ms. Chiang / Sales@innocare-x.com / 06-7007238#22562</p>	<ol style="list-style-type: none"> <li>Over 100 routine communication meeting</li> <li>Annual customer satisfaction survey</li> </ol>
Suppliers	<ol style="list-style-type: none"> <li>Occupational health and work safety</li> <li>Stable operation</li> </ol>	<p>Communication channel:</p> <ol style="list-style-type: none"> <li>Daily meeting: daily, weekly, monthly</li> <li>Evaluation: yearly</li> <li>Supplier audit: irregularly</li> <li>Anti-corruption mailbox: irregularly</li> </ol> <p>Contact person: Anti-corruption mailbox: speak-up@innocare-x.com Ms. Tseng / joy.tseng@innocare-x.com / 06-7007238#22610</p>	<ol style="list-style-type: none"> <li>6 supplier high-level communication meetings</li> <li>7 supplier evaluation and review meetings</li> </ol>
Society (communities, media, non-governmental organizations)	<ol style="list-style-type: none"> <li>Pollution control</li> <li>Recruitment and staffing</li> </ol>	<p>Communication channel: Public benefit activity projects: irregularly</p> <p>Contact person: Ms. Li / CSR@innocare-x.com / 06-7007238#22690</p>	<ol style="list-style-type: none"> <li>1 tree planting activity and media release</li> <li>Sponsored and collaborated with the School of Medicine, National Cheng Kung University to conduct a lung cancer early screening program for 10,000 persons in rural areas of Yunlin-Chiayi-Tainan Area, and made media release</li> </ol>

### 3.4.4 Operations of the Remuneration Committee

#### A. Information on members of the Remuneration Committee

March 31, 2023

Identity		Qualification	Professional qualifications and experience	Independence	Number of public companies for which the committee member concurrently serves in their remuneration committees
Name					
Independent Director Convener	Hung-Chi Li	Please refer to “Directors” in page 8 and “Professional qualifications and experience for Directors” in page 12 of annual report.	Please refer to “Independence of Directors” in page 13-19 of annual report.	—	
Independent Director	Chi-Tsung Huang			—	
Independent Director	Yi-Hung Chou			—	

#### B. Attendance of Members at Remuneration Committee Meetings

- (1) There are 3 members in the Remuneration Committee.
- (2) The term of office of the current committee members: November 5, 2021 to November 4, 2024. In the most recent year (2022), the Remuneration Committee met 4 times (A). The qualifications and attendance of the members are as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance rate (%) (B/A) (Note)	Remarks
Independent Director Convener	Hung-Chi Li	4	—	100.00%	
Independent Director	Chi-Tsung Huang	4	—	100.00%	
Independent Director	Yi-Hung Chou	4	—	100.00%	

Note: The actual attendance (%) was calculated based on the number of meetings and the actual number of attendances during his term.

Other items to be recorded:

#### I. Scope of duties of the Remuneration Committee

- (I) Periodically reviewing this Charter and making recommendations for amendments.
- (II) Establishing and periodically reviewing the performance assessment standards, annual and long-term performance goals, and the policies, systems, standards, and structure for the compensation of the directors, and managerial officers of the Company.
- (III) Periodically assessing the degree to which performance goals for the directors, and managerial officers of the Company have been achieved, setting the types and amounts of their individual compensation based on the results of the reviews conducted in accordance with the performance assessment standards.

The Committee shall perform the duties under the preceding paragraph in accordance with the following principles:

- (I) Salary management should conform to the Company’s salary concept.
- (II) Performance assessments and compensation levels of directors, and managerial officers shall take into account the general pay levels in the industry, individual performance assessment results, and the reasonableness of the correlation between the individual's performance and the Company's operational performance and future risk exposure.
- (III) No member of the Committee may participate in discussion and voting when the Committee is deciding on that member's individual compensation.

**II. If the Board of Directors declines to adopt or modifies a recommendation of the Remuneration Committee, it should specify the date of the meeting, session, motion contents, resolution by the Board of Directors, and the Company's response to the Remuneration Committee's opinion (e.g., the remuneration passed by the Board of Directors exceeds the recommendation of the Remuneration Committee, the circumstances and cause for the difference shall be specified): None.**

**III. The resolutions of the Remuneration Committee and the Company's response are as follows:**

Board Meetings	Remuneration Committee Meetings	Motion Contents	Resolution of the Remuneration Committee	The Company's response to the members' opinions
3rd meeting of the 3rd session 2022.01.27	3rd meeting of the 1st session 2022.01.27	1. Proposal of 2021 employees' and directors' remuneration distribution 2. Proposal for the remuneration of managerial officers	Approved by all committee members present as proposed	Approved by all directors present as proposed
5th meeting of the 3rd session 2022.04.12	5th meeting of the 1st session 2022.04.12	1. Proposals for managerial officers remuneration in 2021 2. Proposal for the remuneration of managerial officers	Approved by all committee members present as proposed	Approved by all directors present as proposed
9th meeting of the 3rd session 2022.10.25	6th meeting of the 1st session 2022.10.25	1. The Rules for Employee Shares Subscription for Cash Capital Increase	Approved by all committee members present as proposed	Approved by all directors present as proposed

**3.4.5 Composition, Responsibilities and Operations of the Nominating Committee: N/A.**

### 3.4.6 Sustainable Development Implementation Status and Deviations from “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies”

Implementation Item	Implementation Status			Deviations from “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
1. Whether or not the Company establishes a governance framework and sets up a dedicated (concurrent) unit that promotes sustainable development; whether or not senior management is delegated by the Board of Directors to deal with sustainable development issues and the supervision of the Board?	V		The Company designates the Finance & Accounting & Business Management & HR Division Group as the responsible unit for promoting corporate sustainable development. On September 24, 2021, the Board of Directors formulated the Company's Sustainable Development Best Practice Principles, and authorized the Chairman or his/her designee to propose and implement corporate social responsibility policies, systems or related management guidelines and specific promotion plans, and to conduct risk assessments of environmental, social or corporate governance issues related to the Company's operations in accordance with the material principles. The implementation result for year 2022 and the work plan for next year were reported to the Board of Directors on February 9, 2023, so that the Board could supervise and assist the management team in practicing the corporate social responsibility to promote sustainable performance.	No significant difference compared to Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies
2. Does the Company assess ESG risks associated with its operations based on the principle of materiality, and establish related risk management policies or strategies?	V		The Board of the Company has established Risk Management Policy and Procedures to regularly review the risks related to finance, laws and regulations, climate change, water and electricity resources, industrial supply chain, cyber security and occupational safety and health, so as to improve its competitiveness in the industry. The risk management process mainly includes risk identification, risk assessment and risk response. Risk identification: identifying relevant risk items according to laws and regulations, industrial standards and international development trends. Risk assessment: comprehensive consideration of the severity and frequency of the risk. Risk response: formulating control measures and response plans according to the degree of risk. The criteria for evaluating control plans generally include the effectiveness, feasibility and cost.	No significant difference compared to Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies

Implementation Item	Implementation Status			Deviations from “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
3. Environmental issues	V		(1)The Company has been actively implementing the occupational safety and health management system and the environmental management system in accordance with the laws and regulations related to occupational safety and health and environmental protection. The Company had passed the BSI certification audit and obtained the ISO14001:2018 environmental management system certificate in October 2020, and passed the annual certification audit in August 2022, with the certificate valid until the end of August 2023. The Company will continue to strive for sustainable environmental management and system improvement.	No significant difference compared to Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies
(1)Does the Company establish proper environmental management systems based on the characteristics of their industries?	V		(2)The Company has been reducing the discharge of environmental pollutants from source through machine design, technology improvement, continuous parameter adjustment and optimization, and promotion of raw material consumption reduction and recycling. For example: the Company has applied for and obtained the approval for recycling economic operation of the raw material cesium iodide, and has set the ultimate goal of “100% recycling rate of cesium iodide for manufacturing process”.	
(2)Does the Company endeavor to utilize energy resources more efficiently and use renewable materials which have low impact on the environment?	V		(3)The Company follows the “National Climate Change Adaptation Policy Outline” and implements corresponding measures in line with the government's greenhouse gas examination and reduction plan.	
(3) Does the Company evaluate potential risks and opportunities brought by climate change, and take response measures to climate-related issues?	V		(4)The Company accepted the first greenhouse gas examination with the base year of 2021, and had obtained the greenhouse gas examination statement for ISO14064-1:2018 issued by DNV Company after examination on June 21, 2022. In the future, the Company will continue to cooperate with the TPSA to conduct annual greenhouse gas examination and research and plan for greenhouse gas reduction programs and measures.	
(4)Does the Company compile statistics of greenhouse gas emissions, water use, and total weight of waste in the past two years, and does it establish policies for energy conservation, carbon reduction, greenhouse gas emission reduction, water use reduction, and other waste management?	V			



<p>4.Social issues</p> <p>(1)Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?</p> <p>(2)Does the Company have reasonable employee benefit measures (including salaries, leave, and other benefits), and do business performance or results reflect on employee salaries?</p> <p>(3) Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?</p>	<p>V</p> <p>V</p> <p>V</p>	<p>(1)The Company formulates relevant employee codes in accordance with labor standards law, employment service law and gender work equality law, etc. to protect the rights and interests of colleagues. The Company also established a corporate culture with equal opportunity according to international labor standards and local labor laws.</p> <p>(2)The Company provides employees with work and life leave plans, festive bonuses, and group insurance. It also plans a competitive salary level. In addition to considering the external competitiveness and internal fairness of salary and benefits, it also has an overview of the Company's financial and operating conditions. The industry's annual salary adjustment strategy and personal work performance, improve the planning and execution of annual salary adjustment operations, design and issue incentive bonuses to motivate and retain outstanding talents.</p> <p>(3)The Company has dedicated safety and health management personnel responsible for drafting occupational safety and health management plans, promoting the identification, evaluation and control of work environment and operational safety, and other safety and health management matters. The Company has set up an Occupational Safety and Health Committee, which meets regularly every quarter to discuss occupational safety and health issues, and employees can also participate in the discussion of occupational safety and health issues through labor representatives, so that the implementation of occupational safety and health policies can most fit for the needs of employees on site, thus achieving the purpose of safety and health of all employees. The Company has passed the ISO45001 and TOSHMS certifications and obtained certificates in 2020, and is regularly audited and certified by a fair external third-party organization (SGS). We will adhere to the spirit of continuous improvement of occupational safety and health management system and actively create a safe, healthy, comfortable and friendly working environment with the goal of “zero accident”. In addition, all of our new and existing employees are required to receive regular occupational safety and health education and training.</p>	<p>No significant difference compared to Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies</p>
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Implementation Item	Implementation Status			Deviations from “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(4) Does the Company provide its employees with career development and training sessions?	V		(4) Based on the “medical device regulatory requirements” and the “cognition education” thought, the Company plans a sound certification development framework, and vertically promote relevant courses with professional and management function certifications as the cornerstone, and then promote various departmental trainings horizontally. In accordance with the Company's operational strategy, we also provide internal/external training channels, such as language learning, E-book learning, on-the-job training and other talent development networks, to enhance the professional knowledge and skills of our employees and achieve the Company's goals and diversified education and training paths required. We also offer a series of courses on digital transformation, according to the learning blueprints of different targets, and cooperate with academic institutions to introduce online and physical learning courses to enhance the intelligent thinking of employee, continue to increase and strengthen the overall competitiveness of employees and organization in response to the AI wave of Industry 4.0 and the integration of cross-domain management talents and technology leaders.	
(5) Does the Company comply with relevant regulations and international standards in customer health and safety, customer privacy, and marketing and labeling its goods and services etc., and has it established consumer rights protection policies and complaint procedures?	V		(5) The Company has established operating principles that are customer-oriented and through means of telephone calls, email exchanges and face-to-face meetings, we are able to have solid grasp of customers’ needs so as to formulate improvement strategies to respond to customers in a timely manner. The Company has also established customer service related procedures to ensure that all customer needs can be properly responded to.	
(6) Does the Company have a supplier management policy, require suppliers to comply with regulations on environmental protection, occupational safety and health, and labor rights, and what is its implementation status?	V		(6) The Company has established a Supplier Code of Conduct Statement, which requires suppliers to comply with the Code in all business activities, including labor, health and safety, environment, business ethics and management system, and to fully comply with the laws and regulations of the countries/regions where they operate. In addition, the Company will conduct regular audits, and the audit results are an important factor for the Company to make decisions.	

Implementation Item	Implementation Status			Deviations from “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
5. Does the Company reference internationally accepted reporting standards or guidelines, and prepare reports that disclose non-financial information of the Company, such as ESG reports? Do the reports above obtain assurance from a third party verification unit?		V	The Company has not prepared the sustainability report for the year 2022. The Company intends to cooperate with the competent authorities to promote the policy of “Corporate Governance 3.0 - A Blueprint for Sustainable Development” to collect information and prepare the sustainability report.	
6. If the Company has established the Sustainable Development Best Practice Principles based on “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation: The Company has established the Sustainable Development Best Practice Principles based on “Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies”, and its related operations are disclosed on the Company's website and the Market Observation Post System. All employees and affiliates of the Company are required to comply with these regulations, which have no significant difference compared to Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies.				
7. Other important information to facilitate better understanding of the Company’s sustainable development implementation: The Company adheres to the concept of co-prosperity for enterprise and society, and integrates the sustainable development policy with the management strategy, and jointly promotes sustainable development with the “Innolux Education Foundation”. In 2022, the Company and the Chiayi Forest Area Management Office of the Forestry Bureau held the “Fishing Light. Remaining Light - Shelter Forest Enterprise Volunteer” event, which allowed employees and their relatives to experience the environmental explanation of the shelter forest and to play games to inspire the awareness of caring for the ecological environment; we also carried out beach and forest cleaning work, so that employees could understand the function and importance of the shelter forest and participate in the protection of shelter forest.				

**3.4.7 Ethical Corporate Management Implementation Status and Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”**

Evaluation Item	Implementation Status			Deviations from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Does the Company establish an ethical corporate management policy that was approved by the Board of Directors, and declare its ethical corporate management policy and methods in its regulations and external documents, as well as the commitment of its Board and management to implementing the management policies?</p>	V		(1) The Company’s Board of Directors has resolved to formulate the “Ethical Corporate Management Principles”, “Procedures for Ethical Management and Guidelines for Conduct”, and “Codes of Ethical Conduct for Directors and Managerial Officers” to explicitly stipulate the policies and practices of integrity management. Various internal regulations and external documents, such as employee code of conduct, supplier corporate social responsibility code of conduct, and operating standards, explicitly stipulate the policies and practices of integrity management, and strictly require employees of the Company to fulfill the Company’s integrity policy. At the same time, the Company’s annual report and official website and other documents also detail the Company’s integrity management policy and the Board of Directors and management’s commitment to actively implement the situation.	No significant difference compared to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
<p>(2) Does the Company establish mechanisms for assessing the risk of unethical conduct, periodically analyze and assess operating activities within the scope of business with relatively high risk of unethical conduct, and formulate an unethical conduct prevention plan on this basis, which at least includes preventive measures for conduct specified in Article 7, Paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?</p>	V		(2) In order to prevent dishonesty, the Company has strengthened relevant prevention measures in regulations and external documents for business activities with a high risk of dishonesty. In addition, the Company requires all employees to understand the aforementioned specifications in detail, and publish the specifications on the Company’s official website and internal website for internal and external personnel to consult at any time. The Company continues to use regular education and training and diversified publicity methods to make employees clearly aware of the norms they should abide by, thereby reducing the occurrence of dishonest behavior.	
<p>(3) Does the Company specify operating procedures, guidelines for conduct, punishments for violation, rules of appeal in the unethical conduct prevention plan, and does it implement and periodically review and revise the plan?</p>	V		(3) In order to prevent dishonesty, the Company requires suppliers, contractors or other partners to make written integrity commitments, such as not to engage in any illegal business practices and not to offer improper benefits or bribes to InnoCare employees. In case of severe dishonesty, in addition to terminating or canceling the contract at any time, the Company will report to the judicial authorities in case of gross violation. The Company has	

Evaluation Item	Implementation Status			Deviations from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			established the “Ethical Corporate Management Principles”, which specifies the operating procedures, behavior guidelines, violation punishments and complaint systems, and implemented the Code. When the regulations are amended, the Company will review whether the “Ethical Corporate Management Principles” needs to be amended when the Board of Directors presents the annual report on the implementation of corporate integrity management.	
<p>2.Fulfill operations integrity policy</p> <p>(1)Does the Company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?</p> <p>(2) Does the Company establish a dedicated unit under the Board of Directors to promote ethical corporate management, and periodically (at least once a year) report to the Board of Directors and supervise the implementation of the ethical corporate management policy and unethical conduct prevention plan?</p> <p>(3)Does the Company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?</p> <p>(4) Does the Company have effective accounting system and internal control systems set up to facilitate ethical</p>	<p>V</p> <p>V</p> <p>V</p> <p>V</p>		<p>(1)The Company requires global suppliers to comply with the supplier's code of social responsibility for corporate behavior and sign a manufacturer's commitment to jointly practice the Company’s corporate culture of integrity management. In addition, the Company continues to conduct policy communications to suppliers and customers to communicate the Company’s integrity management culture to suppliers and customers, and to understand whether any misconduct has occurred.</p> <p>(2)The Company is led by the Finance &amp; Accounting &amp; Business Management Division as a responsible unit. It continues to promote various integrity management plans in accordance with company policies, and promotes integrity and honesty matters. The Company will report the integrity management policies, prevention of dishonesty behavior plans, supervision, and implementation situation to the Board of Directors every year, and the integrity management implementation situation in 2022 has been reported to the Board of Directors on February 9, 2023. In the event of a breach of integrity and honesty, the Company will impose disciplinary punishment against the violator.</p> <p>(3)The Company has set out the relevant codes of conduct for the prevention of conflicts of interest in the Codes of Ethical Conduct for Directors and Managerial Officers and employee code of conduct for Directors and managers. All colleagues are required to voluntarily declare and avoid any conflict of interest. In order to implement the policy, the Company also requires employees to fill out an annual questionnaire survey to voluntarily report any conflicts of interest.</p> <p>(4)The Company establishes a complete and effective accounting system and internal control system to ensure the continuous design and implementation of the system. In addition to regular audits by the internal auditing unit of</p>	No significant difference compared to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies

Evaluation Item	Implementation Status			Deviations from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>corporate management, does the internal auditing unit formulate audit plans based on unethical conduct risk assessment results, and does it audit compliance with the unethical conduct prevention plan or commission a CPA to perform the audit?</p> <p>(5) Does the Company regularly hold internal and external educational trainings on operational integrity?</p>	V		<p>the Company and its compliance with the anti-corruption measures formulated in accordance with the risk assessment results within the Company, there is also Deloitte &amp; Touche to regularly audit the financial statements for the Company.</p> <p>(5) Education and training are the most important part of the Company’s implementation of the integrity policy. The Company continues to strengthen the compliance awareness of colleagues through the integrity management education and training courses, and at the same time uses the official website to continue to promote integrity management standards. The Company also conducts regular internal education and training on anti-corruption policies. In addition, in order to ensure that suppliers follow the Company’s integrity management policy, in addition to drafting supplier's corporate social responsibility codes of conduct and operating specifications for suppliers to follow, the Company has also announced the specifications on the Company’s official website for their reference at any time.</p>	
<p>3. The operation of the Company's whistleblowing system</p> <p>(1) Does the Company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?</p> <p>(2) Does the Company establish standard operating procedures for investigating reported cases, and does it take subsequent measures and implement a confidentiality mechanism after completing investigation?</p> <p>(3) Does the Company provide proper whistleblower protection?</p>	V	V	V	<p>No significant difference compared to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies</p>

Evaluation Item	Implementation Status			Deviations from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			report, and prohibits colleagues from taking any retaliation measures. In the course of the investigation, the investigation team did abide by the relevant provisions of the confidentiality of the informant’s identity and anonymous reporting, strictly abided by the standard operating procedures for the investigation of the report, and related confidentiality mechanisms, to protect the confidentiality of the informant’s identity, so that the informant would not suffer from the report improper disposal.	
4.Strengthening information disclosure Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company’s website and MOPS?	V		The Company discloses the Ethical Corporate Management Principles on the Company’s official website and MOPS for inquiry at any time. The annual report of the shareholder's meeting also discloses in detail the contents of the Ethical Corporate Management Principles and the promotion results.	No significant difference compared to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
5. If the Company has established the ethical corporate management policies based on the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy between the policies and their implementation. The Company has enacted Ethical Corporate Management Principles in accordance with Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and disclosed on the official website and MOPS. All of the Company’s colleagues and affiliates are required to comply with these provisions, there is not conformity with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies.				
6. Other important information to facilitate a better understanding of the ethical corporate management operation of the Company (e.g., review and amend its policies.): (1)Strictly abide by the business conduct regulations and other relevant regulations for listing companies as the basis for the implementation of integrity management, and continue to identify and update the regulations to ensure the implementation of the regulations. (2)The Company continues to conduct business ethics regulatory risk assessments every year, and implements the Company’s business ethics risk management through the internal control system.				

### 3.4.8 Corporate Governance Guidelines and Regulations

The Company has established the Corporate Governance Principles, which addresses the protection of shareholders' rights and interests, strengthens the functions of the Board of Directors, respects the rights and interests of stakeholders, and enhances information transparency. It also reviews and evaluates the corporate governance evaluation. The actual implementation of the quantitative indicators is expected to assist the Company to gradually establish a good corporate governance system to enhance the effectiveness of corporate governance. For the Company's corporate governance operation, please refer to the annual report. For the Company's corporate governance operation, please refer to the annual report, 3.4 Implementation of Corporate Governance of III. Corporate Governance Report (pages 28-57). For the Company's Corporate Governance Principles and related regulations, please inquire on the MOPS or the Company's website.

### 3.4.9 Other Important Information Regarding Corporate Governance

1. The Company has established the Procedures for Handling Material Inside Information and Preventing Insider Trading that clearly regulates the handling and disclosure of important internal information. Relevant procedures are regularly reviewed to meet the current laws and regulations and the practical management needs, and internal announcements have been made in the Company along with relevant trainings for all employees.
2. In order to strengthen our competitive edge, the Company continues to combine operational objectives and R&D resources to formulate intellectual property strategies and to implement intellectual property deployment and protection measures. In particular, we have established tactic deployment strategies for intellectual property management (including patent education and training, proposed evaluation mechanism, incentive system, post-approval evaluation, and patent revitalization strategy), and have also established a patent management system to create a comprehensive patent control framework to strengthen the control, utilization, and deployment of patents. As of printed date of annual report, the Company has an aggregate of approximately 28 patents worldwide. In addition, for trademarks, copyrights, and trade secrets, the Company continues to actively perform trademark examination and arrangement in accordance with the relevant management regulations. As of printed date of annual report, the Company has obtained 12 registered trademarks worldwide. In addition, we control trade secrets and copyrights through strict security measures, and further extend the protection of all intellectual property to effectively control and integrate the superior resources of intellectual property, strengthen the Company's competitiveness, and ensure the competitive advantage. The implementation of the Company's 2022 intellectual property management plan was reported to the Board of Directors on February 9, 2023.
3. Status of Directors' participation in corporate governance related courses and trainings in 2022:

Title	Name	Date	Sponsoring Organization	Course	Hours
Chairman Director Director Director Independent Director Independent Director Independent Director	Chu-Hsiang Yang Tien-Jen Lin Jyh-Chau Wang Ta-Lun Huang Hung-Chi Li Chi-Tsung Huang Yi-Hung Chou	2022.04.12	Corporate Operation and Sustainable Development Association	Disclosure of Material Information and Case Analysis of Directors' Liabilities	3
		2022.07.26		A Discussion on the Business and M&A Strategies of Taiwanese Companies From the Perspective of Global Political and Economic Situations	3
		2022.07.28		Case analysis of legal norms and practical cases of insider trading	3
		2022.10.25		Digital Transformation, looking Ahead New Future - A New Thinking on Risk Management	3
		2022.10.27		A Discussion on the Global Tax Reform and Corporate Tax Governance From the Perspective of ESG Trends and the Pandemic Environment	3



4. Status of managerial officers participating in corporate governance related courses and trainings in 2022:

Title	Name	Date	Sponsoring Organization	Course	Hours
President Associate VP & Corporate Governance Officer Division Director Division Director Division Director Division Director Plant Director Financial Officer Accounting Officer	Chih-Sheng Lee Chien-Lang Lo	2022.04.12	Corporate Operation and Sustainable Development Association	Disclosure of Material Information and Case Analysis of Directors' Liabilities	3
		2022.07.26		A Discussion on the Business and M&A Strategies of Taiwanese Companies From the Perspective of Global Political and Economic Situations	3
	2022.07.28	Case analysis of legal norms and practical cases of insider trading		3	
	2022.10.25	Digital Transformation, looking Ahead New Future - A New Thinking on Risk Management		3	
	2022.10.27	A Discussion on the Global Tax Reform and Corporate Tax Governance From the Perspective of ESG Trends and the Pandemic Environment		3	

5. Succession planning and operation of Board members and important management members

The Company implements the diversification policy of Board members in accordance with the Corporate Governance Principles. There are currently 7 directors (including 3 independent directors), all of whom have industry knowledge and international market views, and are good at leadership, operational judgment, operation management, crisis management and other professional capabilities.

In the future, the composition structure of the Board of Directors of the Company and the experience background of members will continue the current structure. The annual “Board Performance Evaluation Results” will be used as a reference for the nomination of directors for renewal.

Regarding the succession plan of the Board of Directors, in addition to considering diversity, the Company will focus on gender equality and possess the knowledge, skills and literacy necessary for performing duties.

The Company adheres to embracing change and leading the market demand, with the three main directions of “cultivating innovation and arranging succession”, “deploying the leadership team” and “deepening the depth of positions”. In addition to excellent work ability, the successors should also have the values consistent with those of the Company.

Based on the talents’ future development and potential ability, the succession cultivation plan is divided into the three stages of experience cultivation, agency and observation, and formal succession. During the period, courses and action learning, project assignment and management authorization, and assignment and rotation are provided, and the feasibility of formal succession is assessed through performance evaluation and high-level personnel review. In addition to internal learning, senior executives and potential talents are also encouraged to study in top universities to deepen the knowledge and ability of business management.

### 3.4.10 Internal Control System

#### 1. Statement of internal control system

InnoCare Optoelectronics Corporation  
Statement of Internal Control

February 9, 2023

According to the examination on internal control systems done by the Company itself in 2022, we hereby state as follows:

- I. The Company's Board of Directors and management team understand their responsibilities of developing, implementing and maintaining the Company's internal control system, and such a system has been established. The purpose of establishing the internal control system is to reasonably assure the following objectives: The effectiveness and efficiency of business operation (including earnings, operation performance, and the safeguard of company assets); The reliability of the financial and related reports; and The compliance of the relevant laws/regulations and company policies;
- II. Due to the innate limitations in designing a faultless internal control system, this system can only assure that the reasonableness of the above three objectives has been fairly achieved. In addition, the effectiveness of the internal control system may change over time due to the change of the business environment or situation. Since the Company's internal control system has included a self-examination capability, the Company will make immediate corrections when errors are detected.
- III. The evaluation of effectiveness of the internal control system design and implementation is made in accordance with the "Guidelines for the Establishment of Internal Control Systems by Public Companies" (the Guidelines). The Guidelines are made to examine the following five factors during the management and control process: (1) control environment, (2) risk assessment and response, (3) control activities, (4) information and communication, and (5) supervision. Each factor also includes several items. Details of each factor can be found in the Guidelines.
- IV. The Company has examined the effectiveness of each respected area in the internal control system based on the Guidelines.
- V. The examination results indicated that the Company's internal control system (including subsidiary governance) dated December 31, 2021 had effectively assured that the following objectives had been reasonably achieved during the assessing period: The degree of effectiveness and efficiency of business operation; The reliability of the financial and related reports; The compliance of the relevant laws/regulations and company policies
- VI. This Statement is a significant part of the Company's annual report and prospectus available to the general public. If it contains false information or omits any material content, the Company is in violation of Article 20, Article 32, Article 171, and Article 174 set forth in the Taiwan's Securities and Exchange Act.
- VII. The Company hereby declares that this statement had been approved by the Board of Directors on February 9, 2023. Among the 7 attending Directors, no one raised any objection to the contents of this statement.

InnoCare Optoelectronics Corporation  
Chairman: Chu-Hsiang Yang  
President: Chih-Sheng Lee

2. Hire an accountant to audit the Company's internal control system and disclose the audit report made by accountants: None.

**3.4.11 If any penalties are imposed on the Company and its personnel or punishments are imposed by the Company on personnel in violation of internal control system regulations in the past year and up to the date of report, and the results of the penalty may have a material effect on shareholders equity or stock price, specify the contents of the penalty, major deficiencies and improvement: None.**

### 3.4.12 Major Resolutions of Shareholders' Meeting and Board Meetings

#### 1. Important resolutions and implementation made by the 2022 Shareholders' Meeting as of the printed date of annual report

##### (1) Ratification of the 2020 Partial Information and Additional Notes Disclosures of Financial Statements

Status of execution: The voting result, the weight of approval was in accordance with the statutory requirements.

Implementation Status: The relevant forms have been submitted to the competent authority for reference and announcement on MOPS in accordance with the Company Act and other relevant laws and regulations.

##### (2) Recognition of 2021 Business Report and Financial Statements

Status of execution: The voting result, the weight of approval was in accordance with the statutory requirements.

Implementation Status: The relevant forms have been submitted to the competent authority for reference and announcement on MOPS in accordance with the Company Act and other relevant laws and regulations.

##### (3) Recognition of 2021 Earnings Distribution Table

Status of execution: The voting result, the weight of approval was in accordance with the statutory requirements.

Implementation Status: The Ex-dividend record date was set on June 18, 2022, and payment date of cash dividend distribution was on July 14, 2022. The distribution of cash is NT\$ 1.10 per share.

##### (4) Amendment to the Articles of Incorporation

Status of execution: The voting result, the weight of approval was in accordance with the statutory requirements.

Implementation Status: It has been registered with the competent authority in accordance with the Company Act and other relevant laws and regulations.

##### (5) Amendment to the Procedures for the Acquisition and Disposal of Assets

Status of execution: The voting result, the weight of approval was in accordance with the statutory requirements.

Implementation Status: The Company uploaded to the MOPS and disclosed on the Company website on June 10, 2022, and matters were handled in accordance with the amended procedures.

##### (6) Amendment to the Rules of Shareholders Meeting

Status of execution: The voting result, the weight of approval was in accordance with the statutory requirements.

Implementation Status: The Company uploaded to the MOPS and disclosed on the Company website on June 10, 2022, and matters were handled in accordance with the amended procedures.

2. Major resolutions by the Board Meetings for 2022 as of the printed date of annual report

Date	Major Resolutions
3rd meeting of the 3rd session 2022.01.27	<ol style="list-style-type: none"> <li>1. Proposal of the annual budget for the Company in 2022</li> <li>2. Proposal of 2021 Allocation on Directors and Employees Remuneration Distribution</li> <li>3. 2021 Business Report and Financial Statements of the Company</li> <li>4. The appointment, remuneration, and assessment of the independence and appropriateness of CPAs</li> <li>5. Proposal of the Company's 2021 Internal Control Statement</li> <li>6. Amendment to Corporate Governance Principles</li> <li>7. Proposal for executing loan agreements with financial institutions</li> <li>8. Proposal for the remuneration of managerial officers of the Company</li> </ol>
4th meeting of the 3rd session 2022.03.08	<ol style="list-style-type: none"> <li>1. The Company's Business Plan in 2022</li> <li>2. Amendment to the Company's accounting policy</li> <li>3. Re-prepared of Partial Information and Financial Statement Notes of the Company's Parent Company Only and Consolidated Financial Statements for 2020, Parent Company Only and Consolidated Financial Statements for 2021, and Consolidated Financial Statements for the Second Quarter of 2021</li> <li>4. Amendments to Corporate Social Responsibility Best Practice Principles</li> <li>5. Amendment to the Articles of Incorporation</li> <li>6. Amendments to the Procedures for the Acquisition and Disposal of Assets</li> <li>7. Proposal to convene 2022 Annual Shareholders' Meeting</li> <li>8. Proposal for the Company to entrust the lead underwriter to handle over-allotment and lock-up period agreement of specific shareholder during the underwriting period</li> <li>9. Amendments to some clauses of the Company's internal control system</li> </ol>
5th meeting of the 3rd session 2022.04.12	<ol style="list-style-type: none"> <li>1. Prepare the 2021 Profit Distribution Table</li> <li>2. Amendment to the Rules of Shareholders Meeting</li> <li>3. Proposal to convene 2022 Annual Shareholders' Meeting (adding discussion motions)</li> <li>4. Draft Financial Statements of the Company for 2019</li> <li>5. Acquisition of real estate right-of-use assets from related parties for business use</li> <li>6. Amendments to some clauses of the Company's internal control system</li> <li>7. Amendments to the Company's Notes Management Regulations, Corporate Governance Principles, and Standard Operational Procedures for Responding to Requests from Directors</li> <li>8. Proposal to lift noncompetition restrictions on the managerial officers of the Company</li> <li>9. Proposals for managerial officers remuneration in 2021</li> <li>10. Proposal for the remuneration of managerial officers</li> </ol>
6th meeting of the 3rd session 2022.05.10	<ol style="list-style-type: none"> <li>1. Proposal of financial statements of the Company for the first quarter of 2022</li> <li>2. Amendments to some clauses of the Company's internal control system</li> <li>3. Proposal of the Company's 2021 Internal Control Statement</li> </ol>
7th meeting of the 3rd session 2022.06.30	<ol style="list-style-type: none"> <li>1. The Company's third and fourth quarters of the 2022 condensed financial forecasts</li> </ol>
8th meeting of the 3rd session 2022.07.26	<ol style="list-style-type: none"> <li>1. Proposal of the financial statements for the second quarter of 2022</li> <li>2. Amendments to the Procedures for Handling Material Inside Information</li> </ol>
9th meeting of the 3rd session 2022.10.25	<ol style="list-style-type: none"> <li>1. Proposal of the financial statements for the third quarter of 2022</li> <li>2. Proposal for setting the record date for the issuance of new shares for execution of employee stock options of the Company for the third quarter of 2022</li> <li>3. Amendments to the Rules for Board of Directors Meetings</li> <li>4. The Rules for Employee Shares Subscription for Cash Capital Increase</li> </ol>
10th meeting of the 3rd session 2022.12.28	<ol style="list-style-type: none"> <li>1. Proposal of 2023 Audit plan</li> <li>2. Amendments to the Company's Procedures for Handling Material Inside Information, the internal control system and the implementation rules for internal auditing</li> <li>3. Proposal for cash capital increase through an issue of new shares to be sold in the public offering prior to initial listing.</li> <li>4. Proposal for executing loan agreements with financial institutions</li> </ol>

Date	Major Resolutions
11th meeting of the 3rd session 2023.02.09	<ol style="list-style-type: none"> <li>1. The Company's Business Plan in 2023</li> <li>2. Proposal of the annual budget for the Company in 2023</li> <li>3. Proposal of 2022 Allocation on Directors and Employees Remuneration Distribution</li> <li>4. 2022 Business Report and Financial Statements of the Company</li> <li>5. The appointment, remuneration, and assessment of the independence and appropriateness of CPAs</li> <li>6. General principles for establishing the Company's pre-approved non-confirmatory service policy</li> <li>7. Proposal to convene 2023 Annual General Shareholders' Meeting</li> <li>8. Proposal of the Company's 2022 Internal Control Statement</li> <li>9. Proposal for setting the record date for the issuance of new shares for execution of employee stock options of the Company for the fourth quarter of 2022</li> <li>10. Proposal for executing loan agreements with financial institutions</li> <li>11. Proposal for reward and remuneration system of managerial officers</li> <li>12. Proposal for the remuneration of managerial officers</li> </ol>

**3.4.13 Documented opinions or declarations made by directors or supervisors against board resolutions in the most recent year, up until the publication date of annual report: None.**

**3.4.14 A summary of resignations and dismissals, during the most recent fiscal year or during the current fiscal year up to the date of publication of this Annual Report, of the Company's Chairman, President, chief accounting officer, chief financial officer, chief internal auditor, chief corporate governance officer, and chief research and development officer: None.**

### 3.5 Disclosure of CPA Fees

#### 3.5.1 Fee Information

Amount Unit: NT\$ thousand

Accounting Firm	Name of CPA	Audit Period	Audit Fee	Non-audit Fee	Total	Remarks
Deloitte & Touche	Ya-Ling Wong	2022.01.01-	4,000	2,242	6,242	Transfer pricing, R & D credit, country report public expense.
	Chih-Ming Shao	2022.12.31				

1. Replaced the accounting firm and the audit fee paid to the new accounting firm was less than the payment of the previous year: None.

2. Audit fee reduced more than 10% year over year, required to disclose the reduced amount, proportion, and reason: None.

**3.5.2 The professional fees for auditing services referred means the professional fees paid by the Company to a certified public accountant for auditing, review, and secondary reviews of financial reports, financial forecast reviews, and tax certification.**

**3.6 Replacement of CPA: None.**

**3.7 The Company's Chairman, President, or any Managerial Officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its CPA or at an affiliated enterprise: None.**

### 3.8 Changes in Shareholding of Directors, Managerial Officers and Major Shareholders

#### 3.8.1 Changes in Shareholding of Directors, Managerial Officers and Major Shareholders

Unit: Per share

Title	Name (Note 1)	2022		In 2023, up to March 31, 2023	
		Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
Chairman	Innolux Corporation	—	—	(300,000)	—
	Representative: Chu-Hsiang Yang	16,750	—	—	—
Corporate Director	Innolux Corporation	—	—	—	—
	Representative: Tien-Jen Lin	4,000	—	—	—
Director	Jyh-Chau Wang	4,250	—	—	—
Director	Ta-Lun Huang	—	—	—	—
Independent Director	Hung-Chi Li	—	—	—	—
Independent Director	Chi-Tsung Huang	—	—	—	—
Independent Director	Yi-Hung Chou	—	—	—	—
President	Chih-Sheng Lee	10,000	—	—	—
Associate VP	Chien-Lang Lo	12,000	—	—	—
Division Director	Tun-Jen Cheng	4,200	—	—	—
Division Director	Ming-Hsien Sun	9,200	—	—	—
Division Director	Yung-Hsiang Liang	8,400	—	—	—
Division Director	Fujisawa Yoshinori	—	—	—	—
Plant Director	Yi-Chien Li (Note 2)	8,800	—	—	—
Financial Officer Accounting Officer	Chung-Wei Huang	8,800	—	—	—

Note 1: Existing directors and managerial officers as of the printed date of the annual report.

Note 2: Newly elected on January 28, 2022.

**3.8.2 Where the counterpart of the equity transfer is a related party : None.**

**3.8.3 Where the counterpart of the equity pledge is a related party : None.**

### 3.9 Relationship among the Top 10 shareholders

Name	Shares held		Shareholdings of spouse and underage children		Shares held through nominees		Familial relationships between top 10 shareholders who are either related parties, spouses, or relatives within the second degree of kinship, his/her/its title (or name) and relationships		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationships	
Innolux Corporation	20,200,000	51.29%	—	—	—	—	Jin Yang Hung	Chairman	—
Representative: Jin Yang Hung	302,600	0.77%	—	—	—	—	Innolux Corporation	Chairman	—
Yuanta Bank in Custody for Trust Property Account	3,588,850	9.11%	—	—	—	—	—	—	—
Yuanta Bank in Custody for Innolux Employee Stock Ownership Trust	1,655,000	4.20%	—	—	—	—	—	—	—
Yuanta Bank in Custody for Trust Property Account	1,110,000	2.82%	—	—	—	—	—	—	—
CDIB-Innolux L.P	1,000,000	2.54%	—	—	—	—	Innolux Corporation	Subsidiary under the equity method	—
ABICO Asia Excelsior Partners L.P.	650,000	1.65%	—	—	—	—	—	—	—
Yuanta Bank in Custody for FUJIFILM Business Innovation Corp. Account	500,000	1.27%	—	—	—	—	—	—	—
Jin Yang Hung	302,600	0.77%	—	—	—	—	Innolux Corporation	Chairman	—
CDIB Capital Growth Partners L.P.	300,000	0.76%	—	—	—	—	—	—	—
Chu Hsiang Yang	294,888	0.75%	—	—	—	—	Innolux Corporation	Director & President	—

### 3.10 The total number of shares and total equity stake held in any single enterprise by the Company, its Directors, Managerial Officers, and any companies controlled either directly or indirectly by the Company

Unit: Shares; December 31, 2022

Investee Enterprises	Investment by the Company		Investment by the Directors, Managerial Officers and Directly or Indirectly Controlled Entities of the Company		Total Investment	
	Shares	%	Shares	%	Shares	%
InnoCare Optoelectronics Europe B.V.	500	100.00	—	—	500	100.00
InnoCare Optoelectronics Japan Co., Ltd.	30,010	100.00	—	—	30,010	100.00
InnoCare Optoelectronics USA, INC.	900,000	100.00	—	—	900,000	100.00
Ningbo Innolux Electronics Ltd.	Note 2	100.00	—	—	Note 2	100.00

Note 1: This refers to investee enterprises in which the Company makes long-term investment calculated according to the equity method.

Note 2: It is a limited company, so no information on the number of shares is available.

## IV. Capital Overview

### 4.1 Capital and Shares

#### 4.1.1 Capital and Shares

March 26, 2023; Unit: Shares

Share Type	Authorized Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	
Common Shares	39,387,400	10,612,600	50,000,000	

#### 4.1.2 Source of Capital

Unit: Shares thousand; NT\$ thousand

Year/ Month	Issue price (NT\$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital increase by assets other than cash	Others
2019.04	10	20,000	200,000	20,000	200,000	Establishment	None	2019.04.02 Nan-Shang-Zih No. 1080008497
2021.05	-	45,000	450,000	31,000	310,000	11,000 thousand shares from capital increase through capitalization of retained earnings	None	2021.05.31 Nan-Shang-Zih No. 1100015621
2021.08	14.5	45,000	450,000	34,985	349,845	3,984 thousand new shares issued upon the exercise of employee stock options	None	2021.08.02 Nan-Shang-Zih No. 1100021997
2021.11	-	50,000	500,000	34,985	349,845	Authorized capital increased by amendment of Articles of Incorporation	None	2021.11.10 Nan-Shang-Zih No. 1100032627
2022.11	14.5	50,000	500,000	35,782	357,820	797 thousand new shares issued upon the exercise of employee stock options	None	2022.11.11 Nan-Shang-Zih No. 1110033395
2023.03	14.5	50,000	500,000	35,785	357,850	3 thousand new shares issued upon the exercise of employee stock options	None	2023.03.03 Nan-Shang-Zih No. 1120005634
2023.04	70	50,000	500,000	39,385	393,850	3,600 thousand new shares from capital increase by cash	None	2023.04.12 Nan-Shang-Zih No.1120009127

#### 4.1.3 Information for Shelf Registration: None.

#### 4.1.4 Shareholder structure

March 26, 2023

Shareholder structure Number	Government Institutions	Financial Institutions	Other Corporation	Individual	Foreign Institutions & Foreigners	Total
Number of Shareholders	—	—	80	26,184	18	26,282
Number of Share Held	—	—	29,991,464	8,874,975	520,961	39,387,400
Shareholding (%)	—	—	76.14 %	22.54%	1.32 %	100.00%



#### 4.1.5 Distribution of Equity Ownership

##### 1. Common Shares

NT\$ 10 per share; March 26, 2023

Class of Shareholding (Shares)	Number of Shareholders	Number of Share Held	Percentage
1 ~ 999	24,049	654,139	1.66%
1,000 ~ 5,000	1,945	2,862,530	7.27%
5,001 ~ 10,000	135	1,036,262	2.63%
10,001 ~ 15,000	61	766,140	1.95%
15,001 ~ 20,000	23	412,016	1.05%
20,001 ~ 30,000	19	500,951	1.27%
30,001 ~ 40,000	5	186,000	0.47%
40,001 ~ 50,000	6	295,000	0.75%
50,001 ~ 100,000	21	1,832,961	4.63%
100,001 ~ 200,000	7	1,027,063	2.61%
200,001 ~ 400,000	4	1,119,488	2.84%
400,001 ~ 600,000	1	500,000	1.27%
600,001 ~ 800,000	1	650,000	1.65%
800,001 ~ 1,000,000	1	1,000,000	2.54%
1,000,001 or over	4	26,553,850	67.41%
Total	26,282	39,387,400	100.00%

2. Preferred Shares: The Company does not issue preferred shares.

#### 4.1.6 List of Major Shareholders (Top 10 shareholders who own the most shares)

March 26, 2023; Unit: Shares

Name of Shareholders	Number of Share Held	Percentage
Innolux Corporation	20,200,000	51.29%
Yuanta Bank in Custody for Trust Property Account	3,588,850	9.11%
Yuanta Bank in Custody for Innolux Employee Stock Ownership Trust	1,655,000	4.20%
Yuanta Bank in Custody for Trust Property Account	1,110,000	2.82%
CDIB-Innolux L.P	1,000,000	2.54%
ABICO Asia Excelsior Partners L.P.	650,000	1.65%
Yuanta Bank in Custody for FUJIFILM Business Innovation Corp. Account	500,000	1.27%
Jin Yang Hung	302,600	0.77%
CDIB Capital Growth Partners L.P.	300,000	0.76%
Chu Hsiang Yang	294,888	0.75%

#### 4.1.7 Market Price, Net Worth, Earnings, and Dividends in the Past Two Years

Unit: NT\$; thousand share

Item		Year	2021	2022 (Note1)	As of March 31, 2023
Market Price Per Share	Highest Market Price		205.50	163.50	134
	Lowest Market Price		80.00	62.40	120
	Average Market Price		164.72	104.72	128.5
Net Worth Per Share	Before Distribution		20.54	22.82	31.54
	After Distribution		20.54	22.82	31.54
Earnings Per Share (EPS)	Weighted Average Shares (thousand shares)		31,000	35,780	39,385
	Earnings Per Share(in dollars)		6.05	5.62	0.82
Dividends Per Share	Cash Dividends		1.10	1.30 (Note2)	—
	Stock Dividends	Dividends from Retained Earnings	—	—	N.A.
		Dividends from Capital Reserve	—	—	N.A.
	Accumulated Unpaid Dividends		—	—	N.A.
Return on Investment (ROI) Analysis	Price-to-Earnings Ratio		Unlisted	Unlisted	(Note 3)
	Price-Dividend Ratio		Unlisted	Unlisted	
	Cash Dividend Yield Rate		Unlisted	Unlisted	

Note 1: The Company is an unlisted company, so there is no market price for reference, and the relevant ratios cannot be calculated.

Note 2: 2022 earnings distribution were passed by the Board of Directors, and will be submitted to Shareholders' Meeting for resolution.

Note 3: The listing and trading start date is March 27, 2023; no relevant information is available for calculation.

#### 4.1.8 Dividend Policy and Implementation Status

##### 1. Dividend Policy

In cases of earnings upon annual general settlement, the Company shall set them aside to pay for taxes and to recover accumulated losses and then set aside 10% to be the legal reserve unless the legal reserve has reached the capital size. Provision or reversal of special reserve may be done if necessary and as required by law. For earnings that remain, if any, the Board of Directors shall prepare the proposal on distribution of the earnings and those yet to be distributed at the start of the term and the distribution will be resolved by the shareholders' meeting.

The Company shall set aside to special reserve, from prior period's undistributed earnings, an amount equal to net deductions from other equity. If the amount is not sufficient, the Company should further set aside from the current period's net profits plus other items to be included in the current period's undistributed earnings.

Depending on the Company's long-term financial planning, investment environment, industry competition, capital expenditure budget, funding requirements and protection of shareholders' equity, dividends should be paid at a rate of no less than 20% of the current year's distributable earnings; however, if the distributable earnings are less than 2% of the paid-in capital, the Company may resolve to transfer the entire amount to retained earnings without distribution. For earnings distribution, cash dividends are preferred but it may also be in the form of stock dividends, with no less than 50% of the earnings to be distributed with cash dividends. The aforementioned dividend distribution percentage may be adjusted based on financial, business and operating factors.

##### 2. Proposed Distribution of Dividend

On April 12, 2023, the Board of Directors will resolve to approve the proposed distribution of cash dividends to shareholders in the amount of NT\$ 51,203,620, with the distributed cash of NT\$ 1.30 per share according to the shareholders and their shares as recorded in the register of shareholders on the record date of the distribution, subject to the approval of the 2023 Shareholders' Meeting.

##### 3. Significant changes of Dividend policy: None.

#### **4.1.9 Effect of the proposed stock dividends (to be adopted by the shareholders' meeting) on the business performance and earnings per share**

Not applicable. There is no stock dividend distribution proposed in this shareholders' meeting.

#### **4.1.10 Remuneration of Employees and Directors**

1. The percentages or ranges with respect to Remuneration of Employees and Directors in the Articles of Incorporation

Article 32 of the Articles of Incorporation stipulates that: In cases of profits for the year, the Company shall set aside no less than 5% as the remuneration to its employees and no higher than 1% as that to directors. In cases of accumulated deficits, on the other hand, the Company shall first retain the value sufficient to offset the deficits.

Those entitled to the remuneration to employees assigned by the Company include the employees of a controlled or affiliated company who meet the criteria set by the Board of Directors or its authorized people.

2. The basis for estimating the amount of employee and director remuneration, for calculating the number of shares to be distributed as employee profit-sharing compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period.

The Company has an amount equivalent to a certain percentage of the current net earnings (net income before tax before deducting the remuneration to employees and the remuneration to Directors) minus the accumulated losses estimated and appropriated as remuneration to employees and remuneration to Directors, which will be reported as operating cost or operating expense. The remuneration to employees paid with stock are with the number of shares calculated in accordance with the closing price of common stock in the day prior to the resolution reached by the Board of Directors, and the Company will no longer take account of ex-right and ex-dividend. If there is any change in the estimated stock share to be distributed after the publication of the financial report in the following year, it is to be treated as changes in accounting estimates and with the effect of such change recognized in the profit and loss of the following year.

3. Information on any approval by the Board of Directors of Remuneration Distribution

- (1) The amount of any employee remuneration distributed in cash or shares and remuneration for directors. If there is any discrepancy between that amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed:

The Board of Directors of the Company has approved remuneration to employee in cash, NT\$ 15,927,886 and remuneration to directors in cash, NT\$ 245,044 on February 9, 2023.

There is no discrepancy between that amounts of remuneration to employee and remuneration to directors and the estimated figures for 2022 these expenses are recognized.

- (2) The amount of any employee remuneration distributed in shares, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee remuneration:

The Company has not had stock shares distributed as remuneration to employees in the current year; therefore, it is not applicable.

4. The actual distribution of employee and director remuneration for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee and director remuneration, additionally the discrepancy, cause, and how it is treated.

(1) Actual distribution amount:

Unit: NT\$

Remuneration of Employees			Remuneration of Directors
Distributed in Shares: Monetary Amount	Distributed in Shares: Number of Shares	Distributed in Cash	
—	—	16,063,105	—

(2) If there is any discrepancy between that actual and the recognized amount; the discrepancy, its cause, and the status of treatment shall be disclosed : There is no discrepancy between the actual distribution amount and the recognized amount.

**4.1.9 Status of repurchasing of shares of the Company: The Company has not repurchased shares of the Company in recent years and up to the date of publication of the annual report.**

## **4.2 Bonds**

**4.2.1 Information regarding corporate bonds: None.**

**4.2.2 Information regarding convertible corporate bonds: None.**

**4.2.3 Information regarding exchangeable corporate bonds: None.**

**4.2.4 Information regarding issuance of corporate bonds under shelf registration: None.**

**4.2.5 Information regarding corporate bond with warrants: None.**

## **4.3 Preferred Shares**

**4.3.1 Information regarding Preferred Shares: None.**

**4.3.2 Information of preferred shares with warrants: None.**

## **4.4 Global Depositary Receipts: None.**

## 4.5 Employee Stock Options

### 4.5.1 As of the printed date of the Annual Report, the processing situation and impact on shareholders' right from employee stock option that have not matured yet

Unit: NT\$; Share

Type of Employee Stock Options	The First (Issue no.) of Employee Stock Option
Effective registration date	N.A. (Note 1)
Issue (handling) date	July 7, 2020
Number of units issued	3,414,000 units (1 unit can subscribe 1 common share)
Ratio of the number of issued subscribable shares to the total number of issued shares (Note 2)	8.67%
Duration	6 years
Exercise method	Issuing of new stocks
Vesting period and percentage (%)	Expired for 2 years: 30% Expired for 3 years: 60% Expired for 4 years: 100%
Number of shares subscribed through exercise of the options	802,900
Amount of the shares subscribed through exercise of the options (NT\$)	NT\$ 11,642,050
Number of unexercised shares	2,611,100
Subscription price per share of the unexercised shares	NT\$ 14.5(Note 3)
Ratio of the number of unexercised shares to the total number of issued shares (%) (Note 2)	6.23%
The effect on shareholders' equity	The Company issues employee stock options in order to attract and retain professionals needed for the Company and to enhance employees' loyalty and sense of belonging to the Company. As the Company is still in its growth stage, the effect on stockholders' equity and the dilution effect should be limited.

Note 1: The Company was a non-public company at the time of issuing the employee stock options, and the issuance was approved by the Board of Directors in accordance with Article 167-2 of the Company Act.

Note 2: The total number of issued shares is the total number of issued shares registered with the Ministry of Economic Affairs as of the printed date of the annual report.

Note 3: On May 12, 2021, the Board of Directors acted as the Shareholders' Meeting and adjusted the subscription price from NT\$ 22.5 to NT\$ 14.5 in accordance with the earnings distribution.

**4.5.2 Names, acquisition, and subscription of managerial officers who have obtained employee stock option as well as employees who rank among the top 10 in terms of the number of shares obtained via employee stock option, cumulative as of the printed date of the Annual Report**

Unit: thousand units; NT\$ thousand; %

	Title	Name	Number of shares subscribable from exercise of warrants granted	Ratio of the number of shares subscribable from the exercise of warrants granted to the total number of issued shares (Note 1)	Exercised				Unexercised			
					Number of shares	Exercise price	Total exercise price	Ratio of the number of exercised shares to the total number of issued Shares (Note 1)	Number of shares	Exercise price	Total exercise price	Ratio of the number of exercised shares to the total number of issued Shares (Note 1)
Managerial Officers	President	Chih-Sheng Lee	744	1.89	599	14.5	8,680	1.52	145	14.5	2,108	0.37
	Associate VP	Chien-Lang Lo										
	Division Director	Tun-Jen Cheng										
	Division Director	Ming-Hsien Sun										
	Division Director	Yung-Hsiang Liang										
	Division Director	Fujisawa Yoshinori										
	Plant Director	Yi-Chien Li (Note 2)										
	Financial Officer Accounting Officer	Chung-Wei Huang										
Employees	Manager	Chih-Hao Wu	669	1.70	490	14.5	7,107	1.24	179	14.5	2,593	0.45
	Manager	Chang-Ling Hsu										
	Manager	Yu-Heng Chen										
	Manager	Chin-Chi Chen										
	Manager	Yu-Shan Tseng										
	Manager	Chih-Chian Liu										
	Manager	Yi-Hsun Tsai										
	Manager	Jui-Wen Cheng										
	Senior Manager	Chung-Liang Kuo										
	Senior Deputy Manager	Chi-Pin Teng										

**4.5.3 Private placement of employee stock options for the last three years and as of the date of the prospectus:**  
None.

**4.6 New Restricted Employee Shares: None.**

**4.7 Status of New Shares Issuance in connection with Mergers and Acquisitions:**  
None.

**4.8 Financing Plans and Implementation**

The plan to handle the underwriting of a cash capital increase of NT\$36,000,000 before the initial listing, amounted 3,600,000 common shares with a par value of NT\$10 per share, had been approved by the letter of approval from Taiwan Stock Exchange Corporation with reference No. 1121800047, dated January 11, 2023. The monetary amount received for cash capital increase was NT\$382,951 thousand had been fully received on March 23, 2023, and will be used to replenish operating capital, enrich our own capital, reduce the debt ratio, strengthen the financial structure and enhance the flexibility of capital deployment. In addition, acquiring long-term and stable funds will help reduce operational risk and potential fund shortage due to future business expansion, which has a positive effect on the Company's business growth and overall operational development.

## V. Operational Highlights

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### 1. Main areas of business operations

The Company is mainly engaged in the R&D, design and sales of X-Ray flat panel detector devices and modules and industrial X-ray detection equipment, as well as assembly services for medical electronic components.

##### 2. Consolidated operating ratios of each business in 2022

Unit: NT\$ thousand

Products	Sales Revenue	(%) of Total Sales
X-Ray Flat Panel Detector Device	1,480,443	78.47%
X-Ray Flat Panel Detector Module	348,559	18.48%
Others	57,617	3.05%
Total	1,886,619	100.00%

##### 3. Main products (Services)

Our main products are key components produced by Thin Film Transistor - Photodiode (TFT-PD) technology and used in Digital Radiography (DR) systems. The main product categories include:

###### (1) X-Ray Flat Panel Detector Device

It is the core component of commercially available X-Ray flat panel detector module, the main body of which is a rigid or flexible substrate with TFT-PD, and can be custom designed according to different needs for size, pixel size and pixel circuit structure. Scintillator or data reading circuit can be attached upon request. The main function is to configure the detection pixels in array mode to perform photoelectric sensing of X-rays penetrating the object under test, and to convert the different levels of X-ray energy sensed by each sensing pixel into electrical charges and store them.

###### (2) X-Ray Flat Panel Detector Module

It is the main component of the digital X-ray radiography system, and its main function is to process the electric signals read out from each pixel in the detector device, including image formation, data storage, and transmission, so that it can be practically used in the detection field. It is the product made of detector device attached with control panel, memory, internal and external mechanical parts, battery, antenna and other components. Since the product is used in the practical detection field, it is designed to be with shock-resistant, waterproof, and static-proof properties according to the user scenarios of different product lines, and it is also divided into products for static, semi-dynamic, and dynamic detections according to the detection needs.

##### 4. New products (services) planned for development

###### (1) Detector devices suitable for higher frame rate

In response to more diverse detection fields and applications, it is a market trend to evolve from static to semi-dynamic and dynamic products, which requires the devices can support higher frame rates. The Company uses the products with "Indium Gallium Zinc Oxide (IGZO)" structure to support dynamic application, and will continue to develop the next generation products with IGZO structure and Low Temperature Poly-Silicon (LTPS) structure.

###### (2) Production line of X-Ray Flat Panel Detector Module/Device for industrial use

The manufacturing industry often needs to detect the internal structure of products or the internal condition after packaging, and the perspectivity of X-ray allows it to be used in non-destructive and invasive detection fields. Compared to Complementary Metal-Oxide-Semiconductor (CMOS) technology, detection devices using TFT-PD structure have the advantage of large area and low cost, allowing for a wider range of applications.

The Company will work with our supply chain partners to develop X-ray detection equipment suitable for manufacturing field by combining X-ray flat panel detector technology and equipment design capabilities.

### (3) Diagnostic Imaging Platform Services

The Company plans to work with our partners to establish an online diagnostic imaging platform for veterinarians, for which professional animal medical image interpretation experts are invited to join the platform and provide diagnostic advice to veterinarians in veterinary hospitals/clinics in Taiwan.

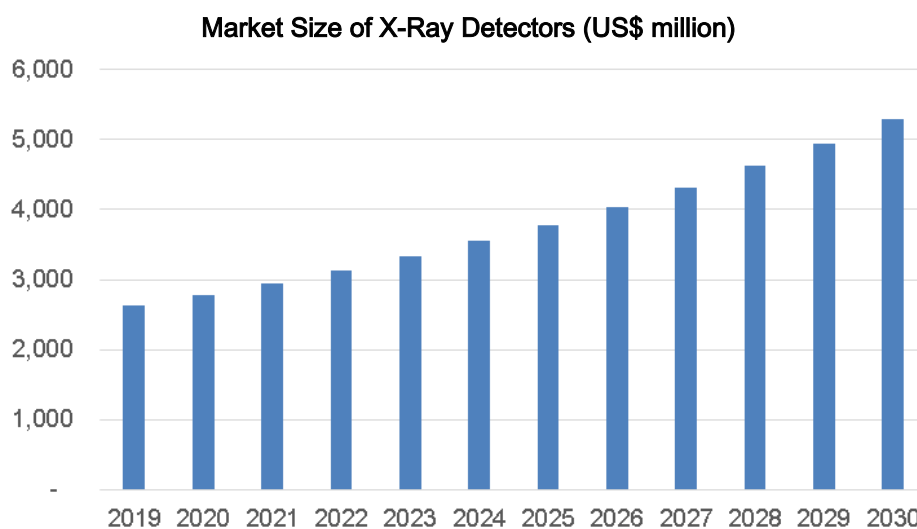
### (4) Full Dynamic X-Ray Flat Panel Detector Module

Taking into account customer demand and market development trends, the proportion of static-dynamic products will gradually expand in the future. In addition to the development of dynamic devices, the Company also extends the development of dynamic module product platforms on the basis of the existing static module technology to provide customers with more choices.

## 5.1.2 Industry Overview

### 1. Current status and development of the industry

The Company's main products are X-ray flat panel detector devices and modules for digital X-ray radiography systems, which are mainly used in medical applications at present. Digital radiography system is a commercialized product and one of the widely used detection technologies, while the X-ray flat panel detector is its core component. According to the data of SPER Market Research (a market research company), the market of X-Ray Detectors, which cover veterinary, medical, dental, industrial and security detection fields, reached US\$2.95 billion in 2021 and is expected to reach US\$5.30 billion in 2030, with a compound annual growth rate of 6.8%, indicating that this is a continuously and steadily growing market. If the market definition is extended to the overall digital X-ray detection market, according to the estimates of MarketsandMarkets (a market research company), the market size is US\$11.1 billion in 2021, and is expected to grow at an average annual growth rate of 8.1%, the overall market size will reach US\$16.4 billion in 2026.



Source: SPER Market Research

If we analyze the overall medical imaging industry chain, medical imaging equipment is the main part of the industry chain. Medical imaging equipment is divided into six categories: X-ray imaging, nuclear magnetic resonance imaging, ultrasound imaging, nuclear medicine imaging, optical imaging, and thermal imaging. At present, the mainstream equipment on the market mainly comes from the X-ray imaging, nuclear magnetic resonance imaging, and ultrasound imaging fields. According to the estimates of SPER Market Research, the global market size of X-ray detectors for medical applications reached US\$1,195.4 million in 2021 and is expected to grow to US\$2,188.9 million in 2030, which is a huge market.

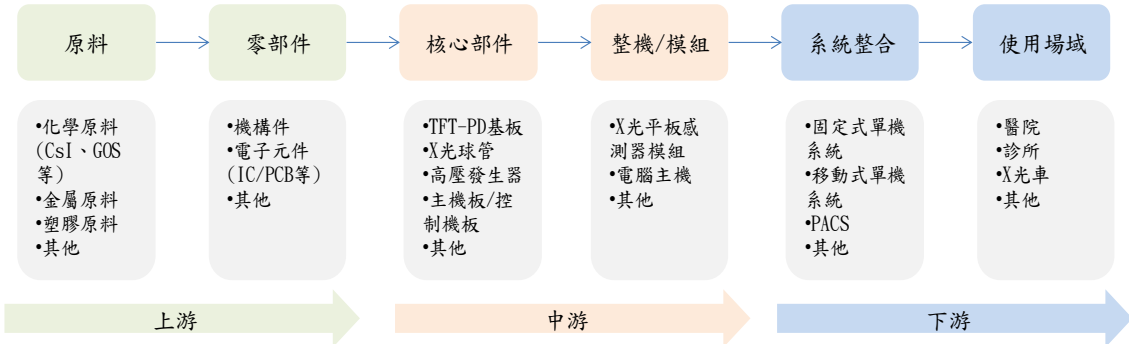


Digital radiography has the advantages of fast digital image reading and low X-ray dose. In recent years, as users are paying more attention to low radiation dose and the popularity of cloud technology has accelerated the development of various diagnostic and analysis applications, the global market switches from indirect digital computed radiography (CR) to digital radiography (DR) at a faster pace. In addition, the global population aging issue is also generating more demands for medical equipment and healthcare. On the supply side, with the rise of several emerging module suppliers and digital X-ray system suppliers in Korea and Chinese Mainland, although the market price decreases due to competition, it also accelerates the penetration of these products in emerging countries and regions and drives the continuous growth of the market size.

In addition to the medical market, Industry 4.0 and intelligent manufacturing have become key development fields in recent years. The development of IoT will drive more demand for non-destructive detection, combined with Automated Optical Inspection (AOI) equipment that has been widely used, it will be able to simultaneously detect the external form and internal structure. This will improve the efficiency of quality control and the ability to detect defective products. Therefore, the Company expects that automated X-ray detection equipment will be another important field that drives the growth of the X-ray flat panel detector market.

2. Association of upstream, mid-stream, and downstream industries

Digital radiography system is composed of multiple components with a long industry chain, and the key part is the manufacturing of midstream core components and unit/module. It is generally divided into six parts (as shown below): raw materials, parts, core components, unit/module, system integration and user site; among them, raw materials and parts are in upstream, core components and unit/module are in midstream, system integration and user site are in downstream of the industry chain. The key to the development of upstream industry chain is basic science and process technology, while in downstream, the key to competition is the understanding of user scenario and user experience, and the ability to integrate hardware and software. Starting from the midstream TFT-PD substrate core technology, our R&D and design capabilities now span from upstream to midstream, including parts, core components, and units/modules, and our goal is to enhance our integration capabilities to provide higher value services downstream.



3. Development trend of products

(1) Flexible substrate provides better fall protection and lightweight experience

For digital radiography system, we have developed wireless X-ray flat panel detector module products, which can improve the flexibility of shooting position and operation angle. However, the product weighing above 2.5 kg will cause burden to the arms of the operator (doctor or radiologist) during long-time continuous use; if the TFT-PD devices using glass substrate are damaged by accidental fall or heavy impact during operation, the repair cost will be high. The products with flexible substrates reduce the product weight and have better resistance to fall or collision than products with glass substrates, thus providing better user experience. The market penetration of such products is expected to increase gradually.

On the other hand, products with glass substrates are limited by their planar characteristics, so that the design of detector modules and detection devices can only adopt planar structure. With the gradual maturity of detector technology using flexible substrates, it is expected that detector products with curve design will emerge to meet the needs of different detection fields, which will increase the diversity of application fields.

(2) Products with higher pixel density (pixel size 100um or smaller)

With the same shooting range, a higher image resolution means more tiny details of the shot object. With the progress of TFT-PD design and manufacturing technology, coupled with better signal processing technology, products with high pixel density can give full play to their image advantages, and more manufacturers are willing to launch such products.

(3) Devices with higher frame rate

As the TFT-PD process progresses from a-Si to IGZO, higher frame rates become possible, and module/system manufacturers can develop products that are compatible with static and semi-dynamic/dynamic detection functions and increase the added value of their products.

(4) Expansion of application fields and the combination of software and hardware

The development of cloud computing and AI has created more applications for various medical data including X-ray images, and the X-ray flat panel detector, as an image data acquisition device, also allows manufacturers to invest in the R&D of functions for assisting in the pre-interpretation of symptoms. The combination of software and hardware applications will bring in new opportunities.

4. Competition in the market

(1) Competition between upstream and downstream of the supply chain

The upstream and downstream companies in the supply chain will create their value in their respective parts. In addition to the cooperative relationship between suppliers and customers, there is also competition between them. The competitive relationship between upstream and downstream of the X-ray flat panel detector products operated by InnoCare Optoelectronics Corporation is described as follows:

A. X-ray flat panel detector device manufacturers

At present, there are many manufacturers in Taiwan, the United States, Japan, Korea, and Chinese Mainland that provide products related to X-ray flat panel detector device, and most of these suppliers are mainly engaged in TFT-LCD, and then set foot in the supply of TFT-PD. At present, they mainly provide TFT-PD substrates produced with amorphous silicon (a-Si) technology to X-ray flat panel detector module manufacturers or system manufacturers, and some of them have started to supply products using IGZO technology.

B. X-ray flat panel detector module manufacturers

They mainly purchase TFT-PD substrates from X-ray flat panel detector device suppliers (e.g. the Company), entrust professional scintillator manufacturers for scintillator process, and then conduct assembly and manufacturing. These suppliers are specialized in the design and manufacture of data reading circuits and modules for flat panel detector devices, and some larger suppliers also have their own scintillator R&D and manufacturing capabilities. These companies are our major customers.

C. Digital radiography system manufacturers

Most of these manufacturers are major medical device manufacturers, and their main R&D capability lies in the integration of the overall system (X-ray bulb, flat panel detector module, image management system, etc.). Most of the system manufacturers used to design and manufacture their own X-ray flat panel detector modules. With the evolution of the division of labor in the medical imaging industry, some system manufacturers have shifted to focus on system integration, image processing, and brand and channel management in recent years, and X-ray flat panel detector modules are obtained by OEM/ODM or direct outsourcing.

The Company is mainly involved in X-ray flat panel detector device and module in the supply chain, and is one of the few companies in the global supply chain that has complete capabilities of TFT-PD device design, scintillator manufacturing, and module design and manufacturing. The Company plans to provide module and system manufacturers with customized and diversified product options through cross-segment integrated technology and manufacturing capabilities, and respond to industry competition with a high

degree of customer stickiness. In addition, because our technology layout crosses different segments, we are able to conduct integrated research and development of new technologies compared with ordinary component suppliers, and create new value by different technology characteristics.

## (2) Competition among different technology applications

High frame rate, high pixel density, low noise, low dose radiography, and large size are the goals of various X-ray detection technologies, but different technology applications have their own advantages, and product manufacturers need to strike a balance between cost and technical advantages.

The main technologies currently used in the field of X-ray detectors are Charge-Coupled Device (CCD), CMOS, TFT-PD (a-Si) and TFT-PD (IGZO). In terms of technical characteristics, CMOS adopts semiconductor technology to produce silicon wafer. Due to the physical characteristics of silicon wafers, CMOS has the best performance in frame rate, pixel density, and noise. However, limited by the size and manufacturing cost of silicon wafers, the cost in large-size detection applications is much higher; the TFT-PD (a-Si) technology compensates the disadvantage of CMOS technology, although the detection performance is not as good as CMOS technology, but it has cost advantage in the field of large size detection. Therefore, this technology is mainly used for static and large area detection products; CCD technology is in between, although it can be used for dynamic products, but the device is too heavy.

In the field of medical X-ray image detection, the detectors used in static products are mainly produced by TFT-PD technology, while dynamic products (e.g. cardiovascular photography, C-arm, etc.) mainly use CCD or CMOS technology. In particular, CMOS has obvious performance advantages, and most high-end dynamic products use CMOS technology.

The Company is mainly engaged in the development of TFT technology products. Although we do not compete directly with device or module manufacturers using different technologies and products in the supply chain, the physical characteristics of the different technologies have resulted in differences in application fields and costs, which have changed in the product development direction on the market with the iterative evolution of the technologies. In recent years, due to the progress of TFT-PD technology, the newly developed TFT-PD (IGZO) technology enables the products to enter the application field of dynamic detection with better cost advantage while maintaining the original large size advantage. As many digital X-ray system manufacturers successively release new products using TFT-PD (IGZO) for dynamic application, it is expected that this technology will gradually withdraw CCD from the market and gradually increase the usage rate of entry-level and middle level dynamic products.

### 5.1.3 Technology and R&D Overview

#### 1. Technical Level and Research Development

Our digital X-ray flat panel detector technology is based on our R&D team's design expertise accumulated through years of experience in the industry. Based on our own TFT-PD technology, we have extended into the field of product with scintillators and reading circuits, and further developed and designed X-ray flat panel detector module products integrating software and hardware. We have complete independent technology in developing X-ray detection applications, including:

##### (1) Years of experience in designing TFT-PD for X-ray flat panel detectors

Our team has many years of experience in designing TFT-PD for X-ray flat panel detectors. With the experience in designing customized products for various module and system manufacturers around the world for several years, we have gradually optimized the performance, yield, and reliability of our products.

On the other hand, our team also foresees the development trend of technologies and products, and plans for potential technologies and products in advance, which is the key to maintain our technological competitiveness.

## (2) Embedded software and hardware design

Reading the signals from TFT-PD substrates requires precise circuit design capability, high-intensity mechanism design capability, and embedded software design capability. The Company establishes our own hardware and software design capabilities and systems that meet the design process of medical products, so that we can quickly put the products into mass production.

## (3) X-ray detection expertise and application experience

The Company has been accumulating X-ray detection expertise and experience in the veterinary and human medical fields for many years, and defining product requirements based on feedback from doctors and manufacturers.

In the meantime, the Company continues to cooperate with domestic and foreign research institutes and medical institutions to develop next-generation technologies, including fracture AI detection models, veterinary imaging cloud platform, and dual-energy imaging chest AI system. The Company also uses its experience to further develop detection equipment for industry and production lines, and combines X-ray detection and image interpretation technologies to develop related detection product lines.

## 2. The consolidated research & development costs invested in during the current fiscal year up to the date of publication of the annual report.

Unit: NT\$ thousand; %

Item	2022
R & D expense	248,437
Sales Revenue	1,886,619
Percentage of Revenue	13.17%

## 3. Successful development technical or product

Year	Successful development technical or product	Main benefits
2019	1. Static FPD product Yushan 2. Flexible TFT-PD substrate	1. Enrich product line completeness and increase customer's options 2. Better performance of advanced products 3. Independent key processes
2020	1. Substrate based on IGZO technology 2. Cesium iodide evaporation process	
2021	1. Pixel design and process development of high fill factor 2. CsI evaporation process development for flexible substrate 3. New generation IGZO pixel structure 4. Sylvia, a dynamic module ODM platform product 5. Yushan, a static module ODM platform with flexible substrate	
2022	1. IGZO technology with high X-ray resistance for industrial use 2. Flexible TFT-PD substrate with CsI direct evaporation	

### 5.1.4 Long- and Short-Term Business Development Plans

#### 1. Short-term Business Development Plan

##### (1) Strengthen the benefits of one-stop service

The Company is one of the few companies in the market that can provide customers with both medical X-ray flat panel detector devices and modules. One-stop service can provide better integration and quality control stability of products. The Company will continue to strengthen customer service and increase the proportion of integrated products co-created with customers.

##### (2) Promote new technology products to enhance product value

In recent years, the Company has developed flexible substrates, IGZO technology and dual-energy detection technology. These new technologies can provide customers with better product benefits, and the Company plans to increase the market penetration of these products to increase the product value.

(3) Continue to expand demand in emerging markets

There are still a large number of medical testing facilities in emerging markets that use old-generation film-based or CR-based products, and the Company is working with customers and distributors to gain opportunities for replacing old products with new products.

(4) Continuously improve product cost and yield

Based on existing production equipment, we will continue to improve our process technology, increase production yields and quality stability, and further improve costs and efficiency.

2. Long-term Business Development Plan

(1) Expand the application of X-ray flat panel detector products in non-medical fields

The Company expects to continue to develop our expertise in thin-film transistor-photodiode (TFT-PD) technology and apply our X-ray flat panel detector technology and products to the fields of manufacturing quality control, industrial detection, and safety detection.

(2) Diagnostic auxiliary services

The X-ray flat panel detector module is a product used by first-line detection personnel. This device not only receives and processes the received X-ray images, but also serves as a carrier for providing more in-depth services to customers. The Company plans to provide a platform for diagnostic auxiliary services, which is expected to start with the field of pet healthcare, and provide diagnostic assistance for pet X-ray images by cooperative experts and AI technology.

(3) R&D of advanced manufacturing process and new materials

In order to maintain the competitiveness of our products in the long run, we have invested R&D resources in the research and development of advanced processes and new-generation detector materials, and made arrangements for patents and products in advance to ensure that we stay ahead in the technology field of next generation X-ray flat panel detectors.

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

1. Main products selling area

Unit: NT\$ thousand; %

Area		Amount of Sales 2022	%
Domestic Sales		49,335	2.61%
Foreign Sales	Asia	1,228,965	65.14%
	America	475,158	25.19%
	Europe	130,715	6.93%
	Africa & Others	2,446	0.13%
	Subtotal	1,837,284	97.39%
Total		1,886,619	100.00%

2. Market Share

The Company's products are mainly used in the medical field. According to the research report of SPER Market Research, "Global X-Ray Detectors Market Size, Share & Trends Analysis Report, By Product, By Application, Regional Outlook, Competitive Strategies and Segment Forecasts to 2030" by SPER Market Research, Inc., the annual output of global flat-panel detectors (FPDs) for medical applications was about US\$1.2 billion in 2021, with an average annual growth rate of 7%. In 2022, the Company's revenue was NT\$1.89 billion, accounting for 4.5~5% of the industry.

3. The supply and demand situation and growth of the future market

(1) The economic development of emerging countries has brought about product upgrades: According to statistics, the increase in the average national income of a country will increase the proportion of medical expenses and

people will require more considerate medical services. In recent years, continuous economic growth in emerging markets with large populations such as China, India, and Southeast Asian countries has driven the upgrade of medical systems, generating demand for replacing old film-based and CR-based products with digital radiography systems, and thus expanding the market for X-ray flat panel detectors.

- (2) Medical progress increases the average life expectancy of the global population, and the demand for medical services is also growing year by year due to the aging society and patients with civilization-induced diseases: the improvement of global medical technology and the development of medical systems over the past few decades have gradually increased the average life expectancy of human beings, which means larger population and more elderly people. This contributes to the growing demand for medical services, and increases the demand for medical equipment and devices. In addition, the increasing number of patients with cancers, orthopedic diseases, tumors, cardiovascular diseases (CVD), and dental diseases due to changes in lifestyles also increases the demand for X-ray detection, which will drive the growth of the global market in the coming years.
- (3) The progress of TFT-PD technology and the improvement of frame rate further fill the gap of static X-ray radiography systems and entry-level CT markets: The improvement of frame rate of X-ray flat panel detectors expands the module/system products to semi-dynamic/dynamic fields, fills the market gap between the previous mainstream static products and entry-level Computed Tomography (CT), and further expands the market base.
- (4) Due to the advantages of low radiation dose, portability, and ease of use, digital radiography systems are gradually replacing old X-ray products after cost and price decreases: The market growth attracts more manufacturers to join the supply chain of X-ray flat panel detector devices and modules, which leads to decreases in price and cost and further accelerates the replacement of old products (film-based and CT-based radiography) in the market.
- (5) Rise of Industry 4.0, IoT and other automated manufacturing: as Industry 4.0 becomes popular in the world, the demand for automated detection has increased, and X-ray can be used to inspect the internal structure of items, which is expected to continue to increase the application fields.
- (6) COVID-19 epidemic accelerates the increase in medical demand for digital X-ray: In recent years, the impact of COVID-19, the increase in the number of cases around the world has forced many countries to improve the medical level, more companies are developing and promoting the use of portable digital X-ray equipment.

#### 4. Competitive Niche

##### (1) Experienced R&D teams and technologies

Our R&D and design teams have been involved in the technical development of X-ray flat panel detectors for many years and have accumulated deep technical capabilities. We have been working closely with the world's leading manufacturers for years to continuously improve the product performance, and our accumulated technology and experience have realized better performance, yield, quality and reliability of products.

In addition to our main products using amorphous silicon (s-Si) structure and process, we have also mass-produced and sold products using IGZO process, and have further invested in the research and development of next-generation products using low-temperature polysilicon process and with Active-Pixel Detector (APS) function. The key to maintaining our competitiveness is our strong research and development capabilities, which enable us to continuously plan for our next-generation technologies and products in advance.

##### (2) Global customer bases

We have a wide and deep customer base, with many major manufacturers of digital X-ray systems or modules in Japan, South Korea, North America and Europe as our close customers. Safety and reliability are key to medical products, and the upstream and downstream cooperation in the supply chain is closer and more stable than that of consumer products, which also provides a solid foundation for our business operation.

### (3) One-stop product and production layout

We are one of the few companies in the world that has the ability to design and manufacture a complete set of TFT-PD X-ray flat panel detector array pixels, devices and modules, which provides customers with more flexibility in product manufacturing strategies. We can accept customer's request to design and manufacture different specifications of X-ray flat panel detector devices; in terms of module products, we can provide OEM/ODM services to assist in the procurement management of components and assembly, and even provide various customized products.

## 5. Positive and Negative Factors for Future Development, and the Company's Response to such Factors

### (1) Positive Factors for Future Development

#### A. Stable growth of the market

Relying on the above-mentioned factors driving market growth, according to the research report of SPER Market Research (a market research company), the market of X-Ray Detectors, which cover veterinary, medical, dental, industrial and security detection fields, is expected to grow at a compound annual growth rate of 6.8% in 2030. The stable growth in market size will allow the Company to invest in future technology and product development more actively.

#### B. High entry barriers for competitors

As mentioned above, X-ray flat panel detector is a typical high technology-intensive product. Its operation principle involves semiconductor components, photoelectric conversion, optical image processing and radio wave transmission. Product development includes X-ray flat panel detector devices and modules, and the overall development cycle usually takes 1~3 years and more. Manufacturers need to gradually develop core technologies and processes through years of research and development experience accumulation. It is not easy for new entrants to master the key technologies or design and produce products with stable quality and meeting customer and market demands in a short time. For new entrants, the main technical barriers are "TFT-PD design and production", "scintillator process development" and "optical-electro-mechanical integration of module operation", and interdisciplinary integration also requires long-term accumulation of skills and experience.

#### C. Long validation cycle and high customer adhesion for medical products

Medical products are related to personal safety. Even though X-ray flat panel detectors are non-invasive medical devices, the validation and management of each important component need to meet the strict standards for medical devices. We have established long-term and close cooperative relationship with our major customers and are familiar with their product validation processes, which is conducive to the continued development of long-term product cooperation.

### (2) Negative Factors for Future Development, and Response to such Factors

#### A. New competitive products and technologies emerge in the market

With a reasonable performance/price ratio, consumers will switch to technologies with better performance, and market demand will gradually switch to new technology products. In our specialized TFT-PD technology field, we are still using a-Si process for mainstream products, and we are starting to adopt IGZO technology for our high-end and dynamic products. Although the Company is leading the market in terms of customers and product layout, it is possible that the market demand for new technology products will change faster than expected, resulting in a decline in sales of existing products and affecting the Company's revenue.

#### Reaction Strategy:

In the face of the risk that the accelerated transition of new technologies and products in the market may impact the sales of existing products, the Company's strategy is to "plan for the next two generations of products in advance, and actively encourage the customers to propose new schemes".

In terms of technology, the Company will use mainstream a-Si products to contribute to revenue, offer more favorable cooperative conditions to attract some customers to adopt next-generation IGZO technology in new product development in advance, and make good use of the Company's leading position in new

technologies to expand sales volume of high-end, high-margin products. Even though IGZO products have not yet become mainstream, INCX has already started the research and development of next-generation LTPS-APS and perovskite technologies, and made plans for the new technologies and products in 3~5 years to ensure that we can maintain the leading position in new technologies and specifications.

B. Existing or potential competitors are investing in emerging alternative technologies

The Company's X-ray flat panel detector products are based on TFT-PD technology, and the main revenue is generated from these products currently. Although the Company has invested in research and development of next-generation X-ray detector materials and technologies, it may still face the risk of having its current market and customers replaced due to the rise of other emerging technologies.

Reaction Strategy:

In addition to employing our own research and development personnel, the Company also cooperates with domestic universities and laboratories to explore the possible applications of new technologies and materials from basic theories and materials research, explore emerging competitive technologies in advance, and develop new technical fields of X-ray detector. In addition, the Company has customers all over the world, and the products of some customers cover various medical and non-medical X-ray detection fields and have many years of technology and product bases; therefore, the Company also works with customers to develop new product applications and expand new business sources to reduce the possible risks caused by the replacement of new technologies.

C. Rapidly increasing costs and expenses for new product development and validation

X-ray flat panel detector products have complex design structure, high product specification requirements, and stringent regulatory requirements, and new products and technologies require long development cycles, highly specialized R&D personnel, and huge R&D expenses. If the new products or technologies developed with significant resources cannot gain market recognition or cannot be successfully mass-produced due to high difficulty of production and manufacturing, the Company's financial position may be affected. In addition, the longer validation period for products due to regulatory requirements may also be a potential financial burden.

Reaction Strategy:

The capital market can expand the Company's fundraising target and flexibility, increase the flexibility of financial planning, and improve the Company's reputation and credit rating, which is helpful for recruiting excellent talents, expanding sales, fund raising and financing. The Company plans to raise funds through bank loans and equity financing and use capital market financing tools according to the long-term capital planning, so as to support future working capital needs and strengthen the financial position, deepen its future development and cope with competition.

D. Intensified price competition in the market

The market is highly competitive, especially the high gross margins of the medical market, which arouse the interest of other enterprise groups. The Company is exposed to the risk of existing or potential competitors attempting to capture the market, and if other competitors adopt more aggressive pricing strategies to obtain orders, this may have an impact on the profit margin of products.

Reaction Strategy:

In the face of competition from existing or potential competitors, we will not only provide products with better technology, better specifications, and better quality stability, but also provide more comprehensive services to improve customer adhesion. The Company provides customized product design services for our X-ray flat panel detector device products with leading technology and sales, and also strives to convince customers to use our OEM/ODM services for X-ray flat panel detector module products. Through efficient supply chain operation and management, better bargaining power in raw material procurement, and comprehensive product design and validation services, we will enhance customer dependence and reduce the negative effects of industry competition on revenue and profit. In addition, expanding the application of products can reduce the impact of fluctuations in a single industry on our operations. With the progress of



Industry 4.0, intelligent manufacturing, and AI-assisted analysis technologies, the demand for non-destructive detection is gradually increasing. Digital radiography can be used for product inspection and pipeline inspection, and will grow significantly in the manufacturing industry. The Company has already invested in the development of intelligent detection-related products in manufacturing field, which are expected to become another important revenue source in the future in addition to medical applications.

E. Tightening regulation of medical devices

Although digital radiography systems are non-invasive detection equipment, they are still subject to the restrictions and requirements of medical device validation and registration. With the increasingly stringent regulations and requirements for medical and health products in various countries/regions, the Company may need to incur additional expenses to comply with the relevant validation and registration requirements in the event of adjustments and amendments of laws and regulations; the marketing schedule of the products may also be affected in addition to the expenses.

Reaction Strategy:

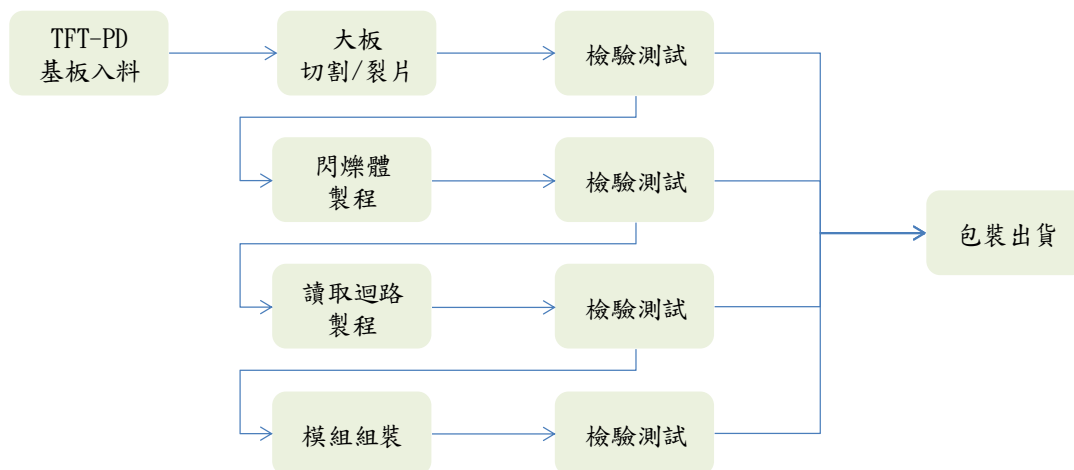
Medical regulations vary from one major region/country to another, and the relevant regulations are evolving. In order to ensure the successful registration and marketing of our products, we have hired professional medical product registration personnel who are responsible for product registration application and validation preparation, as well as regularly monitoring the trend of regulatory amendments in major regions, which will be the reference for the planning of sales and product development strategies.

**5.2.2 Usage and Manufacturing Processes for the Main Products**

1. Main Products and Their Main Usage

The Company’s major products are X-ray flat panel detector devices and modules based on TFT-PD technology, which are mainly used in digital X-ray detection systems to detect the X-ray energy penetrating the object and convert it into and save as digital images for non-invasive detection in medical or industrial fields.

2. Main Products and Their Manufacturing Processes



**5.2.3 Supply Situation for the Major Raw Materials.**

Major Raw Materials	Source of Supply	Supply Situation
TFT-PD substrate	Innolux Corporation	Good
Mechanical and electronic parts of module	JA Company	Good
OEM of scintillator process	FI Medical Device Manufacturing Co., Ltd.	Good
IC of reading circuit	Fortunebay Technology Pte Ltd.	Good

## 5.2.4 Major Suppliers and Customers

### 1. Information of major suppliers in the last two years

Unit: NT\$ thousand; %

Item	2021				2022			
	Name	Amount	Percentage	Relation with the issuer	Name	Amount	Percentage	Relation with the issuer
1	Innolux Corporation	439,706	43.55%	Parent Company	Innolux Corporation	481,403	52.01%	Parent Company
2	Fortunebay Technology Pte Ltd.	107,525	10.65%	Substantive Related party	Others	444,149	47.99%	—
3	Others	462,481	45.80%	—	—	—	—	—
	Net purchases	1,009,712	100.00%		Net purchases	925,552	100.00%	

Note to change: Mainly due to the adjustment of purchased items as a result of the adjustment of the product mix purchased by customers.

### 2. Information of major customers in the last two years

Unit: NT\$ thousand; %

Item	2021				2022			
	Name	Amount	Percentage	Relation with the issuer	Name	Amount	Percentage	Relation with the issuer
1	UA Company	357,862	18.44%	None	UA Company	298,313	15.81%	None
2	JA Company	275,701	14.20%	None	JA Company	204,426	10.84%	None
3	JC Company	263,334	13.57%	None	JC Company	279,352	14.81%	None
4	Others	1,043,861	53.79%	—	Others	1,104,528	58.54%	—
	Net sales	1,940,758	100.00%		Net sales	1,886,619	100.00%	

Note to change: Mainly due to the adjustment of the product mix purchased by customers.

## 5.2.5 Production Volume and Value in the Most Recent Two Fiscal Years

Unit: Units thousand; NT\$ thousand

Year	2021			2022		
	Capacity	Production Volume	Production Value	Capacity	Production Volume	Production Value
Main Products						
X-Ray Flat Panel Detector Device	113.60	87.29	1,661,790	142.20	91.98	1,814,584
X-Ray Flat Panel Detector Module	10.95	10.95	477,587	8.72	8.72	331,480
Total	124.55	98.24	2,139,377	150.92	100.70	2,146,064

## 5.2.6 Sales Volume and Value in the Most Recent Two Fiscal Years

Unit : NT\$ thousand

Year	2021				2022			
	Local		Export		Local		Export	
	Volume	Amount	Volume	Amount	Volume	Amount	Volume	Amount
Main Products								
X-Ray Flat Panel Detector Device	2.89	54,667	38.32	1,283,246	0.56	21,486	50.58	1,458,957
X-Ray Flat Panel Detector Module	0.06	18,420	10.33	489,238	0.05	25,053	7.90	323,506
Others	0.86	4,199	8,697.80	90,988	2.93	2,796	7,151.50	54,821
Total	3.81	77,286	8,746.45	1,863,472	3.54	49,335	7,209.98	1,837,284

## 5.3 Human Resources

Year		2021	2022	March 31, 2023
Number of Employees	Managerial Officers	7	8	8
	IDL	185	202	209
	DL	135	134	132
	Total	327	344	349
Average Age (Unit: years)		39	40	40
Average Years of Service (Unit: years)		1.8	2.6	2.8
Education Distribution Percentage (%)	Ph. D.	0.6%	0.6%	0.6%
	Masters	32.7%	32.6%	33.5%
	Bachelor's Degree	48.9%	50.9%	50.1%
	Senior High School	16.5%	15.1%	14.9%
	Below Senior High School	1.2%	0.9%	0.9%
	Total	100%	100%	100%

## 5.4 Environmental Protection Expenditures

**5.4.1 Any losses suffered by the Company in the most recent fiscal year and up to the annual report publication date due to environmental pollution incidents (including any remuneration paid and any violations of environmental protection laws or regulations found in environmental inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, and the content of the dispositions), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: None.**

## 5.5 Labor Relations

**5.5.1 List any employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and the status of labor-management agreements and measures for preserving employees' rights and interests.**

1. Employee benefit plans, continuing education, training, retirement systems, and the situation of implementation

(1) Employee benefit plans and implementation status

Our Employees have the labor insurance, citizen health insurance, and group insurance from the very first day of employment. Besides the basic monthly salary, we also provide Luna Festival, dragon boat festival, New Year bonuses. In addition, the Company will provide employee with incentive bonuses and employee rewards timely according to the operation revenue; Employee remuneration is issued after the Board of Directors' resolution. According to the position, performance and contribution, the amount of each employee is determined to motivate and retain outstanding talents.

The plant has a staff canteen, which provides meal subsidies for employees according to the Company's regulations, and there are also convenience stores, banks, insurance, travel, telecommunication and other assistance. Based on the concept of vitality, happiness and health, the Company aims to activate team morale and promote work-life balance.

In addition, the Company provides regular health examination, and provides physical abnormality consultation and health guidance after the examination results are revealed, so as to help employees strengthen their health management and expect early identification and early treatment of diseases; meanwhile, professional doctors will visit the plant regularly to provide various health promotion and psychological consultation programs to care for the physical and mental well-being of employees. Besides, we provide multiple self-financed health check-up programs for family members, which not only takes care of employees, but also extends to family members, providing more comprehensive life care.

Based on the concept of sharing business results with employees, the Employee Welfare Committee is

established in accordance with the law to be responsible for the planning and implementation of various welfare programs; including community activities, sports seasons, family days, departmental dedication activities, seminars by talents from different industries, discounts for special stores, and subsidies for festivals, weddings and funerals, emergency relief, etc. To encourage colleagues to cultivate personal interests outside of work and promote work-life balance, through the establishment of diversified clubs, and the three key points of enrichment, activism, and life-oriented management of the clubs, to meet the different preferences of employees through cross-field, same-interest activities and exchanges, and create both energetic, creative, caring and joyful workplace environment.

## (2) Continuing education and training for employees

Based on the “medical device regulatory requirements” and the “cognition education” thought, the Company plans a sound certification development framework, and vertically promote courses related to quality, green products, and legal affairs with professional and management function certifications as the cornerstone, and then promote various departmental trainings horizontally. In accordance with the Company's operational strategy, we also conduct business capability training. We also provide internal/external training channels, such as language learning, on-the-job training and other talent development networks, to enhance the professional knowledge and skills of our employees and achieve the Company's goals and diversified education and training paths required. We offer a series of courses on digital transformation, according to the learning blueprints of different targets, and cooperate with academic institutions to introduce online and physical learning courses to enhance the intelligent thinking of employee, continue to increase and strengthen the overall competitiveness of employees and organization in response to the AI wave of Industry 4.0 and the integration of cross-domain management talents and technology leaders.

## 2. Retirement systems and implementation status

At present, there are two kinds of labor pension systems, the old system of retired labor implemented by the accordance with the Labor Standards Law and the new system of retired labor implemented by the accordance with the Labor Pension Regulations.

- (1) The company formulates employee retirement measures in accordance with the Labor Standards Act, and establishes a Labor Retirement Reserve Supervision Committee.
- (2) We hire actuary to evaluate our employees' retirement preparation fund and issue the evaluation report according to the IAS19R financial principles.
- (3) We transfer 2%~15% monthly salary to retirement preparation every month.
- (4) If a labor retirement pension system is established, the Company will allocate 6% of the insured salary to the employees' personal account established by the Labor Insurance Bureau on a monthly basis to fully protect employees' rights.

## 3. The status of labor-management agreements

The Company has always attached importance to labor relations and emphasized labor harmony. In order to maintain two-way communication, management and exchange, the company has been promoting zero distance communication with employees through various measures. Quarterly labor-management meetings and employee welfare meetings are held, in which representatives from the employer side, composed of senior management, and representatives from the labor side, selected by employees, to communicate directly face-to-face and exchange opinions with each other in an open manner.

## 4. Measures for preserving employees' rights and interests

Construct a comprehensive communication channel, announcing important information and issues through bulletin board and INCX News; provide all-day communication platforms such as employee care hotline, employee care mailbox, plant manager mailbox and president mailbox. Employees can choose to escalate their problems by name or anonymously, and we also work with Lifeline to provide psychological and legal consulting to employees, so that their problems can be solved immediately and effectively, and a harmonious labor-management relations can be established.

## 5. Working environment and individual safety protection

### (1) Safety and Health organization and operation

The Company has set up a dedicated unit for the development of environmental safety and health management systems and the comprehensive environmental safety and health management affairs under the President's office. Invite the top executives of the plant area, various authorities and labor representatives to convene a "Safety, Health and Environmental Protection Committee" on a quarterly basis to discuss the progress of the target plan, internal and external concerns and communication, environmental safety and health management plans, occupational disease prevention and Issues such as health promotion matters, epidemic prevention management matters, and environmental safety and health management performance appraisal.

In April, 2020, ISO14001 environmental management system, ISO45001 occupational safety and health management system and TOSHMS Taiwan Occupational Safety and Health Management System were introduced. In October 2020, we passed the external certification and obtained the management system certificates. We hope to make the environmental safety and health management system more comprehensive and complete, provide a better working environment for plant workers, fulfill social responsibilities and enhance competitiveness to implement the sustainable business philosophy.

In August, 2022, we passed the second annual external audit certification for ISO14001 Environmental Management System, ISO45001 Occupational Safety and Health Management System and TOSHMS Taiwan Occupational Safety and Health Management System.

#### Analysis and Statistics of Occupational Hazards

The frequency rate (FR) and the severity rate (SR) of disabling injuries were both zero in 2022. The Company implemented training on safety and health awareness and various publicity activities of environmental safety and health for all employees, as well as the observation of operational safety risks and operational safety and the management programs, so as to reduce unsafe environments and behaviors, improve the intrinsic safety design of equipment, and promote the automation of manufacturing processes to reduce the operation of employees and equipment interfaces.

#### Contractor management

Through regular agreement organization meetings and irregular construction safety meetings to strengthen contractors' awareness of environmental safety and health management, they also cooperate with contractors to complete job hazard identification, risk assessment and analysis, and emergency response plans for high-risk operations. In the event of an accident, the Company will conduct accident investigation and analysis and implement corrective and preventive measures according to relevant regulations; in order to prevent accidents, the contractor's hazard assessment and prevention capabilities will be promoted and strengthened through education and training activities. In 2022, the accident rate, injury rate (IR) and lost day rate (LDR) of the contractors were all zero.

#### ESH Training and Contingency drill

Employees are the most valuable asset. Training is an investment that never depreciates. The Company continuously provide general safety and health education and professional knowledge and skills training for employees, such as environmental protection, plant and equipment safety, chemical hazards and protection, fire management, emergency response management, occupational injury prevention, and health seminars.

The Company builds emergency response organizations and develops contingency procedures for various situations, and through daily education, training and drills to enable the Company to quickly and effectively deal with disasters and reduce losses.

### (2) Risk Management on Occupational Safety and Health

#### Prevention and Management of ergonomic hazards

In recent years, the proportion of occupational musculoskeletal disorders in the occupational disease benefits of labor insurance is increasing year by year. Prevention and control of ergonomic hazards is one of

the key points of active management in the industry. In order to effectively prevent the occurrence of diseases caused by occupation-related factors, the Company has taken the following measures:

- A. Identification and analysis of the risk of job-specific processes of a systematic, resource and continuous improvement mode execution.
- B. Occupational Safety and Health Act will trigger repetitive operations, such as pre-musculoskeletal diseases Anti concept implanted “hazard identification and risk assessment norms” to implement career In order to effectively prevent and control concepts, health management must be through hazard awareness, assessment and control improvement.

#### Prevention and Management of overwork related illness

The Company aims to effectively prevent abnormal workloads from causing diseases and ensure the safety and health of employees as follow:

- A. Ensure that employees’ working hours, rest, and vacation conditions are in line with local labor regulations.
- B. Perform workload level assessment, including employee overload and work pattern assessment, and assess the risk of cardiovascular disease incidence of employees based on health examination results, and adopt health management
- C. The health management system was implemented, including annual regular health checkups, risk case identification and management, anomaly tracking management, mental health management, matching work, fitness adjustment, etc.
- D. Actively promote mental health management and stress management-related preventive education and disseminate the rules of overload prevention, knowledge of preventing workplace fatigue related diseases, and health management strategies to employees through various ways.

#### Maternal health protection and management

In order to ensure the well-being of female employees and protect their health, Innolux Corporation, taking into consideration the impact of gender differences and pregnancy on health risks, has implemented maternal health protection activities and management, including:

- A. In conjunction with the local labor laws, parental leave allowance is implemented, miscarriage prevention leave and family care leave rights are reinforced, related health protection measures are established, internal standard operating procedures are set up. For pregnant female employees, health risk assessments are implemented, hazard control and risk communication are carried out, and work adjustments are made as needed.
- B. Health guidance during pregnancy and breastfeeding is provided to pregnant employees. Rest areas and breastfeeding rooms are provided to create a friendly working environment for female employees, taking into account the principles of maternity protection and gender equality in employment.

### (3)Recruitment and Staffing

The Company’s goal is to employ qualified personnel to create the best possible performance. Our company cares about diversity and equal opportunity. We do not allow employment discrimination based on race, color, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion, political affiliation, union membership, and marital status or otherwise. In our day-to-day operations, this means that we monitor and manage our human resources consciously. We analyze and improve turnover patterns. We build a labor force with a balanced structure, which was also integrated into our recruiting policy.

At the same time, adhering to the “take from society, use to society” concept, promote employees with physical and mental disabilities, consider different physical and mental conditions to arrange work appropriately, provide a friendly working environment and strengthen their work functions, so that the work performance of colleagues with disabilities and general colleagues go hand in hand, and the Company also fully fulfill corporate social responsibility.

### (4)Zero Distance Communication

#### Unblocked communication channel

The Company emphasizes harmonious labor relations. To this end, we convene quarterly meetings with the

labor-capital committee and the Employee Welfare Committee. High-level managers from the capital side and grassroots level representatives from the labor side engage in two-way face-to-face communications, to exchange views in an open atmosphere. We also have built a full range of communication channels, which employees can use under their names or anonymously to report problems through the Employee Care Hotline, the Employee Care Mailbox, and Suggestion Box, so that such problems can be solved immediately and effectively.

Establish a friendly working environment to eliminate sexual harassment

In order to protect our employees from the threat of sexual harassment, we have established sexual harassment prevention measures, complaint and management practices to effectively prevent and handle sexual harassment. The sexual harassment will be investigated in a non-public manner to protect the privacy of the parties involved, and workplace protection publicity is also conducted regularly to establish a friendly work environment.

Employee Assistance Programs

Employees are company's most important asset. Employees are company's most important asset. Innolux understands how difficulties may affect an individual's work and life. Therefore, the Company provides appropriate professional resources through systematic and institutionalized service mode, such as employee communications, psychological counseling, and healthcare, in an effort to reduce the impact that problems may have on our employees' work and lives. We hope to enable our employees to work with a fit body and a healthy mind and improve productivity.

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

## **5.6 Cyber Security Management**

### **5.6.1 The cyber security risk management framework, cyber security policies, concrete management programs, and investments in resources for cyber security management**

The Company has established an information management organization to make overall plan for cyber security-related policy formulation, implementation, risk management and compliance check. The top executive of the Company's Cyber Security Organization reports the implementation results of cyber security to the Board of Directors on an annual basis. In addition, the cyber security officer is responsible to coordinate and implement the Company's cyber security policies; advocate the cyber security to enhance employees' cyber security awareness; report to the top executive of the Company's Cyber Security Organization, President, and Chairman the implementation result of cyber security; review and assess the effectiveness of internal controls over the Company's information operations; and build an "Active Cyber Security Detection and Defense" framework to protect the confidentiality, integrity, and availability of information, reducing the risk of unauthorized use, damage, or leakage of information.

#### 1. Cyber Security Governance:

Establish information management-related procedures and operation documents, implement cyber security policy management, cyber security compliance control, and continuously conduct the business contingency drills to protect the Company's critical systems and cyber security.

#### 2. Promoting cyber security awareness:

Promote the "Month of Cyber Security" campaign, and hold cyber security educational training and drills periodically to upgrade employees, cyber security awareness.

3. Control on risk of information and communication security and Implementation:

The Company has an information software operation system and a cyber security disaster recovery mechanism to regulate the control of information assets such as computer mainframes, database systems, application software systems and personal computers, operational information, personal privacy information, and others on the Company's information service system. The Company also established guidelines pursuant to the Cyber Security Management System (ISMS) to ensure the three targets, including confidentiality, integrity and availability of information, and to strengthen cyber security management, established a secure and reliable electronic information operation environment, and established an emergency response mechanisms that conducts timely notification and adoption of countermeasures when the Company's information system and operational information encounter an cyber security breach to recover to normal operation in the shortest possible time in order to ensure the sustainable operation of the Company's business.

The contents of the Company's enhancement of the security and strengthening management and defense the Company are described as follows:

Item	Contents
Framework of Defense	<ol style="list-style-type: none"> <li>1. To avoid hacker attacks, invest the construction of DDoS defense architecture.</li> <li>2. Prevent the intrusion of ransomware and install endpoint protection software on important equipment in the computer room to prevent unknown file program attacks.</li> <li>3. To avoid penetration of unknown phishing emails, optimize the spam blocking mechanism, and purchase additional email gateway anti-attack protection system equipment.</li> <li>4. Complete the construction of firewalls for external connections.</li> <li>5. Backup software expand: strengthen backup of Sever Farm, to avoid the hazard of ransomware attack.</li> </ol>
Cyber Security Governance and Advocacy	<ol style="list-style-type: none"> <li>1. Educate employees on cyber security concepts through the internal advocacy platform.</li> <li>2. Reduce the risk of phishing emails through the use of email source verification mechanisms.</li> <li>3. Organize the month of cyber security to perform employee social engineering drills, and raise the email alertness and cyber security awareness of employees.</li> </ol>
Strengthen the Cyber Security Management Mechanism	<ol style="list-style-type: none"> <li>1. Join TWCERT as member of cyber security alliance, and exchange information with the other alliance members.</li> <li>2. Subscribe to domestic and international cyber security organizations to obtain information on hacking attacks in real time.</li> </ol>

**5.6.2 List any losses suffered by the company in the most recent fiscal year and up to the annual report publication date due to significant cyber security incidents, the possible impacts therefrom, and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: None.**



## 5.7 Important Contracts

Contract nature	Counterparty	Contract start and end dates	Major Contents	Restrictive clauses
Lease Contract	Innolux Corporation	2019.03.20-2024.04.30	Tainan Headquarter, Office and Plant	Pursuant to the terms and conditions set forth under the Agreement
OEM Contract	Innolux Corporation	2020.01.01-2024.12.31	Contract manufacturing of TFT-PD substrates	Pursuant to the terms and conditions set forth under the Agreement
Loan Contract	CTBC Bank	2021.12.28-2024.11.30	Comprehensive Credit Facilities Agreement	Pursuant to the terms and conditions set forth under the Agreement
Loan Contract	CTBC Bank	2022.12.01-2023.11.30	Comprehensive Credit Facilities Agreement	Pursuant to the terms and conditions set forth under the Agreement
Loan Contract	KGI Bank	2022.02.07-2023.02.07	Comprehensive Credit Facilities Agreement	Pursuant to the terms and conditions set forth under the Agreement
Loan Contract	Mega International Commercial Bank	2022.11.04-2023.11.03	Comprehensive Credit Facilities Agreement	Pursuant to the terms and conditions set forth under the Agreement
Loan Contract	Hua Nan Bank	2022.11.16-2023.11.16	Comprehensive Credit Facilities Agreement	Pursuant to the terms and conditions set forth under the Agreement
Loan Contract	Bank of Taiwan	2022.04.12-2023.04.12	Comprehensive Credit Facilities Agreement	Pursuant to the terms and conditions set forth under the Agreement
Loan Contract	Development Bank of Singapore (Taiwan)	2022.05.11-2023.05.11	Comprehensive Credit Facilities Agreement	Pursuant to the terms and conditions set forth under the Agreement

## VI. Financial Information

### 6.1 Five Years Financial Summary

#### 6.1.1 Condensed Balance Sheets and Statements of Comprehensive Income - International Financial Reporting Standards

##### Condensed Consolidated Balance Sheet

Unit: NT\$ thousand

Fiscal Year		Financial Information for Most Recent 5 Fiscal Years (Note1)				
Item		2018	2019	2020	2021	2022
Current assets			1,251,659	1,780,495	1,409,639	1,730,167
Property, Plant and Equipment			155,816	166,601	180,436	186,695
Intangible assets			—	1,858	1,523	1,789
Other assets			110,805	89,705	112,190	81,290
Total assets			1,518,280	2,038,659	1,703,788	1,999,941
Current liabilities	Before distribution		1,088,703	1,564,358	985,392	1,091,160
	After distribution		1,088,703	1,564,358	985,392	1,091,160
Non-current liabilities			35,188	76,721	81,714	92,159
Total liabilities	Before distribution		1,123,891	1,641,079	1,067,106	1,183,319
	After distribution		1,123,891	1,641,079	1,067,106	1,183,319
Equity attributable to owners of the parent company			210,663	397,580	636,682	816,622
Share capital			200,000	200,000	349,845	357,865
Capital surplus			—	29,047	66,257	77,070
Retained earnings	Before distribution		16,032	175,269	238,227	396,026
	After distribution		16,032	175,269	238,227	396,026
Other equity			(5,369)	(6,736)	(17,647)	(14,339)
Treasury shares			—	—	—	—
Non-controlling interests			183,726	—	—	—
Total equity	Before distribution		394,389	397,580	636,682	816,622
	After distribution		394,389	397,580	636,682	816,622

Note 1: The Company was approved to be established on April 2, 2019. Financial summary for the last four years audited and certified by accountants.

Note 2: Pending the resolution by the shareholders' meeting.

Condensed Consolidated Statement of Comprehensive Income

Unit: NT\$ thousand

Item	Fiscal Year	Financial Information for Most Recent 5 Fiscal Years (Note1)				
		2018	2019	2020	2021	2022 (Note2)
Operating revenue			362,891	2,357,716	1,940,758	1,886,619
Gross profit			170,886	458,290	525,922	583,212
Operating income			76,676	146,014	104,712	86,281
Non-operating income and expenses			22,710	100,345	128,340	155,702
Profit Before Income Tax			99,386	246,359	233,052	241,983
Net income for the period from continuing operations			99,386	246,359	233,052	241,983
Loss from discontinued operations			—	—	—	—
Net income for the period			76,164	187,246	198,523	198,717
Other comprehensive income (loss) for the period (net of Income Tax)			(15,577)	2,683	(10,940)	3,308
Total comprehensive income for the period			60,587	189,929	187,583	202,025
Net income attributable to owners of parent			62,096	166,026	198,523	198,717
Net income (loss) attributable to non-controlling interests			14,068	21,220	—	—
Total comprehensive income attributable to owners of parent			56,727	164,664	187,583	202,025
Total comprehensive income, attributable to non-controlling interests			3,860	25,265	—	—
Earnings per share			3.10	5.36	6.05	5.62

Note 1: The Company was approved to be established on April 2, 2019. Financial summary for the last four years audited and certified by accountants.

Note 2: Pending the resolution by the shareholders' meeting.

Condensed Balance Sheet

Unit: NT\$ thousand

Fiscal Year		Financial Information for Most Recent 5 Fiscal Years ( Note1 )				
		2018	2019	2020	2021	2022
Current assets			933,862	1,517,322	1,132,724	1,308,158
Property, Plant and Equipment			143,599	149,080	165,341	175,264
Intangible assets			—	1,858	1,523	1,789
Other assets			352,082	268,946	313,439	320,186
Total assets			1,429,543	1,937,206	1,613,027	1,805,397
Current liabilities	Before distribution		1,001,406	1,507,019	945,876	962,041
	After distribution		1,001,406	1,507,019	945,876	962,041
Non-current liabilities			33,748	32,607	30,469	26,734
Total liabilities	Before distribution		1,035,154	1,539,626	976,345	988,775
	After distribution		1,035,154	1,539,626	976,345	988,775
Equity attributable to owners of the parent company			394,389	397,580	636,682	816,622
Share capital			200,000	200,000	349,845	357,865
Capital surplus			—	29,047	66,257	77,070
Retained earnings	Before distribution		16,032	175,269	348,227	396,026
	After distribution		16,032	175,269	238,227	396,026
Other equity			(5,369)	(6,736)	(17,647)	(14,339)
Treasury shares			—	—	—	—
Non-controlling interests			183,726	—	—	—
Total equity	Before distribution		394,389	397,580	636,682	816,622
	After distribution		394,389	397,580	636,682	816,622

Note 1: The Company was approved to be established on April 2, 2019. Financial summary for the last four years audited and certified by accountants.

Note 2: Pending the resolution by the shareholders' meeting.

Condensed Statement of Comprehensive Income

Unit: NT\$ thousand

Item	Fiscal Year	Financial Information for Most Recent 5 Fiscal Years (Note1)				
		2018	2019	2020	2021	2022 (Note2)
Operating revenue			310,951	2,120,830	1,783,822	1,658,714
Gross profit			140,099	309,361	428,067	439,644
Operating income			58,523	85,092	87,180	48,894
Non-operating income and expenses			32,119	130,861	143,634	179,978
Profit Before Income Tax			90,642	215,953	230,814	228,872
Net income for the period from continuing operations			76,164	187,246	198,523	198,717
Net income for the period			76,164	187,246	198,523	198,717
Other comprehensive income (loss) for the period (net of Income Tax)			(15,577)	2,683	(10,940)	3,308
Total comprehensive income for the period			60,587	189,929	187,583	202,025
Net income attributable to owners of parent			62,096	166,026	198,523	198,717
Net income (loss) attributable to non-controlling interests			14,068	21,220	—	—
Total comprehensive income attributable to owners of parent			56,727	164,664	187,583	202,025
Total comprehensive income, attributable to non-controlling interests			3,860	25,265	—	—
Earnings per share			2.00	5.36	6.05	5.62

Note 1: The Company was approved to be established on April 2, 2019. Financial summary for the last four years audited and certified by accountants.

Note 2: Pending the resolution by the shareholders' meeting.

**6.1.2 CPA name and Audit Opinions of the Last 5 Years**

Year	CPA	Opinion Content
2019	Ya-Ling Wong, Chih-Ming Shao	Unqualified opinion
2020	Ya-Ling Wong, Chih-Ming Shao	Unqualified opinion
2021	Ya-Ling Wong, Chih-Ming Shao	Unqualified opinion includes an Emphasis of Matter
2022	Ya-Ling Wong, Chih-Ming Shao	Unqualified opinion

Note: The Company was approved to be established on April 2, 2019.

**6.1.3 If there was change/replacement of the CPA within the most recent 5 fiscal years, explanation made by the Company's previous and current CPA over the causes for such change/replacement shall be set forth:  
None.**

## 6.2 Five Years Financial Analysis

### Consolidated Financial Analysis

Fiscal Year (Note 1)		Financial Information for the Most Recent 5 Years				
		2018	2019 (Note 2)	2020	2021	2022
Financial structure (%)	Debt to asset ratio		74.02	80.50	62.63	59.17
	Ratio of long-term capital to property, plant and equipment		218.35	231.90	326.11	411.22
Solvency (%)	Current ratio		114.97	113.82	143.05	158.56
	Quick ratio		90.33	85.54	93.63	112.14
	Time interest earned		518.64	353.95	291.23	46.80
Operating performance	Accounts receivable turnover(times)		3.88	5.20	4.08	3.67
	Average collection days		94.07	70.19	89.46	99.38
	Inventory turnover(times)		2.73	5.22	3.03	2.52
	Accounts payable turnover (times)		1.05	1.96	1.49	2.48
	Average days in sales		133.69	69.92	120.46	145.09
	Property, plant and equipment turnover(times)		7.38	11.75	9.14	8.55
	Total assets turnover (times)		0.96	1.33	1.04	1.02
Profitability	Return on total assets (%)		20.11	10.56	10.64	10.96
	Return on equity (%)		77.25	47.29	38.39	27.35
	Ratio of income before tax to paid-in capital (%)		198.77	123.18	66.62	67.63
	Net profit margin (%)		20.99	7.94	10.23	10.53
	Earnings per share (NT\$)		3.10	5.36	6.05	5.62
Cash flow	Cash flow ratio (%)		29.85	28.18	(12.81)	(23.21)
	Cash flow adequacy ratio (%)		(Note 3)	(Note 3)	(Note 3)	(Note 3)
	Cash reinvestment ratio (%)		99.43	99.07	(17.47)	(29.21)
Leverage	Operating leverage		2.22	3.77	5.39	6.74
	Financial leverage		1.00	1.00	1.01	1.07

Please explain the causes of changes in the financial ratios in the most recent 2 fiscal years. (Analysis is not required if the increase or decrease is less than 20%)

- Ratio of long-term capital to property, plant and equipment: The ratio increased in 2022, compared with 2021, which was mainly due to the increase in equity as a result of the exercise of 800 thousand shares of employee stock options and the receipt of stock capital at NT\$11,607 thousand.
- Time interest earned: The ratio decreased in 2022, compared with 2021, which was mainly due to the increase in interest expense as a result of new loans in 2022.
- Inventory turnover (times): It decreased in 2022, compared with 2021, which was mainly due to the increase in closing inventory (compared with 2021) as a result of increase in safety stock due to the unstable supply chain and transportation.
- Return on equity: It decreased in 2022, compared with 2021, which was mainly due to the increase in equity as a result of the exercise of 800 thousand shares of employee stock options and the receipt of stock capital at NT\$11,607 thousand.
- Cash flow: It decreased in 2022, compared with 2021, which was mainly due to the adjustment of the collection terms of some customers in 2022, resulting in a net cash outflow of operating activities.
- Operating leverage: It increased in 2022, compared with 2021, which was mainly due to the increase in selling and marketing expenses in 2022.

Note 1: The Company was approved to be established on April 2, 2019. Financial data for the last three years were audited and attested by CPA.

Note 2: The Company was approved to be established on April 2, 2019, so some financial ratios are calculated in an annual manner.

Note 3: The Company was approved to be established on April 2, 2019, so there are no complete data available for calculation of some financial ratios.

Note 4: Formulas for the calculation of the financial ratios

#### 1. Financial structure

(1) Debt to assets ratio = total liabilities / total assets.

(2) Ratio of long-term capital to property, plant and equipment = (total equity + non-current liabilities) / net property, plant and equipment.

2. Solvency

- (1) Current ratio = current assets / current liabilities.
- (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
- (3) Times interest earned = earnings before tax and interest expenses / current interest expenses.

3. Operating performance

- (1) Accounts receivable (including accounts receivable and notes receivable arising from business activities) turnover = net sales / average accounts receivable balance (including accounts receivable and notes receivable arising from business activities).
- (2) Average collection days = 365 / accounts receivable turnover.
- (3) Inventory turnover = cost of goods sold / average inventory.
- (4) Accounts payable (including accounts payable and notes payable arising from business activities) turnover = cost of goods sold / average accounts payable balance (including accounts payable and notes payable arising from business activities).
- (5) Average days in sales = 365 / inventory turnover.
- (6) Property, plant and equipment turnover = net sales / average net property, plant and equipment.
- (7) Total asset turnover = net sales / average total assets.

4. Profitability

- (1) Return on total assets = (net income + interest expenses \* (1 - effective tax rate)) / average total assets.
- (2) Return on equity = net income after tax / average total equity.
- (3) Net profit margin = net income after tax / net sales.
- (4) Earnings per share = (income attributable to owners of parent - preferred stock dividends) / weighted average number of shares outstanding.

5. Cash flow

- (1) Cash flow ratio = net cash flows from operating activities / current liabilities.
- (2) Net cash flow adequacy ratio = 5-year sum of net cash flow from operating activities / 5-year sum of (capital expenditures + increases in inventory + cash dividends).
- (3) Cash reinvestment ratio = (cash from operating activities - cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital).

6. Leverage:

- (1) Operating leverage = (net operating revenue - variable operating costs and expenses) / operating income.
- (2) Financial leverage = operating income / (operating income - interest expenses).

## Financial Analysis

Fiscal Year ( Note 1 ) Item		Financial Information for the Most Recent 5 Years				
		2018	2019 (Note 2)	2020	2021	2022
Financial structure (%)	Debt to asset ratio		72.41	79.48	60.53	54.77
	Ratio of long-term capital to property, plant and equipment		232.03	236.10	328.16	410.34
Solvency (%)	Current ratio		93.26	100.68	119.75	135.98
	Quick ratio		69.94	74.86	76.97	89.14
	Time interest earned		473.09	317.65	313.33	44.55
Operating performance	Accounts receivable turnover(times)		2.16	3.37	3.02	3.56
	Average collection days		168.98	108.31	120.86	102.44
	Inventory turnover(times)		2.69	5.49	3.28	2.68
	Accounts payable turnover (times)		0.95	1.92	1.46	2.57
	Average days in sales		135.69	66.48	111.28	136.06
	Property, plant and equipment turnover(times)		6.74	11.57	9.25	8.11
	Total assets turnover (times)		0.87	1.26	1.00	0.97
Profitability	Return on total assets (%)		21.35	11.16	11.22	11.87
	Return on equity (%)		77.25	47.29	38.39	27.35
	Ratio of income before tax to paid-in capital (%)		181.28	107.98	65.98	63.96
	Net profit margin (%)		24.49	8.83	11.13	11.98
	Earnings per share (NT\$)		3.10	5.36	6.05	5.62
Cash flow	Cash flow ratio (%)		5.08	33.25	(5.63)	(16.21)
	Cash flow adequacy ratio (%)		(Note 3)	(Note 3)	(Note 3)	(Note 3)
	Cash reinvestment ratio (%)		15.47	125.02	(8.01)	(21.01)
Leverage	Operating leverage		2.61	5.52	6.05	10.58
	Financial leverage		1.00	1.01	1.01	1.12

Please explain the causes of changes in the financial ratios in the most recent 2 fiscal years. (Analysis is not required if the increase or decrease is less than 20%)

1. Ratio of long-term capital to property, plant and equipment: The ratio increased in 2022, compared with 2021, which was mainly due to the increase in equity as a result of the exercise of 800 thousand shares of employee stock options and the receipt of stock capital at NT\$11,607 thousand.
2. Time interest earned: The ratio decreased in 2022, compared with 2021, which was mainly due to the increase in interest expense as a result of new loans in 2022.
3. Inventory turnover (times): It decreased in 2022, compared with 2021, which was mainly due to the increase in closing inventory (compared with 2021) as a result of increase in safety stock due to the unstable supply chain and transportation.
4. Return on equity: It decreased in 2022, compared with 2021, which was mainly due to the increase in equity as a result of the exercise of 800 thousand shares of employee stock options and the receipt of stock capital at NT\$11,607 thousand.
5. Cash flow: It decreased in 2022, compared with 2021, which was mainly due to the adjustment of the collection terms of some customers in 2022, resulting in a net cash outflow of operating activities.
6. Operating leverage: It increased in 2022, compared with 2021, which was mainly due to the increase in selling and marketing expenses in 2022.

Note 1: The Company was approved to be established on April 2, 2019. Financial data for the last three years were audited and attested by CPA.

Note 2: The Company was approved to be established on April 2, 2019, so some financial ratios are calculated in an annual manner.

Note 3: The Company was approved to be established on April 2, 2019, so there are no complete data available for calculation of some financial ratios.

Note 4: Formulas for the calculation of the financial ratios

1. Financial structure

(1) Debt to assets ratio = total liabilities / total assets.

(2) Ratio of long-term capital to property, plant and equipment = (total equity + non-current liabilities) / net property, plant and equipment.

2. Solvency

(1) Current ratio = current assets / current liabilities.



- (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
- (3) Times interest earned = earnings before tax and interest expenses / current interest expenses.
3. Operating performance
- (1) Accounts receivable (including accounts receivable and notes receivable arising from business activities) turnover = net sales / average accounts receivable balance (including accounts receivable and notes receivable arising from business activities).
- (2) Average collection days = 365 / accounts receivable turnover.
- (3) Inventory turnover = cost of goods sold / average inventory.
- (4) Accounts payable (including accounts payable and notes payable arising from business activities) turnover = cost of goods sold / average accounts payable balance (including accounts payable and notes payable arising from business activities).
- (5) Average days in sales = 365 / inventory turnover.
- (6) Property, plant and equipment turnover = net sales / average net property, plant and equipment.
- (7) Total asset turnover = net sales / average total assets.
4. Profitability
- (1) Return on total assets = (net income + interest expenses \* (1 - effective tax rate)) / average total assets.
- (2) Return on equity = net income after tax / average total equity.
- (3) Net profit margin = net income after tax / net sales.
- (4) Earnings per share = (income attributable to owners of parent - preferred stock dividends) / weighted average number of shares outstanding.
5. Cash flow
- (1) Cash flow ratio = net cash flows from operating activities / current liabilities.
- (2) Net cash flow adequacy ratio = 5-year sum of net cash flow from operating activities / 5-year sum of (capital expenditures + increases in inventory + cash dividends).
- (3) Cash reinvestment ratio = (cash from operating activities - cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital).
6. Leverage:
- (1) Operating leverage = (net operating revenue - variable operating costs and expenses) / operating income.
- (2) Financial leverage = operating income / (operating income - interest expenses).

### **6.3 Audit Committee Review Report**

## **Audit Committee Review Report**

The Board of Directors has duly submitted the 2022 business report, financial statements, and the proposal of earnings distribution. The financial statements has been duly reviewed and approved by CPAs of Deloitte & Touche with the issuance of Independent Auditor's Report.

The Audit Committee of the Company, have completed the audit and review, and had found nothing inconsistent with any of the above business report, financial statements, and the proposal of earnings distribution. Therefore, I issue this audit report for acknowledgment in accordance with the Securities and Exchange Act and the Company Act.

To

Annual Shareholders' Meeting of the Company in 2023

Convenor of the Audit Committee  
Li, Hung-Chi  
Date: April 12, 2023

**6.4 Financial Statements and Independent Auditors' Report for the Most Recent Year: Please refer to page 108 of the annual report.**

**6.5 Parent Company only Financial Statements and Independent Auditors' Report for the Most Recent Year: Please refer to page 165 of the annual report.**

**6.6 Disclosure of Impact on Company's Financial Status Due to Financial Difficulties: None.**

## VII. Review of Financial Conditions, Operating Results, and Risk Management

### 7.1 Analysis of Financial Positions

Unit: NT\$ thousand

Fiscal Year Items	2021	2022	Difference Amount	Percentage (%)	Note
Current assets	1,409,639	1,730,167	320,528	22.74	1
Property, Plant and Equipment	180,436	186,695	6,259	3.47	
Intangible assets	1,523	1,789	266	17.47	
Other non-current assets	112,190	81,290	(30,900)	(27.54)	2
Total assets	1,703,788	1,999,941	296,153	17.38	
Current liabilities	985,392	1,091,160	105,768	10.73	
Other non-current liabilities	81,714	92,159	10,445	12.78	
Total liabilities	1,067,106	1,183,319	116,213	10.89	
Capital stock	349,845	357,865	8,020	2.29	
Capital surplus	66,257	77,070	10,813	16.32	
Retained earnings	238,227	396,026	157,799	66.24	3
Other equity	(17,647)	(14,339)	3,308	(18.75)	
Total equity	636,682	816,622	179,940	28.26	

Note: Analysis will be conducted only for major changes, namely, the change in financial ratios reaches 20% and the amount exceeds NT\$ 30,000,000.

Analysis of changes in financial ratios:

1. Mainly due to the increase in cash as a result of the increase in new bank loans in 2022.
2. Mainly due to the return of pledged time deposits for 2021 government subsidized projects in 2022.
3. Mainly due to the increase in profit from operations in 2022.

## 7.2 Analysis of Financial Performance

Unit: NT\$ thousand

Items \ Fiscal Year	2021	2022	Difference Amount	Percentage (%)	Note
Operating revenue	1,940,758	1,886,619	(54,139)	(2.79)	
Operating costs	1,414,836	1,303,407	(111,429)	(7.88)	
Gross profit	525,922	583,212	57,290	10.89	
Operating expenses	421,210	496,931	75,721	17.98	
Operating income	104,712	86,281	(18,431)	(17.60)	
Non-operating income and expenses	128,340	155,702	27,362	21.32	1
Profit before income tax	233,052	241,983	8,931	3.83	
Income tax expense	34,529	43,266	8,737	25.30	
Net income	198,523	198,717	194	0.10	
Other comprehensive income (loss)(net of income tax)	(10,940)	3,308	14,248	130.24	
Total comprehensive income for the period	187,583	202,025	14,442	7.70	

Note: Analysis will be conducted only for major changes, namely, the change in financial ratios reaches 20% and the amount exceeds NT\$ 30,000,000.

Analysis of changes in financial ratios:

1. Mainly due to the large fluctuation of profit and loss on exchange in the current period.

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash flow changes for the most recent fiscal year

Unit: NT\$ thousand

Items \ Fiscal Year	2022	Analysis
Cash outflow from operating activities	253,250	Net cash outflow mainly due to the revision of credit extension terms for some customers and the payment of accounts payable to related parties in 2022.
Cash outflow from investing activities	23,251	Mainly used for the acquisition of property, plant and equipment in 2022.
Cash inflow from financing activities	391,552	Mainly due to receiving the payment of stock capital upon the exercise of employee stock options.

### 7.3.2 Cash Flow Analysis for the Coming Year

Unit: NT\$ thousand

Estimated Cash and Cash Equivalents, Beginning of Year(1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Leverage of Cash Surplus (Deficit)	
				Investment Plan	Financing Plan
577,373	126,732	(21,903)	726,008	N.A.	N.A.

Analysis of cash flow changes for the coming year:

Operating activities: Mainly due to the collection of estimated accounts receivable and payment of material purchase; it is expected that the operating activities will generate cash inflow throughout the year.

Investing activities: The net cash outflow was mainly due to the continuing investment in new technology and production equipment.

Financing activities: The net cash inflow was mainly due to the cash capital increase and repayment of some bank loans in 2023.

Leverage of Cash Surplus (Deficit): None.

## 7.4 Effect upon Financial Operations of Major Capital Expenditures

The Company's major capital expenditure was mainly for the capacity expansion of the Tainan Plant, which was financed by its own capital and had no significant impact on financial performance.

## 7.5 Reinvestment Policy and its Main Reasons for Profits/Losses, Plans for Improving Reinvestment Profitability and the Investment Plans for the Coming Year

### 7.5.1 Investment Policy

The Company's investment policy is based on the main principle of focusing on the long-term development of the X-ray flat panel detector business, and shall be implemented by the relevant executive departments in accordance with the internal control system and procedures for the acquisition or disposal of assets.

### 7.5.2 Main Causes for Profits or Losses on Investment Business in Last Year, and Improvement Plans

Unit: NT\$ thousand

Investees	Profit in 2022	Main Causes	Improvement Plans
Innocare Optoelectronics Europe B.V.	640	Providing after-sales service	N.A.
InnoCare Optoelectronics Japan Co., Ltd.	25,604	Sales profit	N.A.
InnoCare Optoelectronics USA, Inc.	3,783	Sales profit	N.A.
Ningbo Innolux Electronics Ltd.	4,415	Sales profit	N.A.

### 7.5.3 Investment Plans for the Coming Year

The Company adopts a conservative investment policy and, in addition to avoiding investments that are not highly correlated to the main business of the Company, the Company's investment plans for the coming year will continue to be in line with its long-term development strategy and make investment layout related to the main business, and will continue to supervise and manage existing investee companies to achieve the expected investment goals.

## 7.6 Analysis of Risk Management

### 7.6.1 The effect upon the company's profits (losses) of interest and exchange rate fluctuations and changes in the inflation rate, and response measures to be taken in the future.

#### 1. Change in interest rate

The ratio of interest expenses to net operating income of the Company and its subsidiaries was 0.04% and 0.28% in 2021 and 2022, respectively. The interest expenses in each period accounted for a very small proportion in the net operating income, and were mainly the financing interest on the loans from financial institutions incurred by the Company and its subsidiaries. The Company and its subsidiaries observe and analyze the impact of interest rate changes in the financial market on the cash flows generated from all interest-bearing liabilities of the Company and its subsidiaries, maintain good relationships with banks, and timely evaluate the interest rate risk that all interest-bearing liabilities may encounter to reduce the impact of interest rate changes on the profit or loss of the Company and its subsidiaries.

#### 2. Change in Foreign exchange rates

- (1) The Company's operations are in a stable growth stage, it has a real demand for foreign currencies (USD, JPY, etc.), and the source of funds is mainly the USD revenue. Therefore, in addition to using natural hedges to reduce the parts that need to be hedged, the Company will evaluate the combination of spot goods, forward foreign exchange contracts and currency options to hedge the risk of exchange rate fluctuations according to the trend of the global economy.
- (2) In order to hedge the risk of exchange rate fluctuations, the Company uses professional financial information systems to monitor international exchange rate fluctuations in real time and fully grasp international exchange rate trends and information, so as to respond to the negative effects of exchange rate fluctuations. Usually, the Company pays close attention to exchange rate fluctuations and should be able to minimize the impact of exchange rate risk.
- (3) Based on the features of natural hedge, the Company uses foreign currency cash received from foreign currency denominated products to pay the foreign currency payables generated from foreign currency denominated purchases. Therefore, the Company only needs to evaluate the future exchange rate fluctuations with respect to the net assets in foreign currency, and evaluate the future hedge of exchange rate fluctuation risks by buying and selling forward exchange and foreign exchange options held by the Company.

(4) In accordance with the “Regulations Governing the Acquisition or Disposal of Assets by Public Companies” of the Securities and Futures Bureau of the Financial Supervisory Commission, the Company has established “Procedures to Engage in Transaction and Disposal of Derivatives” to regulate the procedures for trading, risk management, supervision and auditing of derivative financial instruments, which will help the Company strengthen its risk control mechanism when using financial instruments to hedge exchange rate risks in the future.

### 3. Inflation or deflation

The Company and its subsidiaries maintain close and good interaction with suppliers and customers, pay close attention to the price fluctuations of raw materials, and timely adjust purchasing strategies and sales prices to reduce the impact of inflation. Inflation had no significant impact on the operations of the Company and its subsidiaries in the most recent year.

### **7.6.2 The Company's policy regarding high-risk investments, highly leveraged investments, loans to other parties, endorsements, guarantees, and derivatives transactions; the main reasons for the profits/losses generated thereby; and response measures to be taken in the future.**

1. In order to control financial risks, the Company had not engaged in highly risky and high financial leverage investment. Exactly as required by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan and the laws and ordinances concerned, we have set up wholesome financial and operating grounds in the managerial regulations and operating procedures, including “Procedures for Engaging in Derivatives Trading”, “Procedures for Governing Loaning of Funds”, “Procedures for the Acquisition and Disposal of Assets” and “Procedures for Endorsements and Guarantees”, to manage and control the related transaction risks.
2. The Company adheres to the conservative and prudent principles in financial operations, and it had not engaged in any other highly risky and high financial leverage investments, loans of funds to others, endorsements and guarantees, or derivative transactions for the most recent year or as of the printed date of the annual report.

### **7.6.3 Future Research & Development Work and Expenditures**

#### 1. Future Research & Development Projects

The Company and its subsidiaries make plan for research and development projects in accordance with market and technology trends, customer needs and the Company’s operating strategies to provide market- and future-oriented products and technologies. The main development directions are as follows:

- (1) X-ray flat panel detector elements
  - A. Detection pixel structure for next-generation IGZO technology
  - B. Next-generation detector technology (e.g. low temperature polysilicon or perovskite)
- (2) X-ray flat panel detector module
  - A. Develop static X-ray flat panel detector module with high pixel density and flexible substrate
  - B. Develop dynamic X-ray flat panel detector module with high read speed based on IGZO technology
  - C. Enhance embedded system software design capability
  - D. Enhance the image processing capability of X-ray flat panel detector module after capturing X-ray images and build its own user interface software capability
  - E. Combine with AI technology development to assist users in interpreting X-ray images
- (3) Integrated design of non-destructive detection system for manufacturing industry

#### 2. Estimated Research and Development Budget

The Company spent NT\$248,437 thousand on research and development in 2022, and will continue to allocate and recognize R&D expenses in accordance with the progress of technology and product. The Company’s operations are in a growth stage. In order to maintain and improve the competitiveness of our technologies and products, the Company expects to invest another R&D fee of NT\$ 0.24 billion in 2023. However, it will adjust according to the customer layout, market conditions and actual operating conditions, and continue to maintain its leading edge in technological development.

#### **7.6.4 Effects of and Response to Changes in Policies and Legal Environment at Home and Abroad Relating to Financial Operations**

As of the Annual Report's publication date, there has been no adversely impact on financial or business due to any policy and law changed. All the Company's teammates would be closely watchful of potential changes in major policies and laws and ordinances concerned at home and abroad. Through such efforts we shall be able to take right countermeasures in real-time to minimize the potential impact upon the Company's financial standing which might be incurred by major policies at home and abroad and change in laws.

#### **7.6.5 Effects of and Response to Changes in Science and Technology (including Cyber Security Risks) and the Industry Relating to Financial Operations**

##### **1. Technology Change**

In the face of continuous introduction of new technologies and products on the market, the accelerated transition of mainstream products may have an impact on the sales of the Company's existing products, which in turn may have a negative impact on its financial performance. The Company's countermeasure is to "make plan for next-generation products in advance and actively promote new cases to customers".

In terms of technology, the Company will use mainstream products to contribute to revenue, offer more favorable cooperative conditions to attract some customers to adopt next-generation technologies in new product development in advance, and make good use of the Company's development results in new technologies to expand sales volume of high-end, high-margin products. In addition to actively promoting oxide semiconductor, high pixel density, ultra-narrow bezel and high pixel fill factor products, the Company has also started the research and development projects for next-generation technologies and is planning ahead for new technologies and products in the next 3~5 years to ensure that it can maintain the leading position in new technologies and specifications.

##### **2. Cyber security risk**

The Company and its subsidiaries attach importance to cyber security management, strengthen the awareness of cyber security among the Company's employees based on the improvement of data protection and equipment use security, and avoid the occurrence of cyber security incidents that may cause harm to the service quality and corporate reputation through active establishment of relevant cyber security management measures and risk assessment, thus protecting the rights and interests of shareholders. The main measures taken to control cyber security risks are described as follows:

- (1)The Company's operation procedures have relevant regulations on cyber security for compliance by employees; in addition, the computer information cycle of the internal control system also provides for the control procedures of cyber security inspection, so the Company will further strengthen and implement cyber security in combination with the irregular review of the effectiveness of internal control system.
- (2)Cyber security inspection is included in the annual audit plan, and auditors will conduct annual audits to understand the operating status of cyber security and evaluate whether various risk controls and improvements of abnormalities have been practically implemented to reduce and avoid related cyber security risks.
- (3)Strengthen the publicity of the employee cyber security concept, and announce relevant cyber security precautions from time to time to raise the awareness of employees to prevent malicious attacks by external parties, so as to reduce the risks caused by improper habits and provide security guarantee for the daily operation and management of the Company.
- (4)In order to ensure the protection and confidentiality of data, the authorization for login and access to the relevant systems must be properly reviewed and approved; pay attention to whether there is any improper use of accounts and passwords by others to prevent the risk of leakage of confidential information.

##### **3. Industry Change**

X-ray flat panel detector industry is of growing scale and expanding scope of technology application. However, any sort of economic trend drops, competitor dynamics, and changes in end-user demand all might lead to a shock to the Company's business operation on the seamy side. Here at the Company, all our teammates would be closely watchful of fluctuation that might hit the Company into passive aspect and work out sound countermeasures



beforehand. In terms of financial operation, we adopt sound and stable financial operation to deal with potential fluctuation in the businesses.

#### **7.6.6 The Impact of Changes in Corporate Image on Crisis Management, and Corresponding Measures**

Faithful law compliance, focus on employees' and shareholders' equity, and fulfillment of corporate social responsibilities represent the very bounden duties to the Company and its subsidiaries. In case of a contingency, the Company and its subsidiaries will immediately establish the Crisis Task Force, with the ranking department head serving as the emergency convener, to defuse the crisis forthwith. As of the Annual Report's publication date, there has been no event that adversely impacts corporate image of the Company and its subsidiaries and impacts on corporate risk management.

#### **7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans**

At the moment, the Company and its subsidiaries have no plan to launch a merger with another enterprise. Toward potential strategic investment or vertical integration, and the cost benefit and the potential risk so arising, the Company's management would conduct appropriate evaluation and evasion as appropriate.

#### **7.6.8 Expected Benefits from, Risks Relating to and Response to Plant Expansion Plans**

The Company and its subsidiaries have no specific plans for plant expansion in the latest year and as of the publication date of the annual report. If there are such plans in the future, the Company and its subsidiaries will execute and make announcements according to the relevant laws and regulations.

#### **7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration**

##### **1. Risks Relating to and Response to Excessive Concentration of Purchasing Sources**

The Company and its subsidiaries design, manufacture and sell X-ray flat panel detectors, and as one of the main raw materials, the Company also designs thin-film transistors-photoelectric diode substrates, which are then entrusted to professional TFT manufacturers for OEM production. During the product development and manufacturing process, we must maintain a cooperative relationship with OEMs to complete the manufacturing of products through specialized division of labor. Since the products of the Company and its subsidiaries are mainly used in the medical testing field, involve many product items and require high technical level and supply stability, the selection of suppliers requires a comprehensive consideration of process technology, quality yield, capacity supply, delivery time, and geographical relationship. Based on the characteristics of products and industry, we have entrusted Innolux Corporation, one of our related parties, for the OEM production of TFT-PD substrates, and have signed a 5-year contract with Innolux Corporation. Since the Company only uses a small proportion of the total production capacity of Innolux Corporation, there is no concern about insufficient production capacity; for the procurement of key components, the Company and its subsidiaries not only select two or more suppliers as far as possible, but also establish a safety inventory to reduce the risk of excessive concentration of purchasing sources.

##### **2. Risks Relating to and Response to Excessive Customer Concentration**

The Company and its subsidiaries are professional manufacturers in the field of X-ray detectors with independent design, development and manufacturing capabilities. The main source of operating revenue is the sale of X-ray flat panel detector elements and modules, which are widely sold in Japan, Korea, North America, Europe and Chinese Mainland, and the main sales objects are major manufacturers of medical devices and digital X-ray radiography system. At present, there is no single sales object who account for more than 30% of sales volume, so there is no excessive customer concentration.

#### **7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%**

As of the printed date of the annual report, there has been no large share transfers or changes in shareholdings by directors or shareholders with shareholdings of over 10%.

### **7.6.11 Effects of, Risks Relating to and Response to Changes in Management Rights**

As of the printed date of the annual report, there has been no changes in management rights of directors or shareholders with shareholdings of over 10%.

### **7.6.12 Litigation or Non-litigation Matters**

1. The lawsuits, non-contentious cases, administrative litigation that are decided by the court or still in proceeding in the most recent years until this report was issued: None.
2. List litigious, non-litigious or administrative disputes that: (1) involve any company director, the president, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the company; and (2) have been concluded by means of a final and unappealable judgment in the most recent year and as of the publication date of the annual report, or are still under litigation. Where such a dispute could materially affect shareholders' equity or the prices of the company's securities:

Except for the legal entity represented by the corporate representative director and the shareholder holding a stake of greater than 10 percent, Innolux Corporation, there are no litigious, non-litigious or administrative disputes pending against the remaining director, the president, any person with actual responsibility for the firm. The lawsuit related to the legal entity represented by the corporate representative director and the shareholder holding a stake of greater than 10 percent, Innolux Corporation, is described as follows:

- (1) The U.S. subsidiary of Innolux Corporation received a civil complaint from the government of Puerto Rico in September 2018, claiming that Innolux Corporation, together with other defendants of Taiwan, Japan and South Korea TFT - LCD companies, had unjustified enrichment from the TFT-LCD pricing collaborations in 2006 and requested monetary compensation. The U.S. subsidiary of Innolux Corporation has appointed a lawyer to handle the lawsuit. On October 31, 2022, the Court dismissed the plaintiff's lawsuit for failure to actively pursue its claims.
- (2) Bishop Display Tech LLC ("Bishop") filed a lawsuit with the United States District Court for the Eastern District of Texas on October 3, 2022, alleging that Innolux Corporation infringed its U.S. patent. Innolux Corporation had received the lawsuit on October 28, 2022, and subsequently responded to the complaint on January 26, 2023. At present, the case has no impact on the business and finance of Innolux Corporation.

In summary, the above-mentioned event was derived from the business operations of the ultimate parent company and was assessed as not affecting the financial performance of the Company. Therefore, there was no event that materially affected shareholders' equity or the prices of securities of the Company.

### **7.6.13 Other Important Risks, and Mitigation Measures**

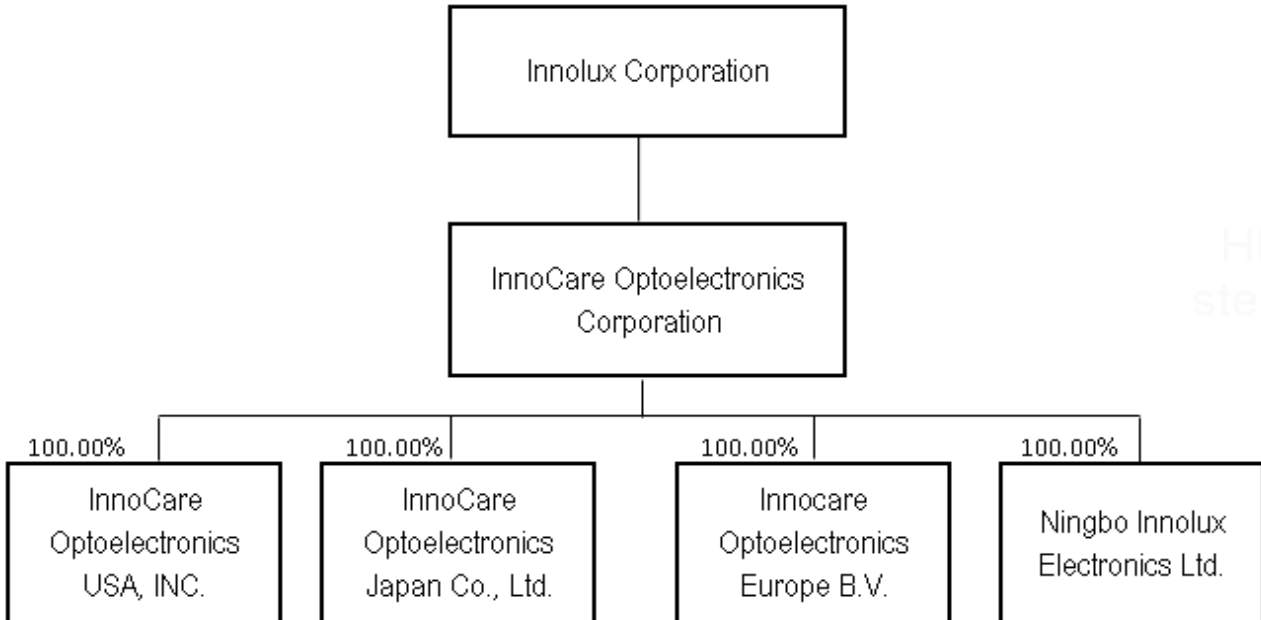
For the description of the information security risk assessment and analysis, please refer to pages 83-84 and page 100 of the annual report.

### **7.7 Other Important Matters: None.**

## VIII. Special Disclosures

### 8.1 Summary of Affiliated Companies

#### 8.1.1 Organization chart of affiliate



#### 8.1.2 Basic information of affiliates

Unit: \$; Date: December 31, 2022

Company	Date of Incorporation	Address	Paid-in Capital	Business Activities
Innolux Corporation	January 14, 2003	No.160, Kexue Rd., Zhunan Township, Miaoli County, Hsinchu Science Park	TWD 95,564,561,460	Manufacturing of electronic components
InnoCare Optoelectronics Europe B.V.	August 11, 2020	Stationstraat 39 G, 6411NK Heerlen, The Netherlands	EUR 50,000	After-sales service Company
InnoCare Optoelectronics Japan Co., Ltd.	June 17, 2019	210-0024 Kawasaki Nisshincho Building 14F, 7-1 Nisshincho, Kawasaki-ku, Kawasaki-shi, Kanagawa	JPY 300,100,000	Distribution company
InnoCare Optoelectronics USA, INC.	February 9, 2018	101 Metro Drive Suite 510, San Jose, CA 95110, United States	USD 900,000	Distribution company
Ningbo Innolux Electronics Ltd.	November 04, 2015	No.8, Cao E River Rd., Ningbo Bonded Zone Building 2 2F	CNY 15,370,000	Manufacture and sale of medical devices

#### 8.1.3 Concluded as the existence of the controlling and Subordinate Relation: None.

#### 8.1.4 Business Scope of INCX and its overall affiliated companies:

The main business scope of the Company and its subsidiaries includes the development, manufacture, after service and sale of X-ray flat panel detector products. Innolux Corporation is mainly engaged in the TFT-LCD related business, and undertakes the OEM production of TFT-PD substrates of the Company.

Through globalized layout and the construction of production bases in Taiwan and China, we can provide our customers with highly flexible supply ability and timely technical and commercial supports.

#### 8.1.5 Directors, supervisors, and presidents of affiliates

As of December 31, 2022

Name of Company	Title	Name or representative	Shareholding (Shares)	
			Shares	%
Innolux Corporation	Chairman	Chin-Jin Hung	1,161,224	0.01%
	Director	Chu-Hsiang Yang	1,771,040	0.02%
	Director	Jyh-Chau Wang	152,040	—
	Director	Ching-Lung Ting	1,033,567	0.01%
	Independent Director	Chi-Chia Hsieh	—	—
	Independent Director	Chih-I Wu	—	—
	Independent Director	Chih-Wei Wu	—	—
	Independent Director	Hsin-Bei Shen	—	—
Innocare Optoelectronics Europe B.V.	Chairman	Lu-Ting Yang	—	100%
InnoCare Optoelectronics USA, Inc.	Chairman	Junichi Ishii	—	100%
	Director	Chu-Hsiang Yang	—	100%
	Director	Chih-Sheng Lee	—	100%
InnoCare Optoelectronics Japan Co., Ltd.	Chairman	Chih-Sheng Lee	—	100%
	Director	Chien-Lang Lo	—	100%
	Director	Ming-Hsien Sun	—	100%
Ningbo Innolux Electronics Ltd.	Chairman	Chih-Sheng Lee	—	100%
	Supervisor	Chung-Wei Huang	—	100%

#### 8.1.6 Overview of subsidiaries' operations

Unit: NT\$ thousand, December, 31, 2022

Company Name	Paid-in Capital	Total assets	Total liabilities	Net Worth	Revenue	Profit (Loss) from Operation	Profit (Loss) for the year(After Tax)	Earnings Per Share(Loss) (After Tax)
Innolux Corporation	95,564,561	383,741,496	130,746,776	252,994,720	223,715,758	(31,664,998)	(27,914,776)	(2.76)
InnoCare Optoelectronics Europe B.V.	1,636	3,954	1,236	2,718	14,000	755	640	1,280.01
InnoCare Optoelectronics Japan Co., Ltd.	69,743	509,717	409,894	99,823	1,632,186	25,085	25,604	853.19
InnoCare Optoelectronics USA, Inc.	27,639	115,128	75,940	39,188	470,367	6,533	3,783	4.20
Ningbo Innolux Electronics Ltd.	67,772	213,418	103,433	109,985	322,705	4,994	4,415	—

### **8.1.7 Consolidated Financial Statements of Affiliated Enterprises**

#### DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2022 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard No. 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

INNOCARE OPTOELECTRONICS CORPORATION

By:

JAMES YANG  
Chairman  
February 9, 2023

### **8.1.8 Reports on Affiliations**

#### 1. Affiliation report statement of InnoCare Optoelectronics Corporation

#### DECLARATION OF REPORTS ON AFFILIATIONS

The Affiliation Report of the Company for the year 2022 (from January 1 to December 31, 2022) was prepared in accordance with the “Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises”, and the information disclosed was not materially inconsistent with the information disclosed in the notes to the financial statements for the preceding period.

Very truly yours,

INNOCARE OPTOELECTRONICS CORPORATION

By:

JAMES YANG  
Chairman  
February 9, 2023

## 2. Independent Auditor Opinion on Secondary Reviews of Affiliation Report

2023.2.13 Qin-Shen No. 11202517

To: InnoCare Optoelectronics Corporation

Purpose: To express an opinion on the statement that there are no material inconsistencies in the relevant information in the Affiliation Report of your company for the year ended December 31, 2022

Note:

- I. Your company had prepared the Affiliation Report for the year 2022 (from January 1 to December 31, 2022) on February 9, 2023, and made a statement that the report was prepared in accordance with the “Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises”, and the information disclosed was not materially inconsistent with the information disclosed in the notes to the financial statements for the preceding period. Please refer to the Attachment for the statement.
- II. We have compared the Affiliation Report prepared by your company in accordance with the “Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” with the notes to the financial statements for the year ended December 31, 2022, and no material inconsistency has been found in the above statement.

Deloitte & Touche

Certified Public Accountants: Ya-Ling Wong

3. The relationship between the subordinate company and the controlling company

Controlled Company	Reason for control	Shareholding and pledge of controlled company			The controlled company sends its employees to act as directors	
		Shareholding (Shares)	%	Pledged shares	Title	Name
Innolux Corporation	Controlled subsidiary in compliance with Article 369-2 of the Company Act	20,500,000 shares	57.29	—	Chairman	Chu-Hsiang Yang
					Director	Tien-Jen Lin

4. Purchase (sale) of goods

Transactions with controlled company				Terms of transactions with controlled company		Terms of transactions with general company		Reason for the difference	Accounts and notes receivable (payable)		Overdue accounts receivable			Remarks
Purchase (Sales)	Amount	Ratio in total purchase (sales)	Gross profit on sales	Unit price (NT\$)	Credit period	Unit price (NT\$)	Credit period		Balance	Ratio in total accounts and notes receivable (payable)	Amount	Disposal way	Amount of allowance for bad debt	
Purchase	481,403	61	—	(Note 3)	90 days	(Note 3)	90 days	None	(131,258)	38	—	—	—	—
Sales	11,600	0.7	—	(Note 3)	60 days	(Note 3)	60 days	None	5,093	0.84	—	—	—	—

Note 1: If there is any deposit received (prepayment), please specify the reason, contract terms, amount and the difference from the general transaction type in the Remarks column.

Note 2: If the items listed in the table are not applicable, the Company can make adjustment accordingly; the items not related to the Company due to the industry characteristics can be omitted.

Note 3: Based on the internal transfer pricing method

5. Property transactions: None.

6. Financing: None.

7. Asset leasing: None.

8. Endorsements and guarantees: None.

9. Trading in derivative products: None.

**8.2 Private Placement Securities in the Most Recent Years: None.**

**8.3 Holding or Disposal of Shares in the Company by the Subsidiaries During the Most Recent Years: None.**

**8.4 Other Matters Required Additional Description: None.**

**IX. Materially might affect shareholders' equity or the price of the Company's securities, has occurred during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, such situations shall be listed one by one: None.**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
InnoCare Optoelectronics Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of InnoCare Optoelectronics Corporation and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matters of the consolidated financial statements for the year ended December 31, 2022 are as follows:

#### Revenue Recognition of Sales from Major Customers

The Group mainly engaged in manufacturing and sales of X-ray flat panel detectors. Since most of these products are mostly used for medical purpose, the Group's major customers are relatively stable; the sales revenue from the major customers amounting to \$984,665 thousand in 2022 was significant. Therefore, the occurrence of sales revenue from major customers was considered as a key audit matter. The main audit procedure we performed in response to the key audit matter described above included: understanding and testing the design and implementation as well as the operating effectiveness of the internal controls relevant to sales revenue from major customers, sampling from journals of sales from major customers and examining the external orders, shipping documents and receipt vouchers to confirm their occurrence, and checking any significant unusual sales returns and allowance in the subsequent period to realize the reasonableness of revenue recognition for sales from major customers.

#### **Other Matter**

We have also audited the parent company only financial statements of InnoCare Optoelectronics Corporation as of and for the years ended December 31, 2022 and 2021 on which we have issued unmodified opinion and unmodified opinion with other matter paragraph.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and 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 Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Ya-Ling Wong and Chih-Ming Shao.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 13, 2023

Notice to Readers

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

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

# INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES

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

ASSETS	2022		2021	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 577,373	29	\$ 459,451	27
Note receivable (Notes 10 and 21)	-	-	9,139	1
Accounts receivable (Notes 10 and 21)	585,754	30	375,281	22
Accounts receivable from related parties (Notes 21 and 29)	23,853	1	33,363	2
Other receivables (Note 10)	15,379	1	31,065	2
Other receivables from related parties (Note 29)	4,944	-	2,385	-
Current tax assets (Note 23)	3,812	-	11,926	1
Inventories (Note 11)	503,173	25	464,710	27
Other current assets (Note 29)	<u>15,879</u>	<u>1</u>	<u>22,319</u>	<u>1</u>
Total current assets	<u>1,730,167</u>	<u>87</u>	<u>1,409,639</u>	<u>83</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through profit or loss (Note 7)	272	-	84	-
Financial assets at amortized cost (Notes 8, 9 and 30)	-	-	34,810	2
Property, plant and equipment (Notes 13 and 29)	186,695	9	180,436	11
Right-of-use assets (Notes 14 and 29)	34,301	2	39,859	2
Intangible assets (Note 29)	1,789	-	1,523	-
Deferred tax assets (Note 22)	15,466	1	7,840	1
Prepayments for equipment (Note 13)	25,352	1	24,248	1
Other non-current assets (Note 29)	<u>5,899</u>	<u>-</u>	<u>5,349</u>	<u>-</u>
Total non-current assets	<u>269,774</u>	<u>13</u>	<u>294,149</u>	<u>17</u>
<b>TOTAL</b>	<u>\$ 1,999,941</u>	<u>100</u>	<u>\$ 1,703,788</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 15)	\$ 425,000	21	\$ -	-
Contract liabilities (Note 21)	13,353	1	2,037	-
Accounts payable (Note 16)	178,430	9	133,787	8
Accounts payable to related parties (Note 29)	170,238	8	569,356	34
Other payables (Notes 13 and 17)	203,073	10	176,199	10
Other payables to related parties (Note 29)	18,014	1	23,498	1
Current tax liabilities (Note 23)	40,304	2	31,507	2
Provisions (Note 18)	16,398	1	14,007	1
Lease liabilities (Notes 14 and 29)	15,466	1	12,955	1
Other current liabilities (Notes 17 and 29)	<u>10,884</u>	<u>-</u>	<u>22,046</u>	<u>1</u>
Total current liabilities	<u>1,091,160</u>	<u>54</u>	<u>985,392</u>	<u>58</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 22)	-	-	669	-
Lease liabilities (Notes 14 and 29)	19,027	1	26,937	2
Net defined benefit liabilities (Note 19)	140	-	95	-
Guarantee deposits received	<u>72,992</u>	<u>4</u>	<u>54,013</u>	<u>3</u>
Total non-current liabilities	<u>92,159</u>	<u>5</u>	<u>81,714</u>	<u>5</u>
Total liabilities	<u>1,183,319</u>	<u>59</u>	<u>1,067,106</u>	<u>63</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20, 25 and 29)</b>				
Common stock	<u>357,815</u>	<u>18</u>	<u>349,845</u>	<u>20</u>
Capital collected in advance	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital surplus	<u>77,070</u>	<u>4</u>	<u>66,257</u>	<u>4</u>
Retained earnings				
Legal reserve	34,823	2	17,527	1
Special reserve	17,647	1	-	-
Unappropriated earnings	<u>343,556</u>	<u>17</u>	<u>220,700</u>	<u>13</u>
Total retained earnings	<u>396,026</u>	<u>20</u>	<u>238,227</u>	<u>14</u>
Other equity	<u>(14,339)</u>	<u>(1)</u>	<u>(17,647)</u>	<u>(1)</u>
Total equity	<u>816,622</u>	<u>41</u>	<u>636,682</u>	<u>37</u>
<b>TOTAL</b>	<u>\$ 1,999,941</u>	<u>100</u>	<u>\$ 1,703,788</u>	<u>100</u>

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

# INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES

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

	2022		2021	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 21 and 29)	\$ 1,886,619	100	\$ 1,940,758	100
OPERATING COSTS (Notes 11, 22 and 29)	<u>1,303,407</u>	<u>69</u>	<u>1,414,836</u>	<u>73</u>
GROSS PROFIT	<u>583,212</u>	<u>31</u>	<u>525,922</u>	<u>27</u>
OPERATING EXPENSES (Notes 22 and 29)				
Selling and marketing expenses	131,911	7	102,626	5
General and administrative expenses	116,583	6	78,915	4
Research and development expenses	<u>248,437</u>	<u>13</u>	<u>239,669</u>	<u>13</u>
Total operating expenses	<u>496,931</u>	<u>26</u>	<u>421,210</u>	<u>22</u>
OPERATING INCOME	<u>86,281</u>	<u>5</u>	<u>104,712</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES (Notes 22, 26 and 29)				
Interest income	5,422	-	1,030	-
Other income	125,408	7	117,426	6
Other gains	30,156	1	10,687	1
Finance cost	<u>(5,284)</u>	<u>-</u>	<u>(803)</u>	<u>-</u>
Total non-operating income and expenses	<u>155,702</u>	<u>8</u>	<u>128,340</u>	<u>7</u>
INCOME BEFORE INCOME TAX	241,983	13	233,052	12
INCOME TAX EXPENSE (Note 22)	<u>43,266</u>	<u>2</u>	<u>34,529</u>	<u>2</u>
NET INCOME	<u>198,717</u>	<u>11</u>	<u>198,523</u>	<u>10</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	-	-	(36)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>7</u>	<u>-</u>
	-	-	(29)	-

(Continued)

# INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES

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

	2022		2021	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	\$ 3,308	-	\$ (10,911)	-
Other comprehensive income (loss), net of income tax	<u>3,308</u>	-	<u>(10,940)</u>	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 202,025</u>	<u>11</u>	<u>\$ 187,583</u>	<u>10</u>
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Owners of the Company	198,717	11	198,523	10
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 198,717</u>	<u>11</u>	<u>\$ 198,523</u>	<u>10</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the Company	202,025	11	187,583	10
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 202,025</u>	<u>11</u>	<u>\$ 187,583</u>	<u>10</u>
<b>EARNINGS PER SHARE (Note 24)</b>				
Basic	<u>\$ 5.62</u>		<u>\$ 6.05</u>	
Diluted	<u>\$ 5.22</u>		<u>\$ 5.49</u>	

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

(Concluded)

**INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES**

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

	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Reserve	Retained Earnings		Unappropriated Earnings	Other Equity Exchange Differences on Translation of Foreign Operations	Total Equity
					Special Reserve				
BALANCE AT JANUARY 1, 2021	\$ 200,000	\$ -	\$ 29,047	\$ -	\$ -	\$ -	\$ 175,269	\$ (6,736)	\$ 397,580
Appropriation of 2020 earnings	-	-	-	17,527	-	-	(17,527)	-	-
Legal reserve	110,000	-	-	-	-	-	(110,000)	-	-
Stock dividends of common stock	-	-	-	-	-	-	198,523	-	198,523
Net income for the year ended December 31, 2021	-	-	-	-	-	-	(29)	(10,911)	(10,940)
Other comprehensive loss for the year ended December 31, 2021	-	-	-	-	-	-	198,494	(10,911)	187,583
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	-	-	(16,830)	-	(16,830)
Reorganization	-	-	-	-	-	-	-	-	-
Employee share options	39,845	-	17,930	-	-	-	-	-	57,775
Share-based payments	-	-	19,280	-	-	-	(8,706)	-	10,574
BALANCE AT DECEMBER 31, 2021	349,845	-	66,257	17,527	-	-	220,700	(17,647)	636,682
Appropriation of 2021 earning	-	-	-	17,296	-	-	(17,296)	-	-
Legal reserve	-	-	-	-	17,647	-	(17,647)	-	-
Special reserve	-	-	-	-	-	-	(38,483)	-	(38,483)
Cash dividends distributed by the Company	-	-	-	-	-	-	198,717	-	198,717
Net income for the year ended December 31, 2022	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year ended December 31, 2022	-	-	-	-	-	-	-	3,308	3,308
Total comprehensive income for the year ended December 31, 2022	-	-	-	-	-	-	198,717	3,308	202,025
Employee share options	7,970	50	3,587	-	-	-	-	-	11,607
Share-based payments	-	-	7,226	-	-	-	(2,435)	-	4,791
BALANCE AT DECEMBER 31, 2022	\$ 357,815	\$ 50	\$ 77,070	\$ 34,823	\$ 17,647	\$ 343,556	\$ (14,339)	\$ (14,339)	\$ 816,622

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

# INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES

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

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 241,983	\$ 233,052
Adjustments for:		
Depreciation	69,236	67,404
Amortization	545	482
Net gain on fair value changes of financial assets at fair value through profit or loss	(2)	(1)
Finance costs	5,284	803
Interest income	(5,422)	(1,030)
Share-based payments	4,791	10,574
Write-down (reversal of write-down) of inventories	29,028	(5,619)
Unrealized loss on foreign exchange	15,657	35,773
Net changes in operating assets and liabilities		
Notes receivable	9,337	44,698
Accounts receivable	(232,447)	73,578
Accounts receivable from related parties	6,044	15,215
Other receivables	15,314	18,672
Other receivables from related parties	(1,988)	7,172
Inventories	(67,491)	(37,218)
Other current assets	6,333	(63)
Contract liabilities	11,310	(9,824)
Accounts payable	57,636	(23,437)
Accounts payable to related parties	(396,869)	(526,288)
Other payables	27,075	62,383
Other payables to related parties	(5,292)	(32,173)
Provisions	2,391	(6,568)
Other current liabilities	(11,074)	3,340
Net defined benefit liabilities	45	28
Cash used in operations	(218,576)	(69,047)
Income tax refunded	7,789	-
Income tax paid	(42,463)	(57,201)
Net cash used in operating activities	<u>(253,250)</u>	<u>(126,248)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at amortized cost	-	(29,250)
Proceeds from sale of financial assets at amortized cost	34,810	-
Purchase of financial assets at fair value through profit or loss	(186)	(83)
Acquisition of subsidiaries	-	(90,337)
Payments for property, plant, equipment	(61,850)	(67,452)
Payments for intangible assets	(811)	(147)
Increase in other non-current assets	(636)	(1,230)
Interest received	5,422	1,030
Net cash used in investing activities	<u>(23,251)</u>	<u>(187,469)</u>

(Continued)



# INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES

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

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	\$ 425,000	\$ -
Increase in guarantee deposits received	13,574	3,719
Repayment of the principal portion of lease liabilities	(14,862)	(13,484)
Cash dividends paid	(38,483)	-
Exercise of employee share options	11,607	57,775
Interest paid	(5,284)	(803)
Reorganization	<u>-</u>	<u>(16,830)</u>
Net cash generated from financing activities	<u>391,552</u>	<u>30,377</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE	<u>2,871</u>	<u>(6,225)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	117,922	(289,565)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>459,451</u>	<u>749,016</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 577,373</u>	<u>\$ 459,451</u>

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

(Concluded)

# INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES

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

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### 1. GENERAL INFORMATION

InnoCare Optoelectronics Corporation (the “Company”) was incorporated on April 2, 2019, and the Company is mainly engaged in manufacturing and sales of optical instrument and medical equipment.

The Company’s shares were approved to be listed on the Taipei Exchanges (TPEX) Emerging Stock Board (ESB) on November 30, 2021.

The consolidated financial statements of the Company and its subsidiaries, collectively referred to as the “Group”, are presented in the Company’s functional currency, the New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 9, 2023.

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

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

The initial application of IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company’s accounting policies, financial positions and financial performance.

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

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB</u>
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 1)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 2)
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 3)

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

Note 2: The amendments will be applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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

As of the date the financial statements were authorized for issue, the Group assessed that the application of above amendments to standards and interpretations did not have material impact on the Group's financial position and financial performance.

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
Amendments to IFRS 16 "Leases Liability in a Sale and Leaseback"	January 1, 2024 (Note 2)
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17 - Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2024
Amendments to IAS 1 "Non-current Liabilities with Covenants"	January 1, 2024

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

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

As of the date the financial statements were authorized for issue, the application of above amendments to standards and interpretations did not have material impact on the Group's financial position and financial performance.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Statement of compliance

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

- b. Basis of preparation

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

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

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 12, Table 5 and Table 6 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

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

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

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

For the purpose of presenting consolidated financial statements, the financial statement of the Company's foreign operations (including subsidiaries in other countries) that are prepared using functional currencies which are different from the currency of the Company are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

f. Inventories

Inventories consist of raw materials, work in progress and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

g. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

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

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

h. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

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

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

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

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

j. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL and financial assets at amortized cost.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets is mandatorily classified as at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends interest earned and remeasurement recognized in other profit or loss. Fair value is determined in the manner described in Note 28.

ii. Financial assets at amortized cost

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

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

b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost.

The Group always recognizes lifetime Expected Credit Loss (ECL) for accounts receivable. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. For the financial instruments and contract assets, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition.

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

For internal credit risk management purpose, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by Group):

- i. Internal or external information shows that the debtor is unlikely to pay its creditors.
- ii. When a financial asset has reached beyond the expiration date of contract unless the Group has reasonable and corroborative information to support a more lagged default criterion.

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

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by an entity in the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

### 3) Financial liabilities

All financial liabilities are measured at amortized cost using the effective interest method. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

### k. Provisions

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

#### Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Group's obligations.

### l. Revenue recognition

#### 1) Revenue from sale of goods

Revenue from sales of goods is recognized when the goods are delivered to the customer's specific location because it is the time when the customer has control over the goods and performance obligation are satisfied. Accounts receivable are recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

#### 2) Revenue from rendering of services

Revenue from rendering of services is recognized when services are rendered.

### m. Leasing

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

#### The Group as lessee

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

Right-of-use assets are initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

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

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.



Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

n. Borrowing costs

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

o. Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plans.

q. Share-based payment arrangements

Equity-settled share-based payment arrangements and Employee share options

The fair value at the grant date of the employee share options or equity-settled share-based payments for employees is expensed on a straight-line basis over the vesting period, based on the Group's estimate of employee share options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options or other equity - unearned employee benefits. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

#### Employee share options granted to the employees of its parent company

The employee share options granted by the Group to the employees of its parent company is treated as an earning appropriation. The fair value of employee services received under the arrangement is measured by reference to the grant-date fair value and is recognized over the vesting period as deduction to unappropriated earnings, with a corresponding credit to capital surplus - employee share options.

At the end of each reporting period, the Group revises its estimate of the number of employee share options that are expected to vest. The impact of the revision of the original estimates is recognized in unappropriated earnings such that the cumulative reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

#### r. Taxation

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

##### 1) Current tax

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

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

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

##### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred taxes for the year

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

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

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

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

### Write-down of Inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience in the sale of product of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Demand deposits	\$ 498,004	\$ 405,182
Cash equivalents		
Time deposits	<u>79,369</u>	<u>54,269</u>
	<u>\$ 577,373</u>	<u>\$ 459,451</u>

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2022	2021
<u>Financial assets - non-current</u>		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Beneficial certificates	\$ <u>272</u>	\$ <u>84</u>

## 8. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2022	2021
<u>Non-current</u>		
Pledge time deposits	\$ <u>-</u>	\$ <u>34,810</u>

- a. The range of interest rates for pledged time deposits was from 0.07% to 0.76% as of December 31, 2021.
- b. Refer to Note 9 for information relating to their credit risk management and impairment.
- c. Refer to Note 30 for information relating to financial assets at amortized cost pledged as collateral or for security.

## 9. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

	<u>December 31</u>	
	2022	2021
<u>At amortized cost</u>		
Gross carrying amount	\$ -	\$ 34,810
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
Amortized cost	\$ <u>-</u>	\$ <u>34,810</u>

The credit risk of financial instruments such as bank deposits is measured and monitored by the finance department.

The Group selects the transaction partners and the performing partners which are all banks with good credit.

## 10. NOTES AND ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount	\$ -	\$ 9,139
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 9,139</u>
Notes receivable-operating	<u>\$ -</u>	<u>\$ 9,139</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 585,754	\$ 375,281
Less: Allowance impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 585,754</u>	<u>\$ 375,281</u>
<u>Other receivables</u>		
Subsidize of research and development	\$ 10,018	\$ 13,649
VAT refundable	4,670	11,684
Others	<u>691</u>	<u>5,732</u>
	<u>\$ 15,379</u>	<u>\$ 31,065</u>

### Notes receivables

As of December 31, 2021, the notes receivable were not past due.

### Accounts receivable

The Group recognizes allowance for impairment loss on accounts receivable on the based on individual customers for which credit losses have actually taken place and uses the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable.

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

The aging of accounts receivable are as follows:

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Not past due	\$ 567,604	\$ 347,888
1-90 days past due	18,150	27,265
Pass due more than 90 days	<u>-</u>	<u>128</u>
	<u>\$ 585,754</u>	<u>\$ 375,281</u>

The above aging schedule was based on the past due days.

## 11. INVENTORIES

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Finished goods	\$ 117,129	\$ 115,114
Work in progress	252,767	186,552
Raw materials	<u>133,277</u>	<u>163,044</u>
	<u>\$ 503,173</u>	<u>\$ 464,710</u>

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

	<u>For the Year Ended December 31</u>	
	<b>2022</b>	<b>2021</b>
Cost of inventories sold	\$ 1,274,379	\$ 1,420,455
Write-down (reversed of write-down) of net realizable values of inventories	<u>29,028</u>	<u>(5,619)</u>
	<u>\$ 1,303,407</u>	<u>\$ 1,414,836</u>

## 12. SUBSIDIARIES

### Subsidiaries included in the consolidated financial statements

<b>Investee</b>	<b>Nature of Activities</b>	<u>Proportion of Ownership</u>	
		<u>December 31</u>	
		<b>2022</b>	<b>2021</b>
Ningbo Innolux Electronics Ltd.	Medical device and equipment manufacturing and sales business	100%	100%
InnoCare Optoelectronics Japan Co., Ltd.	Distribution Company	100%	100%
InnoCare Optoelectronics USA, INC.	Distribution Company	100%	100%
InnoCare Optoelectronics Europe B.V.	After-sales service Company	100%	100%

The Group established InnoCare Optoelectronics Europe B.V. in Netherlands in March 2021. The Group initially invested \$675 thousand (EUR20 thousand) and made additional investment of \$987 thousand (EUR30 thousand) in September 2021.

### 13. PROPERTY, PLANT AND EQUIPMENT

	<b>Machinery Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2022	\$ 187,274	\$ 105,871	\$ 293,145
Additions	-	77	77
Reclassification	51,360	8,870	60,230
Effect of exchange rate differences	<u>183</u>	<u>96</u>	<u>279</u>
Balance at December 31, 2022	<u>\$ 238,817</u>	<u>\$ 114,914</u>	<u>\$ 353,731</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2022	\$ 55,961	\$ 56,748	\$ 112,709
Depreciation expense	34,979	19,243	54,222
Effect of exchange rate differences	<u>45</u>	<u>60</u>	<u>105</u>
Balance at December 31, 2022	<u>\$ 90,985</u>	<u>\$ 76,051</u>	<u>\$ 167,036</u>
Carrying amount at December 31, 2022	<u>\$ 147,832</u>	<u>\$ 38,863</u>	<u>\$ 186,695</u>
<u>Cost</u>			
Balance at January 1, 2021	\$ 151,702	\$ 73,369	\$ 225,071
Additions	-	1,679	1,679
Reclassification	35,635	31,139	66,774
Effect of exchange rate differences	<u>(63)</u>	<u>(316)</u>	<u>(379)</u>
Balance at December 31, 2021	<u>\$ 187,274</u>	<u>\$ 105,871</u>	<u>\$ 293,145</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2021	\$ 29,170	\$ 29,300	\$ 58,470
Depreciation expense	26,801	27,475	54,276
Effect of exchange rate differences	<u>(10)</u>	<u>(27)</u>	<u>(37)</u>
Balance at December 31, 2021	<u>\$ 55,961</u>	<u>\$ 56,748</u>	<u>\$ 112,709</u>
Carrying amount at December 31, 2021	<u>\$ 131,313</u>	<u>\$ 49,123</u>	<u>\$ 180,436</u>

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

Machinery equipment	3-10 years
Other equipment	2-6 years

Payments for property, plant and equipment included non-cash items and are reconciled as follow:

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Additions to property, plant and equipment	\$ 77	\$ 1,679
Prepayments of equipment	61,334	57,683
Payable for equipment (other payable)	<u>439</u>	<u>8,090</u>
	<u>\$ 61,850</u>	<u>\$ 67,452</u>

#### 14. LEASE ARRANGEMENTS

##### a. Right-of-use assets

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Carrying amount</u>		
Buildings	<u>\$ 34,301</u>	<u>\$ 39,859</u>

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Additions to right-of-use assets	<u>\$ 9,568</u>	<u>\$ 15,543</u>
Depreciation charge for right-of-use assets		
Buildings	<u>\$ 15,014</u>	<u>\$ 13,128</u>

##### b. Lease liabilities

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Carrying amount</u>		
Current	<u>\$ 15,466</u>	<u>\$ 12,955</u>
Non-current	<u>\$ 19,027</u>	<u>\$ 26,937</u>

The range of discount rates for lease liabilities was as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Buildings	1.7895%- 1.8291%	1.8143%- 1.9056%

##### c. Other lease information

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Expenses relating to short-term leases and low-value asset leases	<u>\$ 3,010</u>	<u>\$ 1,751</u>
Total cash outflow for leases	<u>\$ 18,550</u>	<u>\$ 16,038</u>



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

## 15. BORROWINGS

	<u>December 31</u>	
	2022	2021
<u>Unsecured borrowings</u>		
Bank unsecured loans	\$ <u>425,000</u>	\$ <u>-</u>

The range of interest rates of bank unsecured loans was from 1.95% to 2.07%.

## 16. ACCOUNTS PAYABLE

	<u>December 31</u>	
	2022	2021
<u>Accounts payable</u>		
Accounts payable - operating	\$ <u>178,430</u>	\$ <u>133,787</u>

## 17. OTHER LIABILITIES

	<u>December 31</u>	
	2022	2021
<u>Current</u>		
Other payables		
Payable for salaries and bonus	\$ 126,217	\$ 106,261
Payable for bonus to employees and directors	16,173	16,310
Payable for equipment	12,240	12,679
Payable for labor and health insurance	11,045	4,613
Payable for professional fees	10,176	4,709
Other	<u>27,222</u>	<u>31,627</u>
	<u>\$ 203,073</u>	<u>\$ 176,199</u>
Other Liabilities		
Deferred revenue	\$ 3,245	\$ 5,511
Temporary receipts (Note 29)	-	13,013
Other	<u>7,639</u>	<u>3,522</u>
	<u>\$ 10,884</u>	<u>\$ 22,046</u>

Temporary receipts were generated due to certain transactions were treated as materials delivered to subcontractors, and deferred revenue was generated from government grants.

## 18. PROVISIONS

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Warranties	<u>\$ 16,398</u>	<u>\$ 14,007</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under contracts for the sale of goods. The estimate has been made based on historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

## 19. RETIREMENT BENEFIT PLANS

### a. Defined contribution plan

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

The employees of the Group's subsidiary in China are members of a state-managed retirement benefit plan operated by the government of China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The employees of the Group's subsidiaries in the United States, Japan, and Europe are required to contribute a specified percentage of payroll costs to the retirement benefit scheme under local government's regulations.

### b. Defined benefit plans

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

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

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Present value of defined benefit obligation	\$ 181	\$ 120
Fair value of plan assets	<u>(41)</u>	<u>(25)</u>
Net defined benefit liabilities	<u>\$ 140</u>	<u>\$ 95</u>

Movements in net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2022	\$ 120	\$ (25)	\$ 95
Service cost			
Current service cost	<u>61</u>	<u>-</u>	<u>61</u>
Recognized in profit or loss	<u>61</u>	<u>-</u>	<u>61</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	(1)	-	(1)
Actuarial gain - changes in financial assumptions	(30)	-	(30)
Actuarial loss - experience adjustments	<u>31</u>	<u>-</u>	<u>31</u>
Recognized in other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>
Contributions from the employer	<u>-</u>	<u>(16)</u>	<u>(16)</u>
Balance at December 31, 2022	<u>\$ 181</u>	<u>\$ (41)</u>	<u>\$ 140</u>
Balance at January 1, 2021	\$ 42	\$ (11)	\$ 31
Service cost			
Current service cost	<u>42</u>	<u>-</u>	<u>42</u>
Recognized in profit or loss	<u>42</u>	<u>-</u>	<u>42</u>
Remeasurement			
Actuarial loss - changes in financial assumptions	6	-	6
Actuarial loss - experience adjustments	<u>30</u>	<u>-</u>	<u>30</u>
Recognized in other comprehensive income	<u>36</u>	<u>-</u>	<u>36</u>
Contributions from the employer	<u>-</u>	<u>(14)</u>	<u>(14)</u>
Balance at December 31, 2021	<u>\$ 120</u>	<u>\$ (25)</u>	<u>\$ 95</u>

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

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

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Discount rate	2.250%	0.625%
Expected rate of salary increase	3.500%	3.000%

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Discount rate		
0.25% increase	<u>\$ (14)</u>	<u>\$ (10)</u>
0.25% decrease	<u>\$ 15</u>	<u>\$ 11</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 15</u>	<u>\$ 10</u>
0.25% decrease	<u>\$ (14)</u>	<u>\$ (9)</u>

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
The expected contributions to the plan for the next year	<u>\$ 16</u>	<u>\$ 14</u>
The average duration of the defined benefit obligation	33.2 years	34.5 years

## 20. EQUITY

### a. Common stock

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Number of authorized shares (in thousands)	<u>50,000</u>	<u>50,000</u>
Amount of authorized shares	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Number of issued and fully paid shares (in thousands)	<u>35,782</u>	<u>34,985</u>
Amount of issued shares	<u>\$ 357,815</u>	<u>\$ 349,845</u>
Capital collected in advance	<u>\$ 50</u>	<u>\$ -</u>

On December 28, 2022, the Company's board of directors resolved to issue 3,600 thousand common stock with a par value of \$10, for a consideration of \$60 per share, and the above transaction was approved by the FSC on January 11, 2023.

The change in the Company's share capital in 2021 was mainly due to the exercise of employee share options, which increased 3,985 thousand common stock, and the stock dividends in appropriation of earnings approved by the shareholders' meeting, which increased 11,000 thousand common stock.

The change in the Company's share capital in 2022 was mainly due to the exercise of employee share options 800 thousand common stock, and the considerations of \$11,607 thousand was received. On October 25, 2022, the Company's board of directors resolved the subscription base date for 797 thousand common stock to be October 26, 2022. On February 9, 2023, the Company's board of directors resolved the subscription base date for the remaining 3 thousand common stock to be February 10, 2023.

Of the Company's authorized shares, 7,500 thousand shares were reserved for the issuance of employee share options.

b. Capital surplus

	<u>December 31</u>	
	2022	2021
<u>May be used to offset a deficit, distributed as cash dividends or transferred to share capital*</u>		
Issuance of common shares	\$ 52,869	\$ 43,599
Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	9,309	9,309
<u>May not be used for any purpose</u>		
Employee share options	<u>14,892</u>	<u>13,349</u>
	<u>\$ 77,070</u>	<u>\$ 66,257</u>

\* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

c. Retained earnings and dividend policy

Under the dividend policy in the Company's Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved by the shareholders in their meeting for distribution of dividends and bonuses to shareholders. For the policies on the distribution of compensation of employees and remuneration of directors, refer to compensation of employees and remuneration of directors in Note 22-f.

Depending on the Company's future long-term financial planning, investment environment, industry competition, capital expenditure budget, capital requirements and protection of shareholders' rights, dividends should account for less 20% of the distributable earnings for the year. However, as the distributable earnings for the year are lower than 2% of the paid-in capital, the Company may choose not to distribute dividends and transfer dividends to the retained earnings. Earnings shall be preferably distributed using cash dividends and may also be distributed using stock dividends. The ratio for cash dividends shall not be less than 50% of the total amount of dividends distributed. The aforementioned dividend distribution rate may be adjusted based on financial, business and operational factors.

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

The net decrease in other equity accumulated in prior periods should be appropriated from prior period's undistributed earnings to a special reserve of the same amount, and if there is a deficiency, the same amount should be appropriated from the post-tax profit for the year plus the number of items other than post-tax profit for the year, and the amount was included in the unappropriated earnings for the year.

The appropriations of earnings for 2021 and 2020, which were approved by the shareholders in their meetings on May 24, 2022 and by the board of directors (on behalf of shareholders meeting) on May 12, 2021, respectively, were as follows:

	<b>Appropriation and Earnings</b>	
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Legal reserve	<u>\$ 17,296</u>	<u>\$ 17,527</u>
Special reserve	<u>\$ 17,647</u>	<u>\$ -</u>
Cash dividends	<u>\$ 38,483</u>	<u>\$ -</u>
Stock dividends	<u>\$ -</u>	<u>\$ 110,000</u>
Cash dividends per share (NT\$)	<u>\$ 1.1</u>	<u>\$ -</u>
Stock dividends per share (NT\$)	<u>\$ -</u>	<u>\$ 5.5</u>

d. Special reserve

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Beginning balance	\$ -	\$ -
Appropriation in respect of:		
Debits to other equity items	<u>17,647</u>	<u>-</u>
Ending balance	<u>\$ 17,647</u>	<u>\$ -</u>

**21. REVENUE**

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Revenue from contracts with customers		
Revenue from X-Ray flat panel detector device	\$ 1,480,443	\$ 1,337,913
Revenue from X-Ray flat panel detector module	348,559	507,658
Others	<u>57,617</u>	<u>95,187</u>
	<u>\$ 1,886,619</u>	<u>\$ 1,940,758</u>

Contract balances

	December 31, 2022	December 31, 2021	January 1, 2021
Trade receivable	\$ <u>          -</u>	\$ <u>  9,139</u>	\$ <u> 53,540</u>
Accounts receivables (including those from related parties)	\$ <u> 609,607</u>	\$ <u> 408,644</u>	\$ <u> 478,925</u>
Contract liabilities	\$ <u>  13,353</u>	\$ <u>   2,037</u>	\$ <u>  11,755</u>

**22. NET PROFIT FOR THE YEAR**

a. Other income

	<u>For the Year Ended December 31</u>	
	2022	2021
Development subsidy	\$ 98,204	\$ 90,704
Government grants (Note 26)	18,190	13,496
Manpower supporting	-	4,696
Others	<u>  9,014</u>	<u>  8,530</u>
	<u>\$ 125,408</u>	<u>\$ 117,426</u>

b. Other gains and losses

	<u>For the Year Ended December 31</u>	
	2022	2021
Net foreign exchange gains	\$ 33,085	\$ 11,005
Net gain on fair value changes of financial assets at FVTPL		
Financial assets designated as at FVTPL	2	1
Others	<u>(2,931)</u>	<u>(319)</u>
	<u>\$ 30,156</u>	<u>\$ 10,687</u>

c. Finance costs

	<u>For the Year Ended December 31</u>	
	2022	2021
Interest on bank loans	\$ 4,606	\$ -
Interest on lease liabilities	<u>  678</u>	<u>  803</u>
	<u>\$ 5,284</u>	<u>\$ 803</u>

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Property, plant and equipment	\$ 54,222	\$ 54,276
Right-of-use assets	15,014	13,128
Intangible assets	<u>545</u>	<u>482</u>
	<u>\$ 69,781</u>	<u>\$ 67,886</u>
 An analysis of depreciation by function		
Operating costs	\$ 46,539	\$ 45,210
Operating expenses	<u>22,697</u>	<u>22,194</u>
	<u>\$ 69,236</u>	<u>\$ 67,404</u>
 An analysis of amortization by function		
Operating costs	\$ 8	\$ -
Operating expenses	<u>537</u>	<u>482</u>
	<u>\$ 545</u>	<u>\$ 482</u>

e. Employee benefits expense

	<b>For the Year Ended December 31, 2022</b>		
	<b>Cost of Sales</b>	<b>Operating Expense</b>	<b>Total</b>
Post-employment benefits			
Defined contribution plan	\$ 7,555	\$ 12,960	\$ 20,515
Defined benefit plans	<u>-</u>	<u>61</u>	<u>61</u>
	<u>7,555</u>	<u>13,021</u>	<u>20,576</u>
Share-based payments			
Equity-settled	<u>1,291</u>	<u>3,500</u>	<u>4,791</u>
Other employee benefits			
Salary expense	176,290	267,325	443,615
Labor and health insurance	15,319	24,072	39,391
Others	<u>7,182</u>	<u>9,726</u>	<u>16,908</u>
	<u>198,791</u>	<u>301,123</u>	<u>499,914</u>
	<u>\$ 207,637</u>	<u>\$ 317,644</u>	<u>\$ 525,281</u>



	<b>For the Year Ended December 31, 2021</b>		
	<b>Cost of Sales</b>	<b>Operating Expense</b>	<b>Total</b>
Post-employment benefits			
Defined contribution plan	\$ 5,857	\$ 9,324	\$ 15,181
Defined benefit plans	<u>-</u>	<u>42</u>	<u>42</u>
	<u>5,857</u>	<u>9,366</u>	<u>15,223</u>
Share-based payments			
Equity-settled	<u>2,652</u>	<u>7,922</u>	<u>10,574</u>
Other employee benefits			
Salary expense	167,004	210,826	377,830
Labor and health insurance	12,493	16,570	29,063
Others	<u>8,652</u>	<u>6,904</u>	<u>15,556</u>
	<u>188,419</u>	<u>234,300</u>	<u>422,449</u>
	<u>\$ 196,568</u>	<u>\$ 251,588</u>	<u>\$ 448,246</u>

f. Compensation of employees and remuneration of directors

According to the Company's Articles, the Company accrues compensation of employees and remuneration of directors at the rates of no less than 5.0% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation and remuneration of directors. However, the Company has to first offset losses from the previous years. The compensation of employees and remuneration of directors for the years ended December 31, 2022 and 2021, which were approved by the Company's board of directors on February 9, 2023 and January 27, 2022, respectively, are as follows:

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Compensation of employees	6.5%	6.5%
Remuneration of directors	0.1%	0.1%

Amount

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Compensation of employees	<u>\$ 15,928</u>	<u>\$ 16,063</u>
Remuneration of directors	<u>\$ 245</u>	<u>\$ 247</u>

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences will be recorded as a change in the accounting estimate in the next fiscal years.

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

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

## 23. INCOME TAXES

### a. Income tax recognized in profit or loss

Major components of tax expense tax are as follow:

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Current tax		
In respect of the current year	\$ 59,946	\$ 46,744
Income tax on unappropriated earnings	4,759	385
Adjustments for prior years	<u>(13,144)</u>	<u>(7,872)</u>
	51,561	39,257
Deferred tax		
In respect of the current year	<u>(8,295)</u>	<u>(4,728)</u>
Income tax expense recognized in profit or loss	<u>\$ 43,266</u>	<u>\$ 34,529</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Income before income tax	<u>\$ 241,983</u>	<u>\$ 233,052</u>
Income tax expense calculated at the statutory rate	\$ 48,397	\$ 46,611
Income tax on unappropriated earnings	4,759	385
Effect of different tax rates of group entities operating in other jurisdictions	3,254	(4,595)
Adjustments for prior years' tax	<u>(13,144)</u>	<u>(7,872)</u>
Income tax expense recognized in profit or loss	<u>\$ 43,266</u>	<u>\$ 34,529</u>

### b. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Current tax assets		
Income tax refundable	<u>\$ 3,812</u>	<u>\$ 11,926</u>
Current tax liabilities		
Income tax payable	<u>\$ 40,304</u>	<u>\$ 31,507</u>

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2022

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>			
Temporary difference			
Inventory write-downs	\$ 3,257	\$ 4,680	\$ 7,937
Unrealized provisions	2,801	479	3,280
Unrealized exchange losses	-	2,999	2,999
Others	<u>1,782</u>	<u>(532)</u>	<u>1,250</u>
	<u>\$ 7,840</u>	<u>\$ 7,626</u>	<u>\$ 15,466</u>
<u>Deferred tax liabilities</u>			
Temporary difference			
Unrealized exchange gains	<u>\$ 669</u>	<u>\$ (669)</u>	<u>\$ -</u>

For the year ended December 31, 2021

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary difference				
Unrealized provisions	\$ 4,115	\$ (1,314)	\$ -	\$ 2,801
Inventory write-downs	3,980	(723)	-	3,257
Others	<u>1,071</u>	<u>704</u>	<u>7</u>	<u>1,782</u>
	<u>\$ 9,166</u>	<u>\$ (1,333)</u>	<u>\$ 7</u>	<u>\$ 7,840</u>
<u>Deferred tax liabilities</u>				
Temporary difference				
Unrealized exchange gains	\$ 6,700	\$ (6,031)	\$ -	\$ 669
Others	<u>30</u>	<u>(30)</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,730</u>	<u>\$ (6,061)</u>	<u>\$ -</u>	<u>\$ 669</u>

d. Income tax assessments

The income of the Company through 2020 have been assessed by the tax authorities.

## 24. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Basic earnings per share	<u>\$ 5.62</u>	<u>\$ 6.05</u>
Diluted earnings per share	<u>\$ 5.22</u>	<u>\$ 5.49</u>

The earnings and weighted average number of common stock outstanding that were used in the computation of earnings per share were as follows:

### Net Income for the Year

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Net income for the period attributable to owners of the Company	<u>\$ 198,717</u>	<u>\$ 198,523</u>

### Weighted Average Number of Common Stock Outstanding

Unit: In Thousand Shares

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Weighted average number of common stock used in the computation of basic earnings per share	35,374	32,801
Effect of potentially dilutive common stock:		
Employee share options	2,502	3,099
Compensation of employees	<u>197</u>	<u>228</u>
Weighted average number of common stock used in the computation of diluted earnings per share	<u>38,073</u>	<u>36,128</u>

The Company may settle compensation of employees in cash or shares; therefore, the Company assumes that the entire amount of the compensation will be settled in shares and the resulting potential shares will be included in the weighted average number of shares outstanding used in the calculation of diluted earnings per share, if the effect was dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 25. SHARE-BASED PAYMENT ARRANGEMENTS

### a. Employee share option plan I

Qualified employees of the Company and its affiliated companies who meet certain conditions were granted 4,086 thousand options in July 2020. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 13 months and exercisable after one anniversary from the grant date. The options were granted at an exercise price of \$22.50. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. The exercise price was adjusted to \$14.50 due to issuance of bonus shares on May 18, 2021.

Information on employee share options was as follows:

	<b>For the Year Ended December 31, 2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	4,086	\$ 14.50
Options exercised	(3,985)	14.50
Options expired	<u>(101)</u>	-
Balance at December 31	<u>          -</u>	
Options exercisable, end of the year	<u>          -</u>	
Weighted-average fair value of options granted (\$)	<u>\$          -</u>	
		<b>December 31, 2020</b>
Range of exercise price (\$)		\$ 14.50
Weighted-average remaining contractual life (in years)		-

Options granted in July 2020 is priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

	<b>July 2020</b>
Grant-date share price	\$23.61
Exercise price	\$22.50
Expected volatility	45.98%
Expected life (in years)	1.04
Risk-free interest rate	0.26%

The compensation cost recognized was \$4,610 thousand for the year ended December 31, 2021.

All options of Employee share option plan I were exercised before the end of 2021.

b. Employee share option plan II

Qualified employees of the Company and its affiliated companies who meet certain conditions were granted 3,414 thousand options in July 2020. Each option entitles the holder with the right to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years and exercisable at 30%, 30% and 40% after the second, third and fourth anniversary from the grant date, respectively. The options were granted at an exercise price of \$22.50. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. The exercise price was adjusted to \$14.50 due to issuance of bonus shares on May 18, 2021.

Information on employee share options was as follows:

	<b>For the Year Ended December 31</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	3,414	\$ 14.50	3,414	\$ 14.50
Options exercised	<u>(800)</u>	14.50	<u>-</u>	-
Balance at December 31	<u>2,614</u>	14.50	<u>3,414</u>	14.50
Options exercisable, end of the year	<u>224</u>	14.50	<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 7.65</u>		<u>\$ 7.65</u>	

Information on outstanding options was as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Range of exercise price (\$)	\$ 14.50	\$ 14.50
Weighted-average remaining contractual life (in years)	3.52	4.52

Options granted in July 2020 is priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

	<b>July 2020</b>
Grant-date share price	\$23.61
Exercise price	\$22.50
Expected volatility	35.59%-37.23%
Expected life (in years)	4-5 years
Risk-free interest rate	0.34%-0.37%

The compensation costs recognized were \$4,791 thousand and \$5,964 thousand for the years ended December 31, 2022 and 2021, respectively.

## 26. GOVERNMENT GRANTS

The Group obtained government subsidies for the various programs, and recognized other income of \$18,190 thousand and \$13,496 thousand for the years ended December 31, 2022 and 2021, respectively.

## 27. CAPITAL MANAGEMENT

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

The key management personnel of the Group reviews the capital structure on an annual basis. As part of this review, the key management personnel considers the cost of capital and the risks associated with each class of capital.

## 28. FINANCIAL INSTRUMENTS

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

The Group's management believes that the carrying amount of financial assets and financial liabilities recognized in the consolidated financial statements which are not measured at fair value approximates their fair value.

### b. Fair value of financial instruments measured at fair value on a recurring basis

#### 1) Fair value hierarchy

December 31, 2022

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Beneficial certificates	\$ <u>272</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>272</u>

December 31, 2021

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Beneficial certificates	\$ <u>84</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>84</u>

There were no transfers between Levels 1 and 2 in 2022 and 2021.

### c. Categories of financial instruments

	December 31	
	2022	2021
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Mandatorily at fair value through profit or Loss	\$ 272	\$ 84
Amortized cost		
Cash and cash equivalents	577,373	459,451
Accounts receivable	585,754	375,281
Accounts receivable from related parties	23,853	33,363
Other receivables	10,709	19,381
Other receivables from related parties	4,944	2,385
Financial assets at amortized cost	-	34,810
Refundable deposits (included in other non-current assets)	5,899	5,349
		(Continued)

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Financial liabilities</u>		
Amortized cost		
Short-term borrowings	\$ 425,000	\$ -
Accounts payable	178,430	133,787
Accounts payable from related parties	170,238	569,356
Other payables	60,683	53,628
Other payables from related parties	18,014	23,498
Temporary receipts (included in other current liabilities)	-	13,013
Guarantee deposits	72,992	54,013
		(Concluded)

d. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, accounts payable and lease liabilities. Financial risks relating to the operations include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

a) Foreign currency risk

The Group have foreign currency-denominated sales and purchases, which expose the Group to foreign currency risk.

Holding foreign currency-denominated assets and liabilities exposes the Group to adverse fluctuations in cash flows and the reduction of foreign currency assets due to the changes in foreign currency rates.

The carrying amounts of the Group's foreign currency-denominated monetary assets and monetary liabilities at the end of the reporting period were detailed in Note 32.

Sensitivity analysis

The Group was mainly exposed to the USD and JPY

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollar (the functional currency) against the USD and JPY. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency-denominated monetary items, and adjusts their translation at the end of the reporting period was adjusted for a 1% change in exchange rates. A positive number below indicates an increase in pretax income associated with the New Taiwan dollar strengthening 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pretax income and the balances below would be negative.



	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
1% change in profit or loss		
USD	\$ 5,592	\$ 437
JPY	\$ (141)	\$ (469)

b) Interest rate risk

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

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Fair value interest rate risk		
Financial assets	\$ 79,369	\$ 89,079
Financial liabilities	\$ 34,493	\$ 39,892
Cash flow interest rate risk		
Financial assets	\$ 498,004	\$ 405,182
Financial liabilities	\$ 425,000	\$ -

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. A 0.25% basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.25% basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2022 and 2021 would have increased/decreased by \$183 thousand and \$1,013 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. At the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to the failure of the counterparty to discharge its obligation, could be equal to the total of the carrying amounts of the recognized financial assets as stated in the balance sheets.

As of December 31, 2022 and 2021, the customers whose single customer accounts for more than 10% of the total accounts receivable are as follows:

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Customer JA	\$ 159,663	\$ 93,797
Customer JG	122,615	1,257
Customer JC	57,440	43,371
Customer UA	11,386	74,160

The Group adopted a policy of only dealing with creditworthy counterparties, evaluated potential customers through an internal credit rating system and set the credit limit of customers to grasp the credit status of the counterparties and effectively control the credit exposure; therefore, the Group does not expect any material credit risk.

On August 23, 2022 in the US., the Customer UA filed for prepackaged reorganization under Chapter 11 of the Bankruptcy Code in the Delaware Court, and, on September 28, 2022, the prepackaged reorganization was approved by the court, which was effective on September 30, 2022. The Customer UA exited out for recognition process described in Chapter 11 and resumed normal operation. The Group believed the above event did not cause material credit risk to accounts receivable.

### 3) Liquidity risk

The Group has sufficient working capital to meet the cash needs for its operations. Thus, no material liquidity risk is anticipated.

#### Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed-upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table included both interest and principal cash flows.

The non-interest-bearing financial liabilities of the Group's current liabilities are due within one year and are not required to be paid off. Guarantee deposits received in non-current financial liabilities are mainly deposited by customers as credit guarantees without specific maturity dates.

	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<u>December 31, 2022</u>				
Variable interest instruments	\$ 425,000	\$ -	\$ -	\$ -
Lease liabilities	<u>4,037</u>	<u>12,110</u>	<u>19,248</u>	<u>-</u>
	<u>\$ 429,037</u>	<u>\$ 12,110</u>	<u>\$ 19,248</u>	<u>\$ -</u>
<u>December 31, 2021</u>				
Lease liabilities	<u>\$ 3,638</u>	<u>\$ 10,526</u>	<u>\$ 27,511</u>	<u>\$ -</u>

## 29. TRANSACTIONS WITH RELATED PARTIES

The Company's parent is Innolux Corporation, in line with the Company's initial public offering schedule, who released part of the Company's shares in the third quarter of 2021. As of December 31, 2022 and 2021, Innolux Corporation held 57.3% and 58.6% of the common stock of the Company, respectively.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed as follows.

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
Innolux Corporation	The Company's parent
Innolux USA Inc.	Sister company
Innolux Europe B.V.	Sister company
Shanghai Innolux Optoelectronics Ltd	Sister company
Nanjing Innolux Optoelectronics Ltd	Sister company
Foshan Innolux Optoelectronics Ltd.	Sister company
Ningbo Innolux Optoelectronics Ltd.	Sister company
Ningbo Innolux Display Ltd	Sister company
Innocom Technology (Shenzhen) Co., Ltd.	Sister company
FI Medical Device Manufacturing Co., Ltd.	Associate of parent company
KA Imaging Inc.	Related party in substance
Fortunebay Technology Pte Ltd.	Related party in substance
Jusda International Limited	Related party in substance
Shenzhen Fertile Plan International Logistics Co., Ltd	Related party in substance

b. Operating revenue

<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Parent entity	\$ 11,600	\$ 4,900
Sister companies	14,921	8,988
Associate of parent company	11,024	41,464
Related party in substance	<u>19,981</u>	<u>15,098</u>
	<u>\$ 57,526</u>	<u>\$ 70,450</u>

c. Purchases of goods (including processing costs)

<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Parent entity	\$ 481,403	\$ 439,706
Sister companies	7	3
Associate of parent company	12,877	35,888
Related party in substance	<u>65,372</u>	<u>108,581</u>
	<u>\$ 559,659</u>	<u>\$ 584,178</u>

d. Manufacturing and Operating expenses

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2022	2021
Manufacturing expenses	Parent entity	\$ 47,277	\$ 47,288
	Sister companies	2,667	2,465
	Related party in substance	<u>-</u>	<u>76</u>
		<u>\$ 49,944</u>	<u>\$ 49,829</u>
Operating expenses	Parent entity	\$ 22,274	\$ 15,525
	Sister companies	2,291	2,529
	Associate of parent company	-	1,686
	Related party in substance	<u>-</u>	<u>3,272</u>
	<u>\$ 24,565</u>	<u>\$ 23,012</u>	

e. Other income

Related Party Category/Name	For the Year Ended December 31	
	2022	2021
Parent entity	\$ -	\$ 264
Associate of parent company	107	4,807
Related party in substance	<u>356</u>	<u>311</u>
	<u>\$ 463</u>	<u>\$ 5,382</u>

f. Receivables from related parties

Line Item	Related Party Category/Name	December 31	
		2022	2021
Accounts receivable	Parent entity	\$ 5,093	\$ 13,439
	Sister companies	9,423	2,554
	Associate of parent company	1,566	8,752
	Related party in substance	<u>7,771</u>	<u>8,618</u>
	<u>\$ 23,853</u>	<u>\$ 33,363</u>	
Other receivables	Parent entity	\$ 4,931	\$ 2,385
	Associate of parent company	5	-
	Related party in substance	<u>8</u>	<u>-</u>
	<u>\$ 4,944</u>	<u>\$ 2,385</u>	
Temporary payments (included in other current assets)	Associate of parent company	<u>\$ 56</u>	<u>\$ -</u>

The outstanding trade receivables from related parties are unsecured. After assessment, no impairment losses were recognized for trade receivables from related parties.

g. Payables to related parties

Line Item	Related Party Category/Name	December 31	
		2022	2021
Accounts payable	Parent entity	\$ 131,258	\$ 482,496
	Sister companies	106	194
	Associate of parent company		
	FI Medical Device Manufacturing Co., Ltd.	36,849	72,933
	Related party in substance	<u>2,025</u>	<u>13,733</u>
		<u>\$ 170,238</u>	<u>\$ 569,356</u>
Other payables	Parent entity	\$ 17,491	\$ 18,677
	Sister companies	503	1,334
	Related party in substance	<u>20</u>	<u>3,487</u>
		<u>\$ 18,014</u>	<u>\$ 23,498</u>
Temporary receipts (included in other current liabilities)	Associate of parent company FI Medical Device Manufacturing Co., Ltd.	<u>\$ -</u>	<u>\$ 13,013</u>

The price and terms of the above transactions were similar to those for third parties.

h. Lease arrangements

Related Party Category/Name	For the Year Ended December 31		
	2022	2021	
<u>Acquisition of right-of-use assets</u>			
Parent entity	<u>\$ 5,161</u>	<u>\$ 15,543</u>	
Line Item	Related Party Category/Name	December 31	
		2022	2021
Lease liabilities (including current and non-current)	Parent entity	<u>\$ 30,634</u>	<u>\$ 38,166</u>
Refundable deposits (included in other current assets)	Parent entity	<u>\$ 2,038</u>	<u>\$ 2,038</u>
Related Party Category/Name	For the Year Ended December 31		
	2022	2021	
<u>Interest expense</u>			
Parent entity	<u>\$ 649</u>	<u>\$ 739</u>	

i. Prepayments

<b>Related Party Category/Name</b>	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Related party in substance	\$ <u>          -</u>	\$ <u>    156</u>

j. Acquisition of property, plant and equipment

<b>Related Party Category/Name</b>	<b>Purchase Price</b>	
	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Parent entity	\$ <u>          -</u>	\$ <u>   5,450</u>

k. Acquisition of intangible assets

<b>Related Party Category/Name</b>	<b>Purchase Price</b>	
	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Parent entity	\$ <u>          -</u>	\$ <u>  16,946</u>

The Group acquired patent related to X-ray flat panel detector from the parent entity for \$16,830 thousand. Since the transaction is a business combination under joint control, it is accounted for using the book value method.

l. Remuneration of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Short-term employee benefits	\$ 33,347	\$ 28,447
Post-employment benefits	746	540
Share-based payments	<u>541</u>	<u>1,527</u>
	\$ <u>34,634</u>	\$ <u>30,514</u>

The remuneration of directors and key executives, as determined by the remuneration committee, is based on the performance of individuals and market trends.

### 30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided for customs surety bonds and performance bonds:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Pledged deposits (classified as financial assets at amortized cost)	\$ <u>          -</u>	\$ <u>  34,810</u>

### 31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2022, the Company has commissioned the bank to issue letters of guarantee for the customs duty was RMB3,000 and \$5,560 thousand, and the amount for the project was \$29,250 thousand.

### 32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2022

	<b>Foreign Currency (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (NT\$)</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 37,176	30.71	\$ 1,141,675
JPY	52,957	0.2324	<u>12,307</u>
			<u>\$ 1,153,982</u>
<u>Financial liabilities</u>			
Monetary items			
USD	18,968	30.71	\$ 582,507
JPY	113,774	0.2324	<u>26,434</u>
			<u>\$ 608,941</u>

December 31, 2021

	<b>Foreign Currency (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (NT\$)</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 36,368	27.68	\$ 1,006,666
JPY	55,548	0.2405	<u>13,359</u>
			<u>\$ 1,020,025</u>
<u>Financial liabilities</u>			
Monetary items			
USD	34,790	27.68	\$ 962,987
JPY	250,646	0.2405	<u>60,280</u>
			<u>\$ 1,023,267</u>

For the years ended December 31, 2022 and 2021, (realized and unrealized) net foreign exchange gains (losses) were \$33,085 thousand and \$11,005 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of functional currencies.

### 33. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions:

- 1) Financing provided to others: No
- 2) Endorsements/guarantees provided: No
- 3) Marketable securities held: Table 1 (attached)
- 4) Marketable securities acquired and disposed of at costs or prices at least NT\$300 million or 20% of the paid-in capital: No
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: No
- 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: No
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 2 (attached)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
- 9) Trading in derivative instruments: No
- 10) Intercompany relationships and significant intercompany transactions: Table 4 (attached)

b. Information on investees: Table 5 (attached)

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 6 (attached)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: No
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - c) The amount of property transactions and the amount of the resultant gains or losses.



- d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
  - e) The highest period balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
  - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.
- d. Information on major shareholders: Shareholders' name holding amounts and ratio whose holding ratio exceed 5%: NA

### 34. SEGMENT INFORMATION

- a. information about operating segment

The Group has managed the organization and allocated resources as a single operating segment. The operating activities are all related to the medical business of X-ray flat panel detector.

- b. Segment total assets and liabilities

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Revenue from X-ray flat panel detector device	\$ 1,480,443	\$ 1,337,913
Revenue from X-ray flat panel detector module	348,559	507,658
Others	<u>57,617</u>	<u>95,187</u>
	<u>\$ 1,886,619</u>	<u>\$ 1,940,758</u>

- c. Information about geographical area

The Group's revenue from external customers by location of operations are detailed below:

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Taiwan	\$ 49,335	\$ 77,286
Asia	1,228,965	1,147,254
America	475,158	529,560
Europe	130,715	186,658
Africa	<u>2,446</u>	<u>-</u>
	<u>\$ 1,886,619</u>	<u>\$ 1,940,758</u>

The Group's non-current assets by location of operations are detailed below:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Taiwan	\$ 232,666	\$ 229,071
Asia	<u>15,471</u>	<u>16,995</u>
	<u>\$ 248,137</u>	<u>\$ 246,066</u>

Non-current assets excluded those classified as financial assets and deferred tax assets.

d. Information about major customers

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

	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>% of Sales</u>	<u>Amount</u>	<u>% of Sales</u>
Customer UA	\$ 298,313	16	\$ 357,862	18
Customer JC	279,352	15	263,334	14
Customer JA	204,426	14	275,701	14

TABLE 1

**INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES**

MARKETABLE SECURITIES HELD  
DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2022			Note	
				Unit	Carrying Amount	Percentage of Ownership		Fair Value
Ninbo Innolux Electronics Ltd.	Beneficiary certificate Chang Jiang Sheng Shim Ru Yi Serials A congregate group pension plan	None	Financial assets at fair value through profit or loss	60,129,306048	\$ (RMB 272 61 thousand)	-	\$ (RMB 272 61 thousand)	(Note)

Note: RMB1=\$4,4094 as of December 31, 2022.

TABLE 2

**INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2022**  
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transaction		Notes/Accounts Payable or Receivable		Note	
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% to Total
InnoCare Optoelectronics Corporation	InnoCare Corporation	Parent entity	Purchase	\$ 481,403	61	Net 90 days from the end of the month	-	-	\$ (131,258)	38	(Note)
InnoCare Optoelectronics Japan Co., Ltd.	InnoCare Optoelectronics Japan Co., Ltd.	Subsidiary	Sale	676,264	41	Net 60 days from the end of the month	-	-	240,817	40	(Note)
InnoCare Optoelectronics Corporation Ltd.	InnoCare Optoelectronics Corporation	Parent entity	Purchase	676,264	86	Net 60 days from the end of the month	-	-	(240,817)	69	(Note)
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics USA, INC.	Subsidiary	Sale	394,403	24	Net 60 days from the end of the month	-	-	67,105	11	(Note)
InnoCare Optoelectronics USA, INC.	InnoCare Optoelectronics Corporation	Parent entity	Purchase	394,403	100	Net 60 days from the end of the month	-	-	(67,105)	19	(Note)
InnoCare Optoelectronics Corporation	Ninbo Innolux Electronics Ltd.	Subsidiary	Sale	227,435	14	Net 60 days from the end of the month	-	-	43,082	7	(Note)
Ninbo Innolux Electronics Ltd.	InnoCare Optoelectronics Corporation	Parent entity	Purchase	227,435	87	Net 60 days from the end of the month	-	-	(43,082)	12	(Note)

Note: The above transactions have been eliminated during the preparation of the consolidated financial statements.

**TABLE 3**

**INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss	Note
					Amount	Actions Taken			
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	Subsidiary	\$ 240,817	5.99	\$ 5,461	Subsequent collection	\$ 123,037	\$ -	Note

Note: The above transactions have been eliminated during the preparation of the consolidated financial statements.

TABLE 4

**INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES**  
**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
(In Thousands of New Taiwan Dollars)

For the year ended December 31, 2021

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 2)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets (%)
				Accounts	Amount	Terms (Note 2)	
0	InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd. InnoCare Optoelectronics USA, INC. Ninbo Innolux Electronics Ltd.	Subsidiary Subsidiary Subsidiary	Accounts receivable Other receivable Operating revenue Accounts receivable Operating revenue Accounts receivable Operating revenue	\$ 240,817 14,994 676,264 67,105 394,403 43,082 227,435	Net 60 days from the end of the month Net 60 days from the end of the month Internal transfer pricing Net 60 days from the end of the month Internal transfer pricing Net 60 days from the end of the month Internal transfer pricing	12 1 36 3 21 2 12
1	InnoCare Optoelectronics Japan Co., Ltd.	InnoCare Optoelectronics Corporation	Parent entity	Accounts receivable Operating revenue	24,685 91,817	Net 60 days from the end of the month Internal transfer pricing	1 5
2	InnoCare Optoelectronics Europe B.V.	InnoCare Optoelectronics Corporation	Parent entity	Operating revenue	14,000	Internal transfer pricing	1

Note 1: This table includes transactions for amounts exceeding \$10 thousand.

Note 2: The above transactions have been eliminated during the preparation of the consolidated financial statements.

TABLE 5

**INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES**

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE YEAR ENDED DECEMBER 31, 2022**  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount December 31, 2022	December 31, 2021	Balance as of December 31, 2022		Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
						Shares (In Thousands)	Percentage of Ownership			
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	Japan	Distribution company	\$ 87,149	\$ 87,149	30,010	100	\$ 25,604	\$ 25,604	Subsidiary
	InnoCare Optoelectronics USA, INC.	U.S.A.	Distribution company	27,963	27,963	900,000	100	3,783	3,783	Subsidiary
	InnoCare Optoelectronics Europe B.V.	Netherlands	After-sales service company	1,662	1,662	500	100	640	640	Subsidiary

Note 1: For information on investee companies in mainland China, refer to Table 6

Note 2: The above transactions have been eliminated during the preparation of the consolidated financial statements.

**INNOCARE OPTOELECTRONICS CORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

1. Name of the investees in mainland China, main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment income or loss, ending balance of investment, dividends remitted by the investee, and the limit of investment in mainland China:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 1)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2022 (In Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2022 (In Thousand)	Investee Company Current Net Income	Percentage of Ownership	Investment Income (Loss) Recognized (Note 2)	Carrying Amount as of December 31, 2022	Accumulated Inward Remittance of Earnings as of December 31, 2022
					Outflow	Inflow						
Ninbo Imolux Electronics Ltd.	Manufacturing and selling of medical equipment	\$ 67,772 (RMB 15,370 thousand)	Direct investing in mainland China	\$ 90,337 (US\$ 3,172 thousand)	\$ -	\$ -	\$ 90,337 (US\$ 3,172 thousand)	\$ 4,415	100	\$ 4,415	\$ 109,972	\$ -

2. The limited amounts of the investment in mainland China

Accumulated Investment in Mainland China as of December 31, 2022 (Note 1)	Investment Amount Authorized by the Investment Commission, MOEA (Note 1)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
\$97,412 (US\$3,172 thousand)	\$97,412 (US\$3,172 thousand)	\$489,973

Note 1: US\$1=\$30.71; RMB1=\$4,4094 as of December 31, 2022.

Note 2: The investees' financial statements used as basis for calculating investment gains (losses) recognized have all been audited.

Note 3: The limit stated in the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjustment Rule", is the higher of the Company's net asset value or 60% of its consolidated net asset value.

Note 4: The above transactions have been eliminated during the preparation of the consolidated financial statements.



## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the Shareholders  
InnoCare Optoelectronics Corporation

### **Opinion**

We have audited the financial statements of InnoCare Optoelectronics Corporation (the “Company”), which comprise the balance sheets as of December 31, 2022 and 2021, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the financial statements for the year ended December 31, 2022 are as follows:

#### Revenue Recognition of Sales from Major Customers

The Company mainly engaged in manufacturing and sales of X-ray flat panel detectors. Since these products are mostly used for medical purpose, the Company's major customers are relatively stable; the sales revenue from the major customers amounting to \$984,665 thousand in 2022 was significant. Therefore, the occurrence of sales revenue from major customers was considered as a key audit matter. The main audit procedure we performed in response to the key audit matter described above included: understanding and testing the design and implementation as well as the operating effectiveness of the internal controls relevant to sales revenue from major customers, sampling from journals of sales from major customers and examining the external orders, shipping documents and receipt vouchers to confirm their occurrence, and checking any significant unusual sales returns and allowance in the subsequent period to realize the reasonableness of revenue recognition for sales from major customers.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Ya-Ling Wong and Chih-Ming Shao.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 13, 2023

Notice to Readers

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

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

# INNOCARE OPTOELECTRONICS CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

(In Thousands of New Taiwan Dollars)

ASSETS	2022		2021	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Note 6)	\$ 399,972	22	\$ 193,292	12
Accounts receivable (Notes 9 and 20)	61,672	3	30,515	2
Accounts receivable from related parties (Notes 20 and 28)	371,855	21	467,057	29
Other receivables (Note 9)	4,537	-	18,538	1
Other receivables from related parties (Note 28)	20,008	1	18,633	1
Inventories (Note 10)	449,352	25	403,569	25
Other current assets	762	-	1,120	-
Total current assets	<u>1,308,158</u>	<u>72</u>	<u>1,132,724</u>	<u>70</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at amortized cost (Notes 7, 8 and 29)	-	-	34,810	2
Investments accounted for using the equity method (Note 11)	246,004	14	205,944	13
Property, plant and equipment (Notes 12 and 28)	175,264	10	165,341	10
Right-of-use assets (Notes 13 and 28)	30,262	2	37,960	2
Intangible assets (Note 28)	1,789	-	1,523	-
Deferred tax assets (Note 22)	15,466	1	7,840	1
Prepayments for equipment (Note 12)	25,352	1	24,248	2
Other non-current assets (Note 28)	3,102	-	2,637	-
Total non-current assets	<u>497,239</u>	<u>28</u>	<u>480,303</u>	<u>30</u>
<b>TOTAL</b>	<u>\$ 1,805,397</u>	<u>100</u>	<u>\$ 1,613,027</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 14)	\$ 425,000	23	\$ -	-
Contract liabilities (Note 20)	-	-	1,648	-
Accounts payable (Note 15)	73,581	4	105,631	7
Accounts payable to related parties (Note 28)	197,252	11	570,993	35
Other payables (Notes 12 and 16)	179,887	10	162,296	10
Other payable to related parties (Note 28)	19,625	1	29,140	2
Current tax liabilities (Note 22)	29,290	2	30,069	2
Provision (Note 17)	16,398	1	14,007	1
Lease liabilities (Notes 13 and 28)	13,463	1	11,229	1
Other current liabilities (Notes 16 and 28)	7,545	-	20,863	1
Total current liabilities	<u>962,041</u>	<u>53</u>	<u>945,876</u>	<u>59</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 22)	-	-	669	-
Lease liabilities (Notes 13 and 28)	17,171	1	26,937	2
Net defined benefit liabilities (Note 18)	140	-	95	-
Guarantee deposits received	9,423	1	2,768	-
Total non-current liabilities	<u>26,734</u>	<u>2</u>	<u>30,469</u>	<u>2</u>
Total liabilities	<u>988,775</u>	<u>55</u>	<u>976,345</u>	<u>61</u>
<b>EQUITY (Notes 19, 24 and 28)</b>				
Common stock	357,815	20	349,845	21
Capital collected in advance	50	-	-	-
Capital surplus	77,070	4	66,257	4
Retained earnings				
Legal reserve	34,823	2	17,527	1
Special reserve	17,647	1	-	-
Unappropriated earnings	343,556	19	220,700	14
Total retained earnings	<u>396,026</u>	<u>22</u>	<u>238,227</u>	<u>15</u>
Other equity	(14,339)	(1)	(17,647)	(1)
Total equity	<u>816,622</u>	<u>45</u>	<u>636,682</u>	<u>39</u>
<b>TOTAL</b>	<u>\$ 1,805,397</u>	<u>100</u>	<u>\$ 1,613,027</u>	<u>100</u>

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

# INNOCARE OPTOELECTRONICS CORPORATION

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

	2022		2021	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 20 and 28)	\$ 1,658,714	100	\$ 1,783,822	100
OPERATING COSTS (Notes 10, 21 and 28)	<u>1,219,070</u>	<u>73</u>	<u>1,355,755</u>	<u>76</u>
GROSS PROFIT	439,644	27	428,067	24
UNREALIZED GAIN ON SALES	(5,710)	-	(8,020)	-
REALIZED GAIN ON SALES	<u>8,020</u>	<u>-</u>	<u>4,129</u>	<u>-</u>
NET GROSS PROFIT	<u>441,954</u>	<u>27</u>	<u>424,176</u>	<u>24</u>
OPERATING EXPENSES (Notes 21 and 28)				
Selling and marketing expenses	46,321	3	35,910	2
General and administrative expenses	106,647	6	68,976	4
Research and development expenses	<u>240,092</u>	<u>15</u>	<u>232,110</u>	<u>13</u>
Total operating expenses	<u>393,060</u>	<u>24</u>	<u>336,996</u>	<u>19</u>
OPERATING INCOME	<u>48,894</u>	<u>3</u>	<u>87,180</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES (Notes 21, 25 and 28)				
Interest income	4,086	-	129	-
Other income	112,992	7	104,749	6
Other gains and losses	33,713	2	7,567	-
Financial cost	(5,255)	-	(739)	-
Share of profit of subsidiaries accounted for using the equity method	<u>34,442</u>	<u>2</u>	<u>31,928</u>	<u>2</u>
Total non-operating income and expenses	<u>179,978</u>	<u>11</u>	<u>143,634</u>	<u>8</u>
INCOME BEFORE INCOME TAX	228,872	14	230,814	13
INCOME TAX EXPENSE (Note 22)	<u>30,155</u>	<u>2</u>	<u>32,291</u>	<u>2</u>
NET INCOME	<u>198,717</u>	<u>12</u>	<u>198,523</u>	<u>11</u>

(Continued)

# INNOCARE OPTOELECTRONICS CORPORATION

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

	2022		2021	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 18 and 22)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ -	-	\$ (36)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>7</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>(29)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	<u>3,308</u>	<u>-</u>	<u>(10,911)</u>	<u>-</u>
Other comprehensive income (loss), net of income tax	<u>3,308</u>	<u>-</u>	<u>(10,940)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 202,025</u>	<u>12</u>	<u>\$ 187,583</u>	<u>11</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 5.62</u>		<u>\$ 6.05</u>	
Diluted	<u>\$ 5.22</u>		<u>\$ 5.49</u>	

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

(Concluded)

# INNOCARE OPTOELECTRONICS CORPORATION

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

	Common Stock	Capital Collected in Advance	Capital Surplus	Legal Reserve	Retained Earnings		Unappropriated Earnings	Other Equity Exchange Differences on Translation of Foreign Operations	Total Equity
					Special Reserve				
BALANCE AT JANUARY 1, 2021	\$ 200,000	\$ -	\$ 29,047	\$ -	\$ -	\$ -	\$ 175,269	\$ (6,736)	\$ 397,580
Appropriation of the 2020 earnings	-	-	-	17,527	-	-	(17,527)	-	-
Legal reserve	110,000	-	-	-	-	-	(110,000)	-	-
Stock dividends on common stock	-	-	-	-	-	-	198,523	-	198,523
Net income for the year ended December 31, 2021	-	-	-	-	-	-	(29)	(10,911)	(10,940)
Other comprehensive loss for the year ended December 31, 2021	-	-	-	-	-	-	198,494	(10,911)	187,583
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	-	-	(16,830)	-	(16,830)
Reorganization	-	-	-	-	-	-	-	-	-
Employee share options	39,845	-	17,930	-	-	-	-	-	57,775
Share-based payments	-	-	19,280	-	-	-	(8,706)	-	10,574
BALANCE AT DECEMBER 31, 2021	349,845	-	66,257	17,527	-	-	220,700	(17,647)	636,682
Appropriation of the 2021 earnings	-	-	-	17,296	-	-	(17,296)	-	-
Legal reserve	-	-	-	-	17,647	-	(17,647)	-	-
Special reserve	-	-	-	-	-	-	(38,483)	-	(38,483)
Cash dividends distributed by the Company	-	-	-	-	-	-	198,717	-	198,717
Net income for the year ended December 31, 2022	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year ended December 31, 2022	-	-	-	-	-	-	-	3,308	3,308
Total comprehensive income for the year ended December 31, 2022	-	-	-	-	-	-	198,717	3,308	202,025
Employee share options	7,970	50	3,587	-	-	-	-	-	11,607
Share-based payments	-	-	7,226	-	-	-	(2,435)	-	4,791
BALANCE AT DECEMBER 31, 2022	\$ 357,815	\$ 50	\$ 77,070	\$ 34,823	\$ 17,647	\$ 343,556	\$ (14,339)	\$ (14,339)	\$ 816,622

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



# INNOCARE OPTOELECTRONICS CORPORATION

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

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 228,872	\$ 230,814
Adjustments for:		
Depreciation	63,167	61,221
Amortization	545	482
Finance costs	5,255	739
Interest income	(4,086)	(129)
Share-based payments	4,791	10,574
Share of profits of subsidiaries accounted for using the equity method	(34,442)	(31,928)
Write-down (reversal of write-down) of inventories	23,405	(3,619)
Unrealized gain on sales	5,710	8,020
Realized gain on sales	(8,020)	(4,129)
Unrealized loss on foreign exchange	5,558	30,150
Net changes in operating assets and liabilities		
Accounts receivable	(31,656)	(5,958)
Accounts receivable from related parties	92,113	202,909
Other receivables	14,018	(14,182)
Other receivables from related parties	(752)	19,065
Inventories	(69,188)	(13,726)
Other current assets	358	1,834
Contract liabilities	(1,654)	(4,059)
Accounts payable	(33,112)	(10,444)
Accounts payable to related parties	(375,137)	(528,208)
Other payables	17,992	60,612
Other payables to related parties	(9,534)	(34,683)
Provisions	2,391	(6,568)
Other current liabilities	(13,318)	2,676
Net defined benefit liabilities	45	28
Cash used in operating activities	(116,679)	(28,509)
Income tax paid	(39,229)	(24,760)
Net cash used in operating activities	<u>(155,908)</u>	<u>(53,269)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at amortized cost	-	(29,250)
Proceeds from sale of financial assets at amortized cost	34,810	-
Acquisition of investments accounted for using the equity method	-	(91,999)
Payments for property, plant, equipment	(61,773)	(65,363)
Payments for intangible assets	(811)	(147)
Increase in other non-current assets	(465)	(2,037)
Interest received	4,086	129
Net cash used in investing activities	<u>(24,153)</u>	<u>(188,667)</u>

(Continued)

# INNOCARE OPTOELECTRONICS CORPORATION

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

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	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	\$ 425,000	\$ -
Increase in guarantee deposits received	6,566	2,836
Repayment of the principal portion of lease liabilities	(12,694)	(10,874)
Cash dividends paid	(38,483)	-
Exercise of employee share options	11,607	57,775
Interest paid	(5,255)	(739)
Reorganization	<u>-</u>	<u>(16,830)</u>
Net cash generated from financing activities	<u>386,741</u>	<u>32,168</u>
NET INCREASE (DECREASE) IN CASH	206,680	(209,768)
CASH AT BEGINNING OF THE YEAR	<u>193,292</u>	<u>403,060</u>
CASH AT END OF THE YEAR	<u>\$ 399,972</u>	<u>\$ 193,292</u>

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

(Concluded)

# INNOCARE OPTOELECTRONICS CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

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### 1. GENERAL INFORMATION

InnoCare Optoelectronics Corporation (the “Company”) was incorporated on April 2, 2019, and the Company is mainly engaged in manufacturing and sales of optical instrument and medical equipment.

The Company’s shares were approved to be listed on the Taipei Exchanges (TPEX) Emerging Stock Board (ESB) on November 30, 2021.

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on February 9, 2023.

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

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

The initial application of IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company’s accounting policies, financial positions and financial performance.

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

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB</u>
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 1)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 2)
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 3)

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

Note 2: The amendments will be applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
Amendments to IFRS 16 "Leases Liability in a Sale and Leaseback"	January 1, 2024 (Note 2)
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17 - Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2024
Amendments to IAS 1 "Non-current Liabilities with Covenants"	January 1, 2024

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

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

As of the date the financial statements were authorized for issue, the application of above amendments to standards and interpretations did not have material impact on the Company's financial position and financial performance.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Statement of compliance

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

- b. Basis of preparation

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

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Foreign currencies

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

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

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

For the purpose of presenting financial statements, the financial statements of the Company's foreign operations (including subsidiaries in other countries) that are prepared using functional currencies which are different from the currency of the Company are translated into the presentation currency, the New Taiwan dollars, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, work in progress and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investment in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

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

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

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

g. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

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

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

h. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

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

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

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

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

j. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified as financial assets at amortized cost.

- Financial assets at amortized cost

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost.

The Company always recognizes lifetime Expected Credit Loss (ECL) for accounts receivable. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. For the financial instruments and contract assets, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition.

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

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

- i. Internal or external information shows that the debtor is unlikely to pay its creditors.
- ii. When a financial asset has reached beyond the expiration date of contract unless the Company has reasonable and corroborative information to support a more lagged default criterion.

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

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by an entity in the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

3) Financial liabilities

All financial liabilities are measured at amortized cost using the effective interest method. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

k. Provisions

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



## Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Company's obligations.

### l. Revenue recognition

#### 1) Revenue from sale of goods

Revenue from sales of goods is recognized when the goods are delivered to the customer's specific location because it is the time when the customer has control over the goods and performance obligation are satisfied. Accounts receivable are recognized concurrently.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

#### 2) Revenue from rendering of services

Revenue from rendering of services is recognized when services are rendered.

### m. Leasing

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

#### The Company as lessee

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

Right-of-use assets are initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

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

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets

### n. Borrowing costs

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

o. Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liabilities represent the actual deficit in the Company's defined benefit plans.

q. Share-based payment arrangements

Equity-settled share-based payment arrangements and Employee share options

The fair value at the grant date of the employee share options or equity-settled share-based payments for employees is expensed on a straight-line basis over the vesting period, based on the Company's estimate of employee share options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options or other equity - unearned employee benefits. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

Employee share options granted to the employees of its parent company

The employee share options granted by the Company to the employees of its parent company is treated as an earning appropriation. The fair value of employee services received under the arrangement is measured by reference to the grant-date fair value and is recognized over the vesting period as deduction to unappropriated earnings, with a corresponding credit to capital surplus - employee share options.

At the end of each reporting period, the Company revises its estimate of the number of employee share options that are expected to vest. The impact of the revision of the original estimates is recognized in unappropriated earnings such that the cumulative reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

r. Taxation

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

1) Current tax

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

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

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

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

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

### 3) Current and deferred taxes for the year

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

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

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

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

### Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience in the sale of product of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

## 6. CASH

	<u>December 31</u>	
	2022	2021
Demand deposits	<u>\$ 399,972</u>	<u>\$ 193,292</u>

## 7. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2022	2021
<u>Non-current</u>		
Pledge time deposits	<u>\$ -</u>	<u>\$ 34,810</u>

- a. The range of interest rates for pledge time deposits was from 0.07% to 0.76% as of December 31, 2021.
- b. Refer to Note 8 for information relating to their credit risk management and impairment.
- c. Refer to Note 29 for information relating to financial assets at amortized cost pledged as collateral or for security.

## 8. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>At amortized cost</u>		
Gross carrying amount	\$ -	\$ 34,810
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ -</u>	<u>\$ 34,810</u>

The credit risk of financial instruments such as bank deposits is measured and monitored by the finance department.

The Company selects the transaction partners and the performing partners which are all banks with good credit.

## 9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 61,672	\$ 30,515
Less: Allowance impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 61,672</u>	<u>\$ 30,515</u>
<u>Other receivables</u>		
VAT refundable	\$ 4,404	\$ 4,854
Subsidize of research and development	38	13,649
Others	<u>95</u>	<u>35</u>
	<u>\$ 4,537</u>	<u>\$ 18,538</u>

### Accounts receivable

The Company recognizes allowance for impairment loss on accounts receivable based on individual customers for which credit losses have actually taken place and uses the forecast ability to adjust historical and timely information to assess the default possibility of accounts receivable.

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

The aging of accounts receivable are as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Not past due	\$ 58,333	\$ 27,976
1-90 days past due	<u>3,339</u>	<u>2,539</u>
	<u>\$ 61,672</u>	<u>\$ 30,515</u>

The above aging schedule was based on the past due days.

## 10. INVENTORIES

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Finished goods	\$ 75,992	\$ 80,161
Work in progress	249,779	179,620
Raw materials	<u>123,581</u>	<u>143,788</u>
	<u>\$ 449,352</u>	<u>\$ 403,569</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Cost of inventories sold	\$ 1,195,665	\$ 1,359,374
Write-down (reversed of write-down) of net realizable values of inventories	<u>23,405</u>	<u>(3,619)</u>
	<u>\$ 1,219,070</u>	<u>\$ 1,355,755</u>

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<b>Investments in Subsidiaries</b>		
Ningbo Innolux Electornics Ltd.	\$ 109,972	\$ 103,970
InnoCare Optoelectronics Japan Co., Ltd.	99,823	76,223
InnoCare Optoelectronics USA, INC.	33,491	23,788
InnoCare Optoelectronics Europe B.V.	<u>2,718</u>	<u>1,963</u>
	<u>\$ 246,004</u>	<u>\$ 205,944</u>
	<b>Proportion of Ownership</b>	
	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Ningbo Innolux Electornics Co., Ltd.	100%	100%
InnoCare Optoelectronics Japan Co., Ltd.	100%	100%
InnoCare Optoelectronics USA, INC.	100%	100%
InnoCare Optoelectronics Europe B.V.	100%	100%

The Company established InnoCare Optoelectronics Europe B.V. in Netherlands in March 2021. The Company initially invested \$675 thousand (EUR20 thousand) and made additional investment of \$987 thousand (EUR30 thousand) in September 2021.

For the years ended December 31, 2022 and 2021, the share of profit or loss and other comprehensive income of associates is based on the audited financial statements for the years then ended.

## 12. PROPERTY, PLANT AND EQUIPMENT

	<b>Machinery Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2022	\$ 175,553	\$ 94,015	\$ 269,568
Reclassification	<u>51,360</u>	<u>8,870</u>	<u>60,230</u>
Balance at December 31, 2022	<u>\$ 226,913</u>	<u>\$ 102,885</u>	<u>\$ 329,798</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2022	\$ 52,503	\$ 51,724	\$ 104,227
Depreciation expense	<u>33,532</u>	<u>16,775</u>	<u>50,307</u>
Balance at December 31, 2022	<u>\$ 86,035</u>	<u>\$ 68,499</u>	<u>\$ 154,534</u>
Carrying amount at December 31, 2022	<u>\$ 140,878</u>	<u>\$ 34,386</u>	<u>\$ 175,264</u>
<u>Cost</u>			
Balance at January 1, 2021	\$ 139,918	\$ 62,876	\$ 202,794
Reclassification	<u>35,635</u>	<u>31,139</u>	<u>66,774</u>
Balance at December 31, 2021	<u>\$ 175,553</u>	<u>\$ 94,015</u>	<u>\$ 269,568</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2021	\$ 27,120	\$ 26,594	\$ 53,714
Depreciation expense	<u>25,383</u>	<u>25,130</u>	<u>50,513</u>
Balance at December 31, 2021	<u>\$ 52,503</u>	<u>\$ 51,724</u>	<u>\$ 104,227</u>
Carrying amount at December 31, 2021	<u>\$ 123,050</u>	<u>\$ 42,291</u>	<u>\$ 165,341</u>

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

Machinery equipment	3-7 years
Other equipment	2-6 years

Payments for property, plant and equipment included non-cash items and are reconciled as follows:

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Additions to property, plant and equipment	\$ -	\$ -
Prepayments of equipment	61,334	57,683
Payable for equipment (other payable)	<u>439</u>	<u>7,680</u>
	<u>\$ 61,773</u>	<u>\$ 65,363</u>

### 13. LEASE ARRANGEMENTS

#### a. Right-of-use assets

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Carrying amount</u>		
Buildings	<u>\$ 30,262</u>	<u>\$ 37,960</u>

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Additions to right-of-use assets	<u>\$ 5,162</u>	<u>\$ 15,543</u>
<u>Depreciation charge for right-of-use assets</u>		
Buildings	<u>\$ 12,860</u>	<u>\$ 10,708</u>

#### b. Lease liabilities

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<u>Carrying amount</u>		
Current	<u>\$ 13,463</u>	<u>\$ 11,229</u>
Non-current	<u>\$ 17,171</u>	<u>\$ 26,937</u>

Range of discount rates for lease liabilities was as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Buildings	1.7895%	1.8143%

#### c. Other lease information

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Expenses relating to short-term leases and low-value asset leases	<u>\$ 212</u>	<u>\$ 6</u>
Total cash outflow for leases	<u>\$ 13,555</u>	<u>\$ 11,619</u>



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

#### 14. BORROWINGS

	<u>December 31</u>	
	2022	2021
<u>Unsecured borrowings</u>		
Bank credit loans	<u>\$ 425,000</u>	<u>\$ -</u>

The range of interest rates of bank unsecured loans was from 1.95 % to 2.07%.

#### 15. ACCOUNTS PAYABLE

	<u>December 31</u>	
	2022	2021
<u>Accounts payable</u>		
Accounts payable - operating	<u>\$ 73,581</u>	<u>\$ 105,631</u>

#### 16. OTHER LIABILITIES

	<u>December 31</u>	
	2022	2021
<u>Current</u>		
Other payable		
Payable for salaries and bonus	\$ 118,278	\$ 100,634
Payable for bonus to employees and directors	16,173	16,310
Payable for equipment	12,240	12,679
Payable for labor and health insurance	6,603	4,397
Payable for professional fees	6,599	2,212
Other	<u>19,994</u>	<u>26,064</u>
	<u>\$ 179,887</u>	<u>\$ 162,296</u>
Other Liabilities		
Deferred revenue	\$ 3,245	\$ 5,511
Temporary receipts (Note 28)	-	13,013
Other	<u>4,300</u>	<u>2,239</u>
	<u>\$ 7,545</u>	<u>\$ 20,863</u>

Temporary receipts were generated due to certain transactions were treated as materials delivered to subcontractors, and deferred revenue was generated from government grants.

## 17. PROVISIONS

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Warranties	<u>\$ 16,398</u>	<u>\$ 14,007</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under contracts for the sale of goods. The estimate has been made based on historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

## 18. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

### b. Defined benefit plan

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

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

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Present value of defined benefit obligation	\$ 181	\$ 120
Fair value of plan assets	<u>(41)</u>	<u>(25)</u>
Net defined benefit liabilities	<u>\$ 140</u>	<u>\$ 95</u>

Movements in net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2022	\$ 120	\$ (25)	\$ 95
Service cost			
Current service cost	<u>61</u>	<u>-</u>	<u>61</u>
Recognized in profit or loss	<u>61</u>	<u>-</u>	<u>61</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	(1)	-	(1)
Actuarial gain - changes in financial assumptions	(30)	-	(30)
Actuarial loss - experience adjustments	<u>31</u>	<u>-</u>	<u>31</u>
Recognized in other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>
Contributions from the employer	<u>-</u>	<u>(16)</u>	<u>(16)</u>
Balance at December 31, 2022	<u>\$ 181</u>	<u>\$ (41)</u>	<u>\$ 140</u>
Balance at January 1, 2021	\$ 42	\$ (11)	\$ 31
Service cost			
Current service cost	<u>42</u>	<u>-</u>	<u>42</u>
Recognized in profit or loss	<u>42</u>	<u>-</u>	<u>42</u>
Remeasurement			
Actuarial loss - changes in financial assumptions	6	-	6
Actuarial loss - experience adjustments	<u>30</u>	<u>-</u>	<u>30</u>
Recognized in other comprehensive income	<u>36</u>	<u>-</u>	<u>36</u>
Contributions from the employer	<u>-</u>	<u>(14)</u>	<u>(14)</u>
Balance at December 31, 2021	<u>\$ 120</u>	<u>\$ (25)</u>	<u>\$ 95</u>

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

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

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Discount rate	2.250%	0.625%
Expected rate of salary increase	3.500%	3.000%

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Discount rate		
0.25% increase	<u>\$ (14)</u>	<u>\$ (10)</u>
0.25% decrease	<u>\$ 15</u>	<u>\$ 11</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 15</u>	<u>\$ 10</u>
0.25% decrease	<u>\$ (14)</u>	<u>\$ (9)</u>

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
The expected contributions to the plan for the next year	<u>\$ 16</u>	<u>\$ 14</u>
The average duration of the defined benefit obligation	33.2 years	34.5 years

## 19. EQUITY

### a. Common stock

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Number of authorized shares (in thousands)	<u>50,000</u>	<u>50,000</u>
Amount of authorized shares	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Number of issued and fully paid shares (in thousands)	<u>35,782</u>	<u>34,985</u>
Amount of issued shares	<u>\$ 357,815</u>	<u>\$ 349,845</u>
Capital collected in advance	<u>\$ 50</u>	<u>\$ -</u>

On December 28, 2022, the Company's board of directors resolved to issue 3,600 thousand common stock with a par value of \$10, for a consideration of \$60 per share, and the above transaction was approved by the FSC on January 11, 2023.

The change in the Company's share capital in 2021 was mainly due to the exercise of employee share options, which increased 3,985 thousand common stock, and the stock dividends in appropriation of earnings approved by the shareholders' meeting, which increased 11,000 thousand common stock.

The change in the Company's share capital in 2022 was mainly due to the exercise of employee share options 800 thousand common stock, and the considerations of \$11,607 thousand was received. On October 25, 2022, the Company's board of directors resolved the subscription base date for 797 thousand common stock to be October 26, 2022. On February 9, 2023, the Company's board of directors resolved the subscription base date for the remaining 3 thousand common stock to be February 10, 2023.

Of the Company's authorized shares, 7,500 thousand shares were reserved for the issuance of employee share options.

b. Capital surplus

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>May be used to offset a deficit, distributed as cash dividends or transferred to share capital*</u>		
Issuance of common stock	\$ 52,869	\$ 43,599
Difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	9,309	9,309
<u>May not be used for any purpose</u>		
Employee share options	<u>14,892</u>	<u>13,349</u>
	<u>\$ 77,070</u>	<u>\$ 66,257</u>

\* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

c. Retained earnings and dividend policy

Under the dividend policy in the Company's Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved by the shareholders in their meeting for distribution of dividends and bonuses to shareholders. For the policies on the distribution of compensation of employees and remuneration of directors, refer to compensation of employees and remuneration of directors for the year in Note 22-f.

Depending on the Company's future long-term financial planning, investment environment, industry competition, capital expenditure budget, capital requirements and protection of shareholders' rights, dividends should account for less 20% of the distributable earnings for the year. However, as the distributable earnings for the year are lower than 2% of the paid-in capital, the Company may choose not to distribute dividends and transfer dividends to the retained earnings. Earnings shall be preferably distributed using cash dividends and may also be distributed using stock dividends. The ratio for cash dividends shall not be less than 50% of the total amount of dividends distributed. The aforementioned dividend distribution rate may be adjusted based on financial, business and operational factors.

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

The net decrease in other equity accumulated in prior periods should be appropriated from prior period's undistributed earnings to a special reserve of the same amount, and if there is a deficiency, the same amount should be appropriated from the post-tax profit for the year plus the number of items other than post-tax profit for the year, and the amount was included in the unappropriated earnings for the year.

The appropriations of earnings for 2021 and 2020, which were approved by the shareholders in their meetings on May 24, 2022 and by the board of directors (on behalf of shareholders' meeting) on May 12, 2021, respectively, were as follows:

	<b>Appropriation and Earnings</b>	
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Legal reserve	\$ 17,296	\$ 17,527
Special reserve	\$ 17,647	\$ -
Cash dividends	\$ 38,483	\$ -
Stock dividends	\$ -	\$ 110,000
Cash dividends per share (NT\$)	\$ 1.1	\$ -
Stock dividends per share (NT\$)	\$ -	\$ 5.5

d. Special reserve

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Beginning balance	\$ -	\$ -
Appropriation in respect of:		
Debits to other equity items	<u>17,647</u>	<u>-</u>
Ending balance	<u>\$ 17,647</u>	<u>\$ -</u>

**20. REVENUE**

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Revenue from contracts with customers		
Revenue from X-Ray flat panel detector device	\$ 1,302,577	\$ 1,241,957
Revenue from X-Ray flat panel detector module	328,639	496,772
Others	<u>27,498</u>	<u>45,093</u>
	<u>\$ 1,658,714</u>	<u>\$ 1,783,822</u>

**Contract Balances**

	<b>December 31, 2022</b>	<b>December 31, 2021</b>	<b>January 1, 2021</b>
Accounts receivable (including those from related parties)	<u>\$ 433,527</u>	<u>\$ 497,572</u>	<u>\$ 682,912</u>
Contract liabilities	<u>\$ -</u>	<u>\$ 1,648</u>	<u>\$ 5,591</u>

## 21. NET PROFIT FOR THE YEAR

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Development subsidy	\$ 90,685	\$ 87,864
Government grants (Note 25)	18,165	11,924
Manpower supporting	-	4,696
Others	<u>4,142</u>	<u>265</u>
	<u>\$ 112,992</u>	<u>\$ 104,749</u>

### b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Net foreign exchange gains	\$ 36,644	\$ 7,884
Others	<u>(2,931)</u>	<u>(317)</u>
	<u>\$ 33,713</u>	<u>\$ 7,567</u>

### c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Interest on bank loans	\$ 4,606	\$ -
Interest on lease liabilities	<u>649</u>	<u>739</u>
	<u>\$ 5,255</u>	<u>\$ 739</u>

### d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Property, plant and equipment	\$ 50,307	\$ 50,513
Right-of-use assets	12,860	10,708
Other Intangible assets	<u>545</u>	<u>482</u>
	<u>\$ 63,712</u>	<u>\$ 61,703</u>
An analysis of depreciation by function		
Operating costs	\$ 44,087	\$ 42,946
Operating expenses	<u>19,080</u>	<u>18,275</u>
	<u>\$ 63,167</u>	<u>\$ 61,221</u>
An analysis of amortization by function		
Operating costs	\$ 8	\$ -
Operating expenses	<u>537</u>	<u>482</u>
	<u>\$ 545</u>	<u>\$ 482</u>

e. Employee benefits expense

	<b>For the Year Ended December 31, 2022</b>		
	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>
Post-employment benefits			
Defined contribution plan	\$ 6,062	\$ 7,914	\$ 13,976
Defined benefit plans	<u>-</u>	<u>61</u>	<u>61</u>
	<u>6,062</u>	<u>7,975</u>	<u>14,037</u>
Share-based payments			
Equity-settled	<u>1,291</u>	<u>3,500</u>	<u>4,791</u>
Other employee benefits			
Salary expense	171,613	216,271	387,884
Labor and health insurance	13,952	15,209	29,161
Others	<u>6,732</u>	<u>8,826</u>	<u>15,538</u>
	<u>192,297</u>	<u>240,286</u>	<u>432,583</u>
	<u>\$ 199,650</u>	<u>\$ 251,761</u>	<u>\$ 451,411</u>
	<b>For the Year Ended December 31, 2021</b>		
	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>
Post-employment benefits			
Defined contribution plan	\$ 5,628	\$ 6,175	11,803
Defined benefit plans	<u>-</u>	<u>42</u>	<u>42</u>
	<u>5,628</u>	<u>6,217</u>	<u>11,845</u>
Share-based payments			
Equity-settled	<u>2,652</u>	<u>7,922</u>	<u>10,574</u>
Other employee benefits			
Salary expense	162,033	172,269	334,302
Labor and health insurance	12,335	11,056	23,391
Others	<u>8,215</u>	<u>6,303</u>	<u>14,518</u>
	<u>182,583</u>	<u>189,628</u>	<u>372,211</u>
	<u>\$ 190,863</u>	<u>\$ 203,767</u>	<u>\$ 394,630</u>

f. Compensation of employees and remuneration of directors

According to the Company's Articles, the Company accrues compensation of employees and remuneration of directors at the rates of no less than 5.0% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation and remuneration of directors. However, the Company has to first offset losses from the previous years. The compensation of employees and remuneration of directors for the years ended December 31, 2022 and 2021, which were approved by the Company's board of directors on February 9, 2023 and January 27, 2022, respectively, are as follows:

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Compensation of employees	6.5%	6.5%
Remuneration of directors	0.1%	0.1%



Amount

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Compensation of employees	\$ 15,928	\$ 16,063
Remuneration of directors	\$ 245	\$ 247

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

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

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

## 22. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax expense tax are as follow:

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Current tax		
In respect of the current year	\$ 47,181	\$ 44,506
Income tax on unappropriated earnings	4,759	385
Adjustments for prior year	<u>(13,490)</u>	<u>(7,872)</u>
	38,450	37,019
Deferred tax		
In respect of the current year	<u>(8,295)</u>	<u>(4,728)</u>
Income tax expense recognized in profit or loss	<u>\$ 30,155</u>	<u>\$ 32,291</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Income before income tax	<u>\$ 228,872</u>	<u>\$ 230,814</u>
Income tax expense calculated at the statutory rate	\$ 45,774	\$ 46,163
Tax-exempt income	(6,888)	(6,385)
Income tax on unappropriated earnings	4,759	385
Adjustments for prior years' tax	<u>(13,490)</u>	<u>(7,872)</u>
Income tax expense recognized in profit or loss	<u>\$ 30,155</u>	<u>\$ 32,291</u>

b. Current tax liabilities

	<u>December 31</u>	
	2022	2021
Current tax liabilities		
Income tax payable	\$ <u>29,290</u>	\$ <u>30,069</u>

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2022

	Opening Balance	Recognized in Profit or Loss	Closing Balance
<u>Deferred tax assets</u>			
Temporary difference			
Inventory write-downs	\$ 3,257	\$ 4,680	\$ 7,937
Unrealized provisions	2,801	479	3,280
Unrealized exchange losses	-	2,999	2,999
Others	<u>1,782</u>	<u>(532)</u>	<u>1,250</u>
	<u>\$ 7,840</u>	<u>\$ 7,626</u>	<u>\$ 15,466</u>
<u>Deferred tax liabilities</u>			
Temporary difference			
Unrealized exchange gains	<u>\$ 669</u>	<u>\$ (669)</u>	<u>\$ -</u>

For the year ended December 31, 2021

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary difference				
Unrealized provisions	\$ 4,115	\$ (1,314)	\$ -	\$ 2,801
Inventory write-downs	3,980	(723)	-	3,257
Others	<u>1,071</u>	<u>704</u>	<u>7</u>	<u>1,782</u>
	<u>\$ 9,166</u>	<u>\$ (1,333)</u>	<u>\$ 7</u>	<u>\$ 7,840</u>
<u>Deferred tax liabilities</u>				
Temporary difference				
Unrealized exchange gains	\$ 6,700	\$ (6,031)	\$ -	\$ 669
Others	<u>30</u>	<u>(30)</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,730</u>	<u>\$ (6,061)</u>	<u>\$ -</u>	<u>\$ 669</u>

d. Income tax assessments

The income tax returns of the Company through 2020 have been assessed by the tax authorities.

### 23. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Basic earnings per share	<u>\$ 5.62</u>	<u>\$ 6.05</u>
Diluted earnings per share	<u>\$ 5.22</u>	<u>\$ 5.49</u>

The earnings and weighted average number of common stock outstanding that were used in the computation of earnings per share were as follows:

#### Net Income for the Year

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Net income for the period attributable to owners of the Company	<u>\$ 198,717</u>	<u>\$ 198,523</u>

#### Weighted Average Number of Ordinary Shares Outstanding

Unit: In Thousand Shares

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Weighted average number of common stock used in the computation of basic earnings per share	35,374	32,801
Effect of potentially dilutive common stock		
Employee share options	2,502	3,099
Compensation of employees	<u>197</u>	<u>228</u>
Weighted average number of common stock used in the computation of diluted earnings per share	<u>38,073</u>	<u>36,128</u>

The Company may settle the compensation of employees in cash or shares therefore, the Company assumes that the entire amount of the compensation will be settled in shares, and the resulting potential shares will be included in the weighted average number of shares outstanding used in the calculation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 24. SHARE-BASED PAYMENT ARRANGEMENTS

### a. Employee share option plan I

Qualified employees of the Company and its affiliated companies who meet certain conditions were granted 4,086 thousand options in July 2020. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 13 months and exercisable after one anniversary from the grant date. The options were granted at an exercise price of \$22.50. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. The exercise price was adjusted to \$14.50 due to issuance of bonus shares on May 18, 2021.

Information on employee share options was as follows:

	<b>For the Year Ended December 31, 2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	4,086	\$ 14.50
Options exercised	(3,985)	14.50
Options expired	<u>(101)</u>	-
Balance at December 31	<u><u>-</u></u>	
Options exercisable, end of the year	<u><u>-</u></u>	
Weighted-average fair value of options granted (\$)	<u><u>\$ -</u></u>	

	<b>December 31, 2020</b>
Range of exercise price (\$)	\$14.50
Weighted-average remaining contractual life (in years)	-

Options granted in July 2020 is priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

	<b>July 2020</b>
Grant-date share price	\$23.61
Exercise price	\$22.50
Expected volatility	45.98%
Expected life (in years)	1.04
Risk-free interest rate	0.26%

The compensation cost recognized was \$4,610 thousand for the year ended December 31, 2021.

All options of Employee share option plan I were exercised before the end of 2021.

b. Employee share option plan II

Qualified employees of the Company and its affiliated companies who meet certain conditions were granted 3,414 thousand options in July 2020. Each option entitles the holder with the right to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years and exercisable at 30%, 30% and 40% after the second, third and fourth anniversary from the grant date, respectively. The options were granted at an exercise price of \$22.50. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly. The exercise price was adjusted to \$14.50 due to issuance of bonus shares on May 18, 2021.

Information on employee share options was as follows:

	<b>For the Year Ended December 31</b>			
	<b>2022</b>		<b>2021</b>	
	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>	<b>Number of Options (In Thousands of Units)</b>	<b>Weighted- average Exercise Price (\$)</b>
Balance at January 1	3,414	\$ 14.50	3,414	\$ 14.50
Options exercised	<u>(800)</u>	14.50	<u>-</u>	-
Balance at December 31	<u>2,614</u>	14.50	<u>3,414</u>	14.50
Options exercisable, end of the year	<u>224</u>	14.50	<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ 7.65</u>		<u>\$ 7.65</u>	

Information on outstanding options was as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Range of exercise price (\$)	\$14.50	\$14.50
Weighted-average remaining contractual life (in years)	3.52	4.52

Options granted in July 2020 is priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

	<b>July 2020</b>
Grant-date share price	\$23.61
Exercise price	\$22.50
Expected volatility	35.59%-37.23%
Expected life (in years)	4-5 years
Risk-free interest rate	0.34%-0.37%

The compensation costs recognized were \$4,791 thousand and \$5,964 thousand for the years ended December 31, 2022 and 2021, respectively.

## 25. GOVERNMENT GRANTS

The Company obtained government subsidies for the various programs, and recognized other income of \$18,165 thousand and \$11,924 thousand for the years ended December 31, 2022 and 2021, respectively.

## 26. CAPITAL MANAGEMENT

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

The key management personnel of the Company reviews the capital structure on an annual basis. As part of this review, the key management personnel considers the cost of capital and the risks associated with each class of capital.

## 27. FINANCIAL INSTRUMENTS

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

The Company's management believes that the carrying amount of financial assets and financial liabilities recognized in the financial statements which are not measured at fair value approximates their fair value.

### b. Categories of financial instruments

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>Financial assets</u>		
Amortized cost		
Cash	\$ 399,972	\$ 193,292
Accounts receivable	61,672	30,515
Accounts receivable from related parties	371,855	467,057
Other receivables	4,537	13,684
Other receivables from related parties	20,008	18,633
Financial assets at amortized cost	-	34,810
Refundable deposits (included in other non-current assets)	3,102	2,637
<u>Financial liabilities</u>		
Amortized cost		
Short-term borrowings	425,000	-
Accounts payable	73,581	105,631
Accounts payable from related parties	197,252	570,993
Other payables	45,436	45,352
Other payables from related parties	19,625	29,140
Temporary receipts (included in other current liabilities)	-	13,013
Guarantee deposits	9,423	2,768

c. Financial risk management objectives and policies

The Company's major financial instruments include accounts receivable, accounts payable and lease liabilities. Financial risks relating to the operations include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

a) Foreign currency risk

The Company has foreign currency-denominated sales and purchases, which expose the Company to foreign currency risk.

Holding foreign currency-denominated assets and liabilities exposes the Company to adverse fluctuations in cash flows and the reduction of foreign currency assets due to the changes in foreign currency rates.

The carrying amounts of the Company's foreign currency-denominated monetary assets and monetary liabilities at the end of the reporting period were detailed in Note 31.

Sensitivity analysis

The Company was mainly exposed to the USD and JPY

The following table details the Company's sensitivity to a 1% increase and decrease in New Taiwan dollar (the functional currency) against the USD and JPY. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency-denominated monetary items, and adjusts their translation at the end of the reporting period was adjusted for a 1% change in exchange rates. A positive number below indicates an increase in pretax income associated with the New Taiwan dollar that strengthening 1% against the relevant currency. For a 1% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pretax income and the balances below would be negative.

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
1% change in profit or loss		
USD	<u>\$ 5,808</u>	<u>\$ 589</u>
JPY	<u>\$ (141)</u>	<u>\$ (469)</u>

b) Interest rate risk

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

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Fair value interest rate risk		
Financial assets	\$ -	\$ 34,810
Financial liabilities	\$ 30,634	\$ 38,166
Cash flow interest rate risk		
Financial assets	\$ 399,972	\$ 193,292
Financial liabilities	\$ 425,000	\$ -

Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. A 0.25% basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.25% basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2022 and 2021 would decreased/increased by \$63 thousand and increased/decreased by \$483 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. At the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to the failure of the counterparty to discharge its obligation, could be equal to the total of the carrying amounts of the recognized financial assets as stated in the balance sheets.

As of December 31, 2022 and 2021, the customers whose single customer accounts for more than 10% of the total accounts receivable (excluded accounts receivable from related parties) are as follows:

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Customer AW	\$ 37,047	\$ 13,613
Customer AM	11,148	4,567
Customer AA	-	6,764

The Company adopted a policy of only dealing with creditworthy counterparties, evaluated potential customers through an internal credit rating system and set the credit limit of customers to grasp the credit status of the counterparties and effectively control the credit exposure, therefore, does not expect any material credit risk.

3) Liquidity risk

The Company has sufficient working capital to meet the cash needs for its operations. Thus, no material liquidity risk is anticipated.



### Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Company's remaining contractual maturities for its non-derivative financial liabilities with agreed-upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table included both interest and principal cash flows.

The non-interest-bearing financial liabilities of the Company's current liabilities are due within one year and are not required to be paid off immediately. Guarantee deposits received in non-current financial liabilities are mainly deposited by customers as credit guarantees without specific maturity dates.

	<b>1-3 Months</b>	<b>3 Months - 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>
<u>December 31, 2022</u>				
Variable interest instruments	\$ 425,000	\$ -	\$ -	\$ -
Lease liabilities	<u>3,475</u>	<u>10,426</u>	<u>17,376</u>	<u>-</u>
	<u>\$ 428,475</u>	<u>\$ 10,426</u>	<u>\$ 17,376</u>	<u>\$ -</u>
<u>December 31, 2021</u>				
Lease liabilities	<u>\$ 3,057</u>	<u>\$ 9,170</u>	<u>\$ 27,511</u>	<u>\$ -</u>

## **28. TRANSACTIONS WITH RELATED PARTIES**

The Company's parent is Innolux Corporation, in line with the Company's initial public offering schedule, who released part of the Company's shares in the third quarter of 2021. As of December 31, 2022 and 2021, Innolux Corporation held 57.3% and 58.6% of the common stock of the Company, respectively.

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

a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
Innolux Corporation	The Company's parent
InnoCare Optoelectronics Japan Co., Ltd.	Subsidiary
InnoCare Optoelectronics USA, INC.	Subsidiary
Ningbo Innolux Electronics Ltd.	Subsidiary
InnoCare Optoelectronics Europe B.V.	Subsidiary
Foshan Innolux Optoelectronics Ltd.	Sister company
FI Medical Device Manufacturing Co., Ltd.	Associate of parent company
KA Imaging Inc.	Related party in substance
Fortunebay Technology Pte Ltd.	Related party in substance
JUSDA INTERNATIONAL LIMITED	Related party in substance

b. Operating revenue

Related Party Category/Name	For the Year Ended December 31	
	2022	2021
Parent entity	\$ 11,600	\$ 4,900
Subsidiaries		
InnoCare Optoelectronics Japan Co., Ltd.	676,264	651,531
InnoCare Optoelectronics USA, INC.	394,403	451,166
Ningbo Innolux Electronics Ltd.	227,435	258,284
Sister companies	6,457	-
Associate of parent company	11,024	41,464
Related party in substance	<u>19,981</u>	<u>14,846</u>
	<u>\$ 1,347,164</u>	<u>\$ 1,422,191</u>

c. Purchases of goods (including processing costs)

Related Party Category/Name	For the Year Ended December 31	
	2022	2021
Parent entity	\$ 481,403	\$ 439,706
Subsidiaries	98,024	23,637
Associate of parent company	12,877	35,888
Related party in substance	<u>64,180</u>	<u>98,174</u>
	<u>\$ 656,484</u>	<u>\$ 597,405</u>

d. Manufacturing and Operating expenses

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2022	2021
Manufacturing expenses	Parent entity	\$ 47,277	\$ 47,288
	Related party in substance	<u>-</u>	<u>76</u>
		<u>\$ 47,277</u>	<u>\$ 47,364</u>
Operating expenses	Parent entity	\$ 22,274	\$ 15,525
	Subsidiaries	13,958	9,067
	Associate of parent company	-	1,686
	Related party in substance	<u>-</u>	<u>3,272</u>
		<u>\$ 36,232</u>	<u>\$ 29,550</u>

e. Other income

Related Party Category/Name	For the Year Ended December 31	
	2022	2021
Parent entity	\$ -	\$ 264
Associate of parent company	107	4,807
Related party in substance	<u>356</u>	<u>311</u>
	<u>\$ 463</u>	<u>\$ 5,382</u>

f. Receivables from related parties

Line Item	Related Party Category/Name	December 31	
		2022	2021
Accounts receivable	Parent entity	\$ 5,093	\$ 13,439
	Subsidiaries		
	InnoCare Optoelectronics Japan Co., Ltd.	240,817	250,550
	InnoCare Optoelectronics USA, INC.	67,105	151,578
	Ningbo Innolux Electronics Ltd.	43,082	34,120
	Sister companies	6,421	-
	Associate of parent company	1,566	8,752
	Related party in substance	<u>7,771</u>	<u>8,618</u>
		<u>\$ 371,855</u>	<u>\$ 467,057</u>
	Other receivables	Parent entity	\$ 4,931
Subsidiaries			
InnoCare Optoelectronics Japan Co., Ltd.		14,994	16,143
Others		70	105
		<u>15,064</u>	<u>16,248</u>
Associate of parent company		5	-
Related party in substance		<u>8</u>	<u>-</u>
	<u>\$ 20,008</u>	<u>\$ 18,633</u>	

The outstanding accounts receivables from related parties were unsecured. After assessing, no impairment losses were recognized for Accounts receivable from related parties.

g. Payables to related parties

Line Item	Related Party Category/Name	December 31	
		2022	2021
Accounts payable	Parent entity	\$ 131,258	\$ 482,496
	Subsidiaries	27,700	7,013
	Associate of parent company		
	FI Medical Device Manufacturing Co., Ltd.	36,849	72,933
	Related party in substance	<u>1,445</u>	<u>8,551</u>
	<u>\$ 197,252</u>	<u>\$ 570,993</u>	
Other payables	Parent entity	\$ 17,491	\$ 18,677
	Subsidiaries	2,114	6,983
	Related party in substance	<u>20</u>	<u>3,480</u>
	<u>\$ 19,625</u>	<u>\$ 29,140</u>	
Temporary receipts (included in other current liabilities)	Associate of parent company FI Medical Device Manufacturing Co., Ltd.	<u>\$ -</u>	<u>\$ 13,013</u>

The price and terms of the above transactions were similar to those for third parties.

h. Lease arrangements

	<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
		<b>2022</b>	<b>2021</b>
<u>Acquisition of right-of-use assets</u>			
Parent entity		<u>\$ 5,161</u>	<u>\$ 15,543</u>

<b>Line Item</b>	<b>Related Party Category/Name</b>	<b>December 31</b>	
		<b>2022</b>	<b>2021</b>
Lease liabilities (including current and non-current)	Parent entity	<u>\$ 30,634</u>	<u>\$ 38,166</u>
Refundable deposits (included in other non-current assets)	Parent entity	<u>\$ 2,038</u>	<u>\$ 2,038</u>

	<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
		<b>2022</b>	<b>2021</b>
<u>Interest expense</u>			
Parent entity		<u>\$ 649</u>	<u>\$ 739</u>

i. Acquisition of property, plant and equipment

	<b>Related Party Category/Name</b>	<b>Purchase Price</b>	
		<b>For the Year Ended December 31</b>	
		<b>2022</b>	<b>2021</b>
Parent entity		<u>\$ -</u>	<u>\$ 3,825</u>

j. Acquisition of intangible assets

	<b>Related Party Category/Name</b>	<b>Purchase Price</b>	
		<b>For the Year Ended December 31</b>	
		<b>2022</b>	<b>2021</b>
Parent entity		<u>\$ -</u>	<u>\$ 16,946</u>

The Company acquired patent related to X-Ray flat panel detector from the parent entity for \$16,830 thousand. Since the transaction is a business combination under joint control, it is accounted for using the book value method.

k. Remuneration of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Short-term employee benefits	\$ 31,303	\$ 26,273
Post-employment benefits	746	540
Share-based payments	<u>541</u>	<u>1,527</u>
	<u>\$ 32,590</u>	<u>\$ 28,340</u>

The remuneration of directors and key executives, as determined by the remuneration committee, is based on the performance of individuals and market trends.

**29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY**

The following assets were provided for customs surety bonds and performance bonds:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Pledged deposits (classified as financial assets at amortized cost)	<u>\$ -</u>	<u>\$ 34,810</u>

**30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

As of December 31, 2022, the Company has commissioned the bank to issue letters of guarantee for the customs duty was \$5,560 thousand, and the amount for the project was \$29,250 thousand.

**31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

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

December 31, 2022

	<b>Foreign Currency (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (NT\$)</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 26,567	30.71	\$ 815,873
JPY	52,597	0.2324	<u>12,307</u>
			<u>\$ 828,180</u>

(Continued)

	<b>Foreign Currency (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (NT\$)</b>
Non-monetary items			
Investments accounted for using the equity method			
RMB	\$ 24,943	4.4094	\$ 109,972
JPY	429,531	0.2324	99,823
USD	1,276	30.71	33,491
EUR	83	0.2324	<u>2,718</u>
			<u>\$ 246,004</u>

Financial liabilities

Monetary items			
USD	7,656	30.71	\$ 235,116
JPY	113,744	0.2324	<u>26,434</u>
			<u>\$ 261,550</u>

December 31, 2021

	<b>Foreign Currency (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (NT\$)</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 24,421	27.68	\$ 675,973
JPY	55,548	0.2405	<u>13,359</u>
			<u>\$ 689,332</u>
Non-monetary items			
Investments accounted for using the equity method			
RMB	23,948	4.34148	\$ 103,970
JPY	316,935	0.2405	76,223
USD	1,149	27.68	23,788
EUR	63	31.32	<u>1,963</u>
			<u>\$ 205,944</u>
<u>Financial liabilities</u>			
Monetary items			
USD	22,294	27.68	\$ 617,098
JPY	250,646	0.2405	<u>60,280</u>
			<u>\$ 677,378</u>

For the years ended December 31, 2022 and 2021, (realized and unrealized) net foreign exchange gains (losses) were \$36,644 thousand and \$7,884 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of functional currencies.

## 32. SEPARATELY DISCLOSED ITEMS

### a. Information about significant transactions and b. investees

- 1) Financing provided to others: No
- 2) Endorsements/guarantees provided: No
- 3) Marketable securities held: Table 1 (attached)
- 4) Marketable securities acquired and disposed of at costs or prices at least NT\$300 million or 20% of the paid-in capital: No
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: No
- 6) Disposals of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: No
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 2 (attached)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
- 9) Trading in derivative instruments: No

### b. Information on investees (Table 4)

### c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Tables 5 (attached)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: No
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - c) The amount of property transactions and the amount of the resultant gains or losses.
  - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

- e) The highest period balance, the end of period balance, the interest rate range, and total current period interest with respect to the financing of funds.
  - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.
- d. Information on major shareholders: Shareholders' name holding amounts and ratio whose holding ratio exceed 5%: NA



TABLE 1

**INNOCARE OPTOELECTRONICS CORPORATION**

MARKETABLE SECURITIES HELD  
DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	Units	December 31, 2022			Note
					Carrying Amount	Percentage of Ownership	Fair Value	
Ninbo Innolux Electronics Ltd.	Beneficiary certificate Chang Jiang Sheng Shim Ru Yi Serials A congregate group pension plan	None	Financial assets at fair value through profit or loss	60,129,306,048	\$ (RMB thousand)	272 61 thousand)	\$ (RMB thousand)	(Note)

Note: RMB1=\$4,4094 as of December 31, 2022.

**INNOCARE OPTOELECTRONICS CORPORATION**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2022**  
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	
InnoCare Optoelectronics Corporation	InnoCare Corporation	Parent entity	Purchase	\$ 481,403	61	Net 90 days from the end of the month	-	-	\$ (131,258)	38
InnoCare Optoelectronics Japan Co., Ltd.	InnoCare Optoelectronics Japan Co., Ltd.	Subsidiary	Sale	676,264	41	Net 60 days from the end of the month	-	-	240,817	40
InnoCare Optoelectronics Corporation Ltd.	InnoCare Optoelectronics Corporation	Parent entity	Purchase	676,264	86	Net 60 days from the end of the month	-	-	(240,817)	69
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics USA, INC.	Subsidiary	Sale	394,403	24	Net 60 days from the end of the month	-	-	67,105	11
InnoCare Optoelectronics USA, INC.	InnoCare Optoelectronics Corporation	Parent entity	Purchase	394,403	100	Net 60 days from the end of the month	-	-	(67,105)	19
InnoCare Optoelectronics Corporation	Ninbo Innolux Electronics Ltd.	Subsidiary	Sale	227,435	14	Net 60 days from the end of the month	-	-	43,082	7
Ninbo Innolux Electronics Ltd.	InnoCare Optoelectronics Corporation	Parent entity	Purchase	227,435	87	Net 60 days from the end of the month	-	-	(43,082)	12

**TABLE 3**

**INNOCARE OPTOELECTRONICS CORPORATION**

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 DECEMBER 31, 2022  
 (In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss	Note
					Amount	Actions Taken			
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	Subsidiary	\$ 240,817	5.99	\$ 5,461	Subsequent collection	\$ 123,037	\$ -	

TABLE 4

**INNOCARE OPTOELECTRONICS CORPORATION**

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE YEAR ENDED DECEMBER 31, 2022**  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount December 31, 2022	December 31, 2021	Balance as of December 31, 2022		Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
						Shares (in Thousands)	Percentage of Ownership			
InnoCare Optoelectronics Corporation	InnoCare Optoelectronics Japan Co., Ltd.	Japan	Distribution company	\$ 87,149	\$ 87,149	30,010	100	\$ 25,604	\$ 25,604	Subsidiary
	InnoCare Optoelectronics USA, INC.	U.S.A.	Distribution company	27,963	27,963	900,000	100	3,783	3,783	Subsidiary
	InnoCare Optoelectronics Europe B.V.	Netherlands	After-sales service company	1,662	1,662	500	100	640	640	Subsidiary

Note: For information on investee companies in mainland China, refer to Table 5.

**INNOCARE OPTOELECTRONICS CORPORATION**

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. Name of the investees in mainland China, main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment income or loss, ending balance of investment, dividends remitted by the investee, and the limit of investment in mainland China:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 1)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2022 (In Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2022 (In Thousand)	Investee Company Current Net Income	Percentage of Ownership	Investment Income (Loss) Recognized (Note 2)	Carrying Amount as of December 31, 2022	Accumulated Inward Remittance of Earnings as of December 31, 2022
					Outflow	Inflow						
Ninbo Immolux Electronics Ltd.	Manufacturing and selling of medical equipment	\$ (RMB) 67,772 15,370 (thousand)	Direct investing in mainland China	\$ 90,337 (US\$ 3,172 thousand)	-	\$ -	\$ 90,337 (US\$ 3,172 thousand)	\$ 4,415	100	\$ 4,415	\$ 109,972	\$ -

2. The limited amounts of the investment in mainland China

Accumulated Investment in Mainland China as of December 31, 2022 (Note 1)	Investment Amount Authorized by the Investment Commission, MOEA (Note 1)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
\$97,412 (US\$3,172 thousand)	\$97,412 (US\$3,172 thousand)	\$489,973

Note 1: US\$1=\$30.71; RMB1=\$4.4094 as of December 31, 2022.

Note 2: The investees' financial statements which were used as the basis for calculating investment gains (losses) recognized have all been audited.

Note 3: The limit stated in the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjustment Rule", is the Company's the higher net asset value or 60% of its consolidated net asset value.