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# **National Aerospace Fasteners Corporation**

*National Aerospace Fasteners Corporation*

# **2022 Annual Report**

**Printing date: March 31, 2023**

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- V. Name of transaction location for overseas marketable stock listing transaction and method for inquiring the information of such overseas marketable stock: None
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# National Aerospace Fasteners Corporation

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# One. Report to shareholders

Ladies and gentlemen:

Due to the release of the borders and the liberation of travel restrictions by each country in 2022, the global aviation passenger capacity is gradually climbing and it has contributed to the continuous increase of the customer's overall demands. In 2022, the amount of the collective revenue of National Aerospace Fasteners Corporation (hereunder briefed as this Company) is a sum of NT\$21.92 billion, which represents an increase of 53.76% when compared to NT\$14.26 billion in 2021. As a result, the after-tax net profit is a sum of NT\$149 million in 2022, representing NT\$2.85 of after-tax profit per share.

Financial performance

Expressed in thousands of New Taiwan

Dollars

Year	2022	2021	Increase/decrease amount	Change ratio (%)
Item				
Net revenue amount	2,192,921	1,426,205	766,716	53.76%
Operating costs	(1,681,287)	(1,260,117)	421,170	33.42%
Gross profit	511,634	166,088	345,546	208.05%
Operating expenses	(384,786)	(283,261)	101,525	35.84%
Operating gains (and losses)	126,848	(117,173)	244,021	208.26%
Non-operating revenue and expenses	18,206	11,804	6,402	54.24%
Income tax (expenses) profit	4,921	8,640	(3,719)	-43.04%
Current-term net income (loss)	149,975	(96,729)	246,704	255.05%
After-tax profit (loss) per share	2.85	(1.84)	4.69	254.89%

Operation overview, technical development prospect

Operation overview

Based on the global aviation development forecast information provided by Boeing and Airbus for the following 20 years (2022~2041), it is estimated that the new aircraft demand and the turnover demand are 41,170 units and 39,490 units respectively. If indicated the future aviation industry in the following 20 years is showing stabilized growing trend. As such, it will also bring about continuous growth in the aerospace parts manufacturing market.

In spite of this, affected by the Russia-Ukraine War, significant price increases are seen in global raw materials and energy that have led to the climbing of raw material costs of this company and longer material delivery time. As such, it would take some more time for the raw material upstream supply chain to recover the overall aerospace supply chain ecology from the change of the post-epidemic era.

Nonetheless, the overall revenue performance of this Company in 2022 has been restored to 75%~80% of that before the epidemic.

Technical development aspect:

1. Smart manufacturing: It will be developed continuously towards vertical integration and smart-based automated manufacturing. Driven by the Big Data collected from the privately implemented automation equipment and the smart-based monitoring system, we introduced the AI smart manufacturing technology to key process gradually, including defect and anomaly monitoring, tool life, and product quality monitoring. Currently, we have deployed 3 smart-based production lines.
2. Aerospace market: Despite the impact of the epidemic, we are able to introduce 500~800 new products each year.

3. Automotive industry market: By working with the vehicle factories and the Tier-1 vendors, we continued the research and development of custom-made parts for specific application demands.

Future challenges and prospect:

With the mitigated global epidemic and the cancellation of border control, the demand of global aviation market is also gradually recovering. Although the supply chain is affected by the Russia-Ukraine War, the energy and labor shortages and the climbing of raw material prices, this Company is able to turn the loss into profit in 2022 under the joint efforts of our Operation Team. Driven by this, we are aiming to serve as the key supplier of global aviation parts in order to secure the maximum profit for all of our shareholders.

## Two. Introduction of the company

### I. Incorporation date: October 14, 1997

### II. Company Background

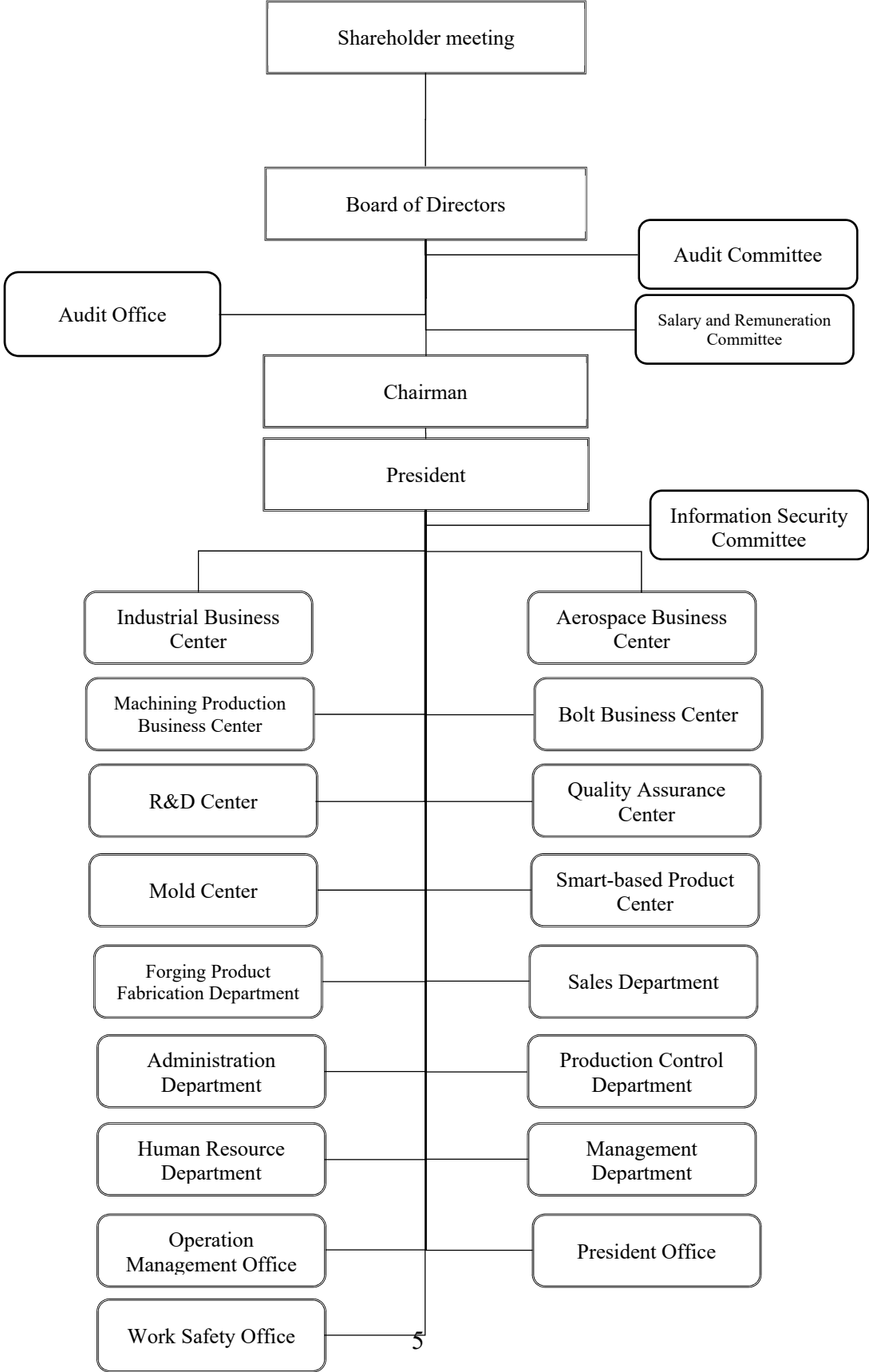
October 1997	This company is jointly established by an American technical team specializing in the aerospace fastener manufacturing and a local enterprise group. The initially registered capital fund is NT\$800 million and the paid-in capital is a sum of NT\$200 million in total. This Company is mainly engaging in the manufacturing of fastener products for aerospace, electronic and high-level industrial sectors. In the same year, we purchase the plant house located in Ping Zhen City, Taoyuan for use as the manufacturing base.
September 1998	Completed the factory erection.
December 1999	Collected a further NT\$120 million fund through cash capital increase and the paid-in capital is therefore increased to NT\$420 million in which, 7% of equity is invested by Groupe Dassault, France (the Mirage 2000 fighter jet manufacturer). The increased fund is mainly used for purchasing the land, erecting the plant houses and buying new machines and equipment, etc.
April 2000	Awarded the “Comments for Distribution of Stocks by Technological Industry and Success in Product Development and Marketability” issued by Industrial Development Bureau (IDB), Ministry of Economic Affairs, which has permitted that this Company is applicable for the technological business for distributing the stocks publicly with the qualification of technological industry.
June 2000	Secured a land lot located at Sub-section Dongshi of Section Dongshi in Ping Zhen City, Taoyuan County for the purpose of expanding the plant.
April 2001	Attained “GE Aircraft Engine” certification in serving as the only aerospace fastener manufacturer being recognized by GEAE in the Asian-Pacific Region.
May 2001	New plant was completed.
June 2001	Collected further NT\$180 million fund through cash capital increase and the paid-in capital is therefore increased to NT\$600 million through which, the government fund and important strategic partner are introduced.
September 2001	The stock market listing application case was approved by Securities and Futures Institute.
February 2002	Launched the official stock market listing in Taiwan Stock Exchange.
June 2003	Attained IHI and French Snecma aerospace certification.
November 2003	Attained AS9100 aerospace quality system certification.
August 2005	Attained ISO/TS-16949 certification.
February 2006	Attained NADCAP certification for special aerospace manufacturing process.
March 2007	Honored with the GE Excellent Supplier Award.
June 2007	Attained NDT NADCAP certification
March 2008	Honored with the Snecma Excellent Supplier Award.
October 2008	Honored with the GE Delivery Award.
November 2008	Changed the company name to “National Aerospace Fasteners Corporation”.
January 2010	Included AS9100 aerospace certification in Plant #2 of this Company.
October 2011	Honored with the “Remarkable Enterprise Social Responsibility Award” in Taiwan Merger Jing Shin Award.

December 2011	Honored with the Snecma Excellent Supplier Award.
February 2012	Established Suzhou Nafco Precision Limited (NSP).
May 2013	To uphold the public service purpose, established National Aerospace Social Charity Fund to fulfill the social responsibility pertaining to the enterprise.
September 2013	Honored with the GE Growth (Systems) Excellence Award.
September 2013	Honored with the GE Innovation Excellence Award.
December 2013	Honored as a TEI 'Class A' Supplier.
March 2015	Honored with the Snecma Supplier Performance Award.
May 2016	Honored as a Pattonair Best New Supplier.
May 2016	Honored by Snecma Quality & Delivery
July 2016	Acquired Ping Zhen Plant #3 through bidding method for which, the land occupies 7,424.43 pings and the plant house occupies 6,637.17 pings .
June 2017	Made the debut in Paris Aviation Show.
August 2017	The laboratory passed the TAF audit and attained ISO/IEC 17025 certification.
December 2017	Honored with the "Taoyuan City 2017 New Resident Friendly Enterprise Award".
November 2018	Honored with Pattonair Special Recognition.
October 2019	Honored with the Safran Supplier Performance Award
October 2019	Attained NADCAP Metallic Materials Manufacturing (MMM) certification
July 2021	Acquired the aerospace forging piece supplier certification qualification from Safran Aircraft Engines, a world-famed aerospace engine manufacturer.
August 2021	Attained ISO45001 certification for occupational safety and health management system.
July 2022	Acquired ISO 27001:2017 accreditation certificate for information security management system.
November 2022	Acquired ISO 14064-1:2018 Greenhouse Gas Verification Statement.

# Three. Company management

## I. Company's organization system

### (1) Organization system



## (2) Businesses operated by each department

Department	Duties
President Office	<ol style="list-style-type: none"> <li>1. Launch annual operation policy, execute annual plan, analyze operation indicators, implement annual operation policy, improve the process, and establish the system.</li> <li>2. Project planning and execution</li> <li>3. Contract preparing, revising, management, and legal affairs management.</li> </ol>
Audit Office	Plan and implement internal control system as well as plan and execute internal audit system.
Aerospace Business Center	<ol style="list-style-type: none"> <li>1. Responsible for the production and manufacturing of aerospace fastener products.</li> <li>2. Execute the product R&amp;D and design, integrate and develop the product specifications, establish the specification as well as revise and review the product process.</li> <li>3. Coordinate the production and the sales, create the tracking system, develop the product plan, analyze the delivered product (for planning the order), and analyze the new business opportunity engagement (for controlling over the direction).</li> </ol>
Industrial Business Center	<ol style="list-style-type: none"> <li>1. Responsible for the manufacturing of industrial, automotive and standard fastener products.</li> <li>2. Execute the product R&amp;D and design, integrate and develop the product specifications, establish the specification as well as revise and review the product process.</li> <li>3. Coordinate the production and the sales, create the tracking system, develop the product plan, analyze the delivered product (for planning the order), and analyze the new business opportunity engagement (for controlling over the direction).</li> </ol>
Machining Production Business Center	<ol style="list-style-type: none"> <li>1. Responsible for the manufacturing of the machining product.</li> <li>2. Execute the product R&amp;D and design, integrate and develop the product specifications, establish the specification as well as revise and review the product process.</li> <li>3. Coordinate the production and the sales, create the tracking system, develop the product plan, analyze the delivered product (for planning the order), and analyze the new business opportunity engagement (for controlling over the direction).</li> </ol>
Bolt Business Center	<ol style="list-style-type: none"> <li>1. Responsible for the manufacturing of bolt fastener products.</li> <li>2. Execute the product R&amp;D and design, integrate and develop the product specifications, establish the specification as well as revise and review the product process.</li> <li>3. Coordinate the production and the sales, create the tracking system, develop the product plan, analyze the delivered product (for planning the order), and analyze the new business opportunity engagement (for controlling over the direction).</li> </ol>
Quality Assurance Center	<ol style="list-style-type: none"> <li>1. Develop and promote the QA policy</li> <li>2. Implement the quality system.</li> <li>3. Develop and execute the calibration system.</li> <li>4. Control and maintain the quality system documents.</li> <li>5. Execute the quality system audit.</li> <li>6. Conduct the education and training for the quality management method.</li> <li>7. Develop and execute the company's quality plan as well as execute the product quality inspection and control.</li> </ol>
R&D Center	Develop and design new products. Integrate the development and develop the respective project.
Smart-based Product Center	<ol style="list-style-type: none"> <li>1. Implement the design core rear-end AI/ML/DL system and platform.</li> <li>2. Execute the data modeling, digging and mode analysis for ML/AI/DL solutions as well as visionary data and software engineering.</li> <li>3. Product equipment operation and maintenance</li> <li>4. Plan the mechanism hardware and electrical control hardware system.</li> <li>5. Design the mechanism and electrical control components.</li> <li>6. Develop and manufacture the automation equipment.</li> <li>7. Collect The Big Data and develop the program.</li> </ol>
Mold Center	<ol style="list-style-type: none"> <li>1. Manufacture and modify the die punching clamps required for developing new product.</li> <li>2. Fabricate and modify the manufactured tool punching jigs.</li> <li>3. Design, fabricate and modify the measuring jigs.</li> <li>4. Fabricate emergency samples.</li> <li>5. Design and fabricate the die jigs required for the fabrication of mass production parts for reducing the cost.</li> <li>6. Without affecting the function, the tool die fabrication is not only simple in machining steps but also reduces the production cost.</li> </ol>

	<ol style="list-style-type: none"> <li>7. Flexible regulation for supporting temporarily urgent works.</li> <li>8. Design, change, and modify the tool die jigs and testers required for the mass production process.</li> </ol>
Sales Department	Expand the business, provide customer service, collect and establish the market information and develop the product sales plan.
Forging Product Fabrication Department	<ol style="list-style-type: none"> <li>1. Forged product manufacturing.</li> <li>2. Product R&amp;D and design, product specifications integration and development, specification establishing, production process modification and review.</li> <li>3. Product and sales coordination, tracking system establishing, production plan developing, delivered product analysis (for planning the order), and new business opportunity engagement analysis (for controlling over the direction).</li> </ol>
Production Control Department	<ol style="list-style-type: none"> <li>1. Production plan scheduling and tracking.</li> <li>2. Production and sales coordination as well as developing the subcontract plan.</li> <li>3. Cutters and tools storage and management.</li> <li>4. Material receiving, warehousing, storage, releasing and account keeping.</li> <li>5. Material Requisition Plan (MRP) launching and inclusion follow-up.</li> <li>6. Finished product receiving and warehousing. Delivery preparation and shipping.</li> <li>7. Warehouse account processing.</li> <li>8. Inventory checking operation planning.</li> </ol>
Administration Department	<ol style="list-style-type: none"> <li>1. Plan and manage the general affairs.</li> <li>2. Plan and manage the medical Office.</li> <li>3. Provide administrative support for and execute all kinds of company's activities, rallies, rituals, ceremony activities, and visitor reception.</li> <li>4. Operate and maintain the public equipment in the factory.</li> </ol>
Management Department	<ol style="list-style-type: none"> <li>1. Purchase and manage the raw materials and parts required for the product.</li> <li>2. Plan the capital fund, report the taxes and accounting process for the respective account.</li> <li>3. Develop and maintain the company's system as well as manage and maintain the hardware and network environment.</li> </ol>
Human Resource Department	Manage the personnel, attendance, recruitment, training and performance evaluation related activities.
Operation Management Office	<ol style="list-style-type: none"> <li>1. Analyze the cost of major capital expenditures (including plant house and equipment).</li> <li>2. The main function of ERP System is to monitor and analyze the joint operation data of the parent company and the subsidiaries.</li> <li>3. Analyze and improve the structure of the company's operating cost (analyze and improve the cost structure and variation for major parts).</li> <li>4. Cost analysis and control for main production materials.</li> <li>5. Plan and design the management system and reports.</li> </ol>
Work Safety Office	Manage the health, work safety, fire-fighting and environmental protection inside the company.
Information Security Committee	<ol style="list-style-type: none"> <li>1. Establish the information security policy and objectives as well as host the Management Review Meeting.</li> <li>2. Supervise the approval and execution of ISMS system and specification.</li> <li>3. Coordinate the resources and distribution required for ISMS.</li> </ol>

II. Information of directors, President, Vice President, Associate General Manager, each department and branch office supervisors

(1) Information of directors

March 27, 2023

Position	Nationality or registration place	Name	Gender/age	Appointment (serving) date	Term of office	Initial appointment date	Shares held when appointed (Note)		Current shares		Shares currently held by spouse and minor children		Shares held under the name of other persons		Main resume (education)	Position in this company and other company.	Other unit chief, director or supervisor in relationship serving as the spouse or within 2nd-degree relative.			Remark (Note 1)
							Shares	Share holding ratio	Shares	Share holding ratio	Shares	Share holding ratio	Shares	Share holding ratio			Position	Name	Relation	
Chairman	Republic of China	Getac Holdings Corporation	-	June 16, 2020	3	April 25, 2008	20,578,174	39.09%	20,578,174	39.08%	-	-	-	-	N/A	N/A	-	-	-	-
	Republic of China	Representative: TSAI, Feng-Tzu	Male Age: 71~80				-	-	30,000	0.06%	-	-	-	-	-	-	Computing and Control Engineering Department at National Jiao Tung University Vice President to Linkytech Co. Ltd. Vice President to Sales Department of Mitac Inc. Vice Chairman to MITAC INTERNATIONAL CORPORATION Chairman/CEO to Getac Holdings Corporation	Chairman to Waffer Technology Corp. Vice Chairman to Getac Holdings Corporation Independent Director of Windbond Electronics Corp. /Member of Salary and Remuneration Committee /Member of Audit Committee	-	-
Director	Republic of China	Representative: MIAO, Hua-Pin	Male Age: 51~60	June 16, 2020	3	April 25, 2008	-	-	-	-	-	-	-	PhD in Management Science of Information Management Department (2021) at Business School of National Cheng Chi University Vice President to Mitac Information Technology Corp.	Vice President to Mitac Inc. Chairman to Mitac Hikari Corporation Chairman to SINO Information Technology Co., Ltd. Vice Chairman to Linde Lienhwa Industrial Gases Co., Ltd. Chairman to May Foong Development Co., Ltd. Director of Getac Holdings Corporation	-	-	-	-	
Director	Republic of China	National Development Fund, Executive Yuan	-	June 16, 2020	3	2001.06.15	3,773,188	7.17%	3,773,188	7.17%	-	-	-	-	N/A	N/A	-	-	-	-
	Republic of China	Representative: ZHU, Song-Chu	Male Age: 61~70				-	-	-	-	-	-	-	-	-	-	PhD at Industrial Engineering and Operation Information Department, Dong Hai University Aerospace Industrial Development Corporation: Chief of Material Department, Chief of Operation Management Department, Chief of Civil Aircraft Department, Special Assistant to Chairman, Chief Administrator of Operation Legal Department, Chief Administrator of Investment Preparatory Office at Chairman Office, Chief of Investment Department	Director of Jung Sheng Precision Ind. Co., Ltd. Chief of Investment Department to Aerospace Industrial Development Corporation	-	-

Position	Nationality or registration place	Name	Gender/age	Appointment (serving) date	Term of office	Initial appointment date	Shares held when appointed (Note)		Current shares		Shares currently held by spouse and minor children		Shares held under the name of other persons		Main resume (education)	Position in this company and other company.	Other unit chief, director or supervisor in relationship serving as the spouse or within 2nd-degree relative.			Remark (Note 1)
							Shares	Share holding ratio	Shares	Share holding ratio	Shares	Share holding ratio	Shares	Share holding ratio			Position	Name	Relation	
Director	Republic of China	MiTac Technology Corporation	-	June 16, 2020	3	April 25, 2008	92	0.00	92	0.00	-	-	-	-	N/A	N/A	-	-	-	-
	Republic of China	Representative: LIN, Wei-Tsun	Male Age: 51~60			June 16, 2020	5,000	0.00	0	0.00	-	-	-	-	Mechanical Engineering Department at National Taipei University of Technology Managing Director of Mitac Precision Technology (Kunshan) Co., Ltd.	President to National Aerospace Fasteners Corporation President to NAFCO Suzhou Precision Co., Ltd.	-	-	-	-
Director	Republic of China	Lien Jie Investment Co., Ltd.	-	June 16, 2020	3	June 19, 2014	425,684	0.81	425,684	0.81	-	-	-	-	N/A	N/A	-	-	-	-
	Republic of China	Representative: HSIEH, Feng-Jen	Male Age: 61~70				-	-	-	-	-	-	-	-	-	Computer Engineering Department at Electrical Institute, University of Southern California Senior Vice President to Getac Holdings Corporation Senior Consultant of Getac Holdings Corporation	N/A	-	-	-
Director	Republic of China	ZHOU, Te-Chien	Male Age: 61~70	June 16, 2020	3	June 9, 2011	-	-	-	-	-	-	-	PhD in Engineering at Rutgers, The State University of New Jersey, New Jersey, U.S.A. Special Investment Assistant to Chairman of MITAC INTERNATIONAL CORPORATION	Director of Harbinger Venture Management Co., Ltd. Director of Synnex Technology International Corporation Director of Mitac Information Technology Corp. Director of Getac Holdings Corporation Supervisor of MiTac Inc. Director of Intech Biopharm Ltd.	-	-	-	-	
Independent Director	Republic of China	CHAO, Hsin-Che	Male Age: 61~70	June 16, 2020	3	June 21, 2018	-	-	-	-	-	-	-	MBA at University of Chicago CEO to Morgan Stanley (Taiwan) President to UBS Group AG	Independent Director of TSRC Corporation Independent Director of HannStar Display Corporation	-	-	-	-	

Position	Nationality or registration place	Name	Gender Age	Appointment (serving) date	Term of office	Initial appointment date	Shares held when appointed (Note)		Current shares		Shares currently held by spouse and minor children		Shares held under the name of other persons		Main resume (education)	Position in this company and other company.	Other unit chief, director or supervisor in relationship serving as the spouse or within 2nd-degree relative.			Remarks (Note 1)
							Shares	Share holding ratio	Shares	Share holding ratio	Shares	Share holding ratio	Shares	Ratio of ownership			Position	Name	Relation	
Independent Director	Republic of China	LI, Li-Hang	Male Age: 71~80	June 16, 2020	3	June 8, 2017	-	-	-	-	-	-	-	-	Master in Industrial Engineering at University of Iowa. Master in Business Management at University of Chicago. Senior Vice President to Bank of America (Asian business) Chief Executive to First Data in The Greater China Area). Chairman and President to Enterprise Development Group (China Area) of American Express Vice President to PayPal (Global Area). General Manager of North Asian Region	N/A	-	-	-	-
Independent Director	Republic of China	WEN, Wang-Shou	Male Age: 61~70	June 16, 2020	3	June 16, 2020	-	-	-	-	-	-	-	-	Electronic Physics Department at National Jiao Tung University CEO to HannStar Display Corporation Chairman of MOBILE MAGIC DESIGN CORPORATION Executive Vice President to Windbond Electronics Corp	Independent Director of Micro Silicon Electronics Corp.	-	-	-	-

Note 1: If the Chairman and the President or the person serving an equivalent position (the highest manager) are the same person, or are spouses or first-degree relatives, please explain the reasons, the rationality, the necessity and the responding actions (e.g. increasing the number of Independent Directors, or, the majority of directors not concurrently serving as employees or managers, etc.)

Note: The data shall be valid up to the ownership transfer cut-off date of Regular Meeting of Shareholders this time, i.e. March 27, 2023 as mentioned in the shareholder list.

**(2) Main shareholder of legal person shareholder**

March 27, 2023

Name of legal person shareholder (Note 1)	Main shareholder of legal person shareholder (Note 2)	Share holding ratio
Getac Holdings Corporation	MITAC INTERNATIONAL CORPORATION	31.39%
	MEI-AN Investment Co., Ltd.	2.53%
	Cathay Life Insurance Co., Ltd.	1.92%
	Farglory Life Insurance Inc.	1.55%
	Fidelity Funds under the trusted custody of Standard Chartered	1.42%
	New labor retirement fund system	1.42%
	Chang Hua Commercial Bank Ltd.	1.35%
	Tse Feng Investment Co., Ltd.	1.28%
	Lien Hwa Industrial Holdings Corp.	1.19%
	Special Investment account offered by Morgan Stanley & Co. under the trusted custody of HSBC (Taiwan)	1.16%
	National Development Fund, Executive Yuan	In view that the “Sino-America Economical & Social Development Fund” carries the similar nature to the “National Development Fund”, both funds were combined by the Executive Yuan in 2006 according to “Regulations Governing the Management of Central Government Special Fund” and the “National Development Fund Management Board, Executive Yuan” was organized for handling the fund management and implementation. At this stage, Mr. GONG, Ming-Shin, the Chief Member of National Development Board” is appointed for serving as the convener of “National Development Fund Management Board”, with Ms. WANG, Mei-Hua, Minister of Ministry of Economic Affairs, served as the Deputy Convener. In the meantime, the chiefs of other sectors, scholars, and experts are also invited to serve as the members of the Management Board. In total, the Management Board comprises 12 members.
Getac Corporation	Getac Holdings Corporation	100.00%
Lien Jie Investment Co., Ltd.	MITAC INTERNATIONAL CORPORATION	49.98%
	Getac Holdings Corp.	49.98%
	Harbinger Venture Management Co., Ltd.	0.04%

Note 1: If the director or the supervisor is represented by the legal person shareholder, please indicate the name of the legal person shareholder.

Note 2: Please indicate the name and the Ratio of ownership of the main shareholder (with the Ratio of ownership ranked among the Top 10) of such legal person shareholder. If the main shareholder belongs to the legal person, please fill out the following form.

## (3) If the main shareholder belongs to a legal person, please indicate such main shareholder

March 27, 2023

Name of legal person (Note 1)	Main shareholder of legal person (Note 2)	
	Name of shareholder	Share holding ratio
MITAC INTERNATIONAL CORPORATION	MiTAC Holdings Corporation	100.00%
MEI-AN Investment Co., Ltd.	Vision Quest Overseas Ltd.	82.25%
	JumpStart Investments Ltd.	16.67%
	Others	1.08%
	Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co., Ltd.
Farglory Life Insurance Inc. (Note 4)	Shin Yu Investment Ltd.	19.00%
	Farglory Land Development Co., Ltd.	12.48%
	Yuan Jien Investment Co., Ltd.	8.91%
	CHAO, Teng-Hsiung	8.49%
	Harvard International Investment Co., Ltd.	6.71%
	Ruei Chi International Investment Co., Ltd.	6.43%
	Farglory International Investment Co., Ltd.	6.43%
	YIE, Jung-Yao	5.96%
	CHAO, Yu-Niu	5.77%
	Dong Yuan Construction Co., Ltd.	5.63%
	Chang Hua Commercial Bank Ltd. (Note 4)	Taishin Financial Holding Co., Ltd.
Ministry of Finance		12.19%
Chunghwa Post. Co., ltd.		6.00%
First Commercial Bank Co., Ltd.		3.86%
National Development Fund, Executive Yuan		2.75%
EXCEL Chemical Corporation		2.60%
Taiwan Tobacco & Liquor Corporation		1.77%
Taiwan Cooperative Bank		1.45%
Hua Nan Commercial Bank Ltd.		1.45%
New labor retirement fund system		1.33%
Tse Feng Investment Co., Ltd.	MITAC INTERNATIONAL CORPORATION	100.00%
Lien Hwa Industrial Holdings Corp. (Note 4)	UPC Technology Corporation	9.68%
	Yi Yuan Investment Co., Ltd.	9.14%
	Yi Feng Investment Co., Ltd.	4.86%
	CHOU, Tsu-An	3.32%
	MIAO, Feng-Chiang	3.19%
	MIAO, Feng-Chuan	3.02%
	Yu Shiu Education Foundation, a legal entity	3.00%
	MIAO, Feng-Sheng	2.98%
	Employee Welfare Committee of Lien Hwa Industrial Holdings Corp.	2.82%
	MITAC INTERNATIONAL CORPORATION	2.79%
Harbinger Venture Management Co., Ltd.	Parawin Venture Capital Corp.	19.99%
	Taiwan Union International Investment Corporation	19.99%

	Synnex Technology International Corporation	19.99%
	Tse Feng Investment Co., Ltd.	19.99%
	Lien Jie Er Investment Co., Ltd.	19.99%
	ZHOU, Te-Chien	0.05%

Note 3: It means the information available up to March 27, 2023.

Note 4: Means the latest information available until the annual report printing date (Apr/19/2022 and Apr/30/2022)

#### (4) Information of directors

##### 1. Disclosure of professional qualification for directors and independency information of independent director:

Name	Conditions	Professional qualification and experience (Note 1)	Independency conditions (Note 1)	Number of independent directors served for other public offering companies at the same time.
Getac Holdings Corporation Representative: TSAI, Feng-Tzu		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of aerospace industry, IT channel deployment, global production, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (3)(6)(7)(9)(10)(11)	1
Getac Holdings Corp. Representative: MIAO, Hua-Pin		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of IT channel deployment, global production, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (1)(3)(4)(6)(7)(8)(9)(10)(11)	N/A
Representative of National Development Fund, Executive Yuan: ZHU, Song-Chu		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of aerospace industry, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)	N/A
MiTac Technology Corporation Representative: LIN, Wei-Tsun		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of aerospace industry, global production, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (2)(3)(4)(5)(6)(7)(8)(9)(10)(11)	N/A
Lien Jie Investment Co., Ltd. Representative: HSIEH, Feng-Jen		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of aerospace industry, IT channel deployment, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)	N/A
ZHOU, Te-Chien		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of IT channel deployment, global production, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)(12)	N/A
CHAO, Hsin-Che		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of financial and technologic industries, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)(12)	2
LI, Li-Hang		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of financial and technologic industries, global production, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)(12)	N/A
WEN, Wang-Shou		Possessing over 5 years of working experiences as well as the experience required for the commercial, legal, financial, accounting or company's business operation. Possessing the operation ability in the field of technologic industry, global production, business operation, joint venture, strategic alliance and venture investment, etc.	Meet the independency conditions. (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)(12)	1

##### Note 1

- (1) Employees not hired by the company or its affiliates.
- (2) Directors and supervisors not appointed by the company or its affiliates (except where the company or its parent company, subsidiary or the subsidiary under the same parent company or where it is mutually served by the independent directors being appointed according to this Act or the laws of the local country).
- (3) Natural person shareholders holding over 1% of the distributed shares or who are ranked among the Top 10 shareholders and where the shares are not registered under the name of the principal and its spouse, minor children or others.
- (4) Managers not listed in (1) or the spouse or the relatives within the second degree or the direct blood relative within the third degree as being listed in (2) and (3).
- (5) Directors, supervisors or employees of the legal person shareholder that is indirectly holding over 5% of the total shares being distributed by the company, or that is ranked among the Top 5 in share ownership, or where such person is being appointed to serve as the company's director or supervisor (except when it is the company or its parent company, subsidiary or the subsidiary under the same parent company or where it is mutually served by the

- independent directors being appointed according to this Act or the laws of the local country).
- (6) Directors, supervisors or employees of another company that is not controlled by the same person who is the director of the company or who is holding more than half of shares entitled to the voting right (except when it is the company or its parent company, subsidiary or the subsidiary under the same parent company or where it is mutually served by the independent directors being appointed according to this Act or the laws of the local country).
  - (7) The director (director member), supervisor (supervisor member) or employee of another company or entity that is not the same person as or the spouse of the company's Chairman, President or the person serving the equivalent position (except when it is the company or its parent company, subsidiary or the subsidiary under the same parent company or where it is mutually served by the independent directors being appointed according to this Act or the laws of the local country).
  - (8) The company or the director (director member), supervisor (supervisor member, manager or the shareholder holding more than 5% of shares, who has not engaged in the financial or business deals with the company (except where such specific company or the entity is holding more than 20% up to 50% of the shares distributed by the company and where the independent director is appointed by the company and its parent company, subsidiary or the subsidiary of the same parent company according to this Act or local laws at the same time).
  - (9) The professional person, the corporate owner running the business in sole proprietorship, partner, company or entity type, the partner, director (director member), supervisor (supervisor member), manager and its spouse that is engaging in the commercial, legal, financial and accounting services, who is not providing the audit service for the company or its affiliate or where the accumulated remuneration being received is less than NT\$500,000 during the past two years. Except for the members of Salary and Remuneration Committee, Public Acquisition Review Committee or Special Merger Committee who are executing their duties according to Securities and Exchange Act or Business Mergers and Acquisitions Act.
  - (10) The person that is neither the spouse nor a relative within the 2<sup>nd</sup> degree with other directors.
  - (11) The person that is not engaging in the matters specified in the applicable clauses under Article 30 of the Company Act.
  - (12) The person that is not appointed by the government, legal person or its representative according to the regulations specified in Article 27 of the Company Act.

## 2. Diversity and independency of Board of Directors

- (1) Diversity of Board of Directors: Specify the diversity policy of the Board of Director together with the target and result. The diversity policy shall include but is not limited to the director selection standard, the professional qualification and experience pertaining to the Board of Directors as well as the organization conditions or percentage in the aspects of gender, age, nationality, and culture. In the meantime, the aforesaid policy shall also define the substantial target and its accomplishing status for the company.

### Diversity policy

In terms of the structure of the Board of Directors of this Company, over 5 persons shall be appointed to serve as the directors according to the scale of the company's operation development, the share-owning status of main shareholders, and practical business operation.

The diversity will be considered when appointing the members of the Board of Directors. Except that the directors serving as the company manager at the same time shall not be over 1/3 of the director positions, appropriate diversity approaches shall be determined according to the company's operation status, operation pattern and development requirements. It shall include but is not limited to the standard established for the following two aspects:

1. Basic conditions and value: Gender, age, nationality and culture for which, the ratio of female directors shall account for one-third of the director positions.
2. Professional knowledge and skills: Professional background (e.g. legal, accounting, industry, finance, marketing or technology), know-how and industrial experiences, etc.

The members of the Board of Director shall possess the knowledge, skills and proficiency required for executing the duties. To achieve the ideal target for the company operation, provided below is the ability that should be possessed by the Board of Directors:

1. Operation judgment ability
2. Accounting and financial analysis ability
3. Operation management ability
4. Crisis responding ability
5. Industrial knowledge
6. International market prospect
7. Leadership
8. Decision making ability

### Physical management objectives

In Chapter 3: "Reinforcing the competence of Board of Directors" under "Practical Company Operation Rules", the diversified approaches have been established and detailed content is disclosed in the company's website.

The nomination and the selection of the members of the Board of Directors are established according to the company rules for which, the candidate nomination system is adopted. In addition to evaluating the education and working experience qualification of each candidate, they are also required to comply with the requirements specified in "Director Selection Procedure" and "Practical Company Operation Rules" to ensure the diversity and the independency of the director members.

### Current accomplishment and the overall ability pertaining to the Board of Directors

1. In this Company, the Board of Directors is composed by 6 directors and 3 independent directors. Described below is the physical management objectives of the Board of Directors diversity and the execution status:

(1) The main focus of this Company is on the operation judgment ability, operation management, and crisis responding ability. For this purpose, more than half of the directors shall have the ability in handling the core items:

Operation judgment ability: 9/9(100%) – operation management ability: 9/9(100%) – crisis responding ability: 9/9(100%).

(2). Ratio of independent directors: 3/9(33%).

(3). There isn't more than half of the directors are serving as employees and managers concurrently in order to realize the supervisory purpose. The ratio of the directors serving as an employee: 2/9(22%).

2. The members of the Board of Directors shall have rich experience and specialty in the field of finance, business and management. Provided below is the execution status:

Position	Name	Gender	Age	Nationality	Co-acting as the employee	Term of office for independent director			Professional background	Operation judgment ability	Accounting and financial analysis ability	Operation management ability	Crisis responding ability	Industrial knowledge			International market prospect	Leadership	Decision making ability
						Below 3 years	3 years to 9 years	Over 9 years						Technology	Venture	Finance			
Chairman	TSAI, Feng-Tzu	Male	>50	Republic of China	V				Industry	V	V	V	V	V	V		V	V	V
Director	MIAO, Hua-Pin	Male	>50	Republic of China					Industry	V	V	V	V	V	V		V	V	V
Director	ZHU, Song-Chu	Male	>50	Republic of China					Industry	V	V	V	V	V			V	V	V
Director	LIN, Wei-Tsun	Male	>50	Republic of China	V				Industry	V	V	V	V	V			V	V	V
Director	HSIEH, Feng-Jen	Male	>50	Republic of China					Industry	V		V	V	V			V	V	V
Director	ZHOU, Te-Chien	Male	>50	Republic of China					Industry	V	V	V	V	V	V		V	V	V
Independent Director	CHAO, Hsin-Che	Male	>50	Republic of China		V			Finance	V	V	V	V	V	V	V	V	V	V
Independent Director	LI, Li-Hang	Male	>50	Republic of China			V		Finance	V	V	V	V	V	V	V	V	V	V
Independent Director	WEN, Wang-Shou	Male	>50	Republic of China		V			Industry	V	V	V	V	V			V	V	V

(2) Interdependency of Board of Directors: Define the number and the Ratio of the directors together with the independence of the Board of Directors. In the meantime, reasons shall also be provided to explain if involved is any event specified in Item 3 and Item 4 under Article 26-3 of "Securities and Exchange Act", including an explanation on whether the relationship of spouses or relatives within the 2<sup>nd</sup> degree exist between directors, supervisors and between directors and supervisors.

Currently, the Board of Directors of this Company is composed of 6 directors and 3 independent directors (33%), and the relative relationship specified in Item 3 and Item 4 under Article 26-3 of "Securities and Exchange Act" does not exist between. In the meantime, the Audit Committee is also organized by this Company to exercise their duties independently.

**(5) Information of the President, Vice President, Associate General Manager as well as the unit chief of each department and branch offices**

March 27, 2023

Position (Note 1)	Nationality	Name	Gender	Selection (Appointment) date	Shares owned		Shares owned by spouse and minor children		Shares held under the name of other persons		Main working experience (education) (Note 2)	Co-acting duties served in other company	Manager possessing the spouse or within 2- degree relative relationship			Remarks (Note 3)
					Shares	Share holding ratio	Shares	Share holding ratio	Shares	Share holding ratio			Position	Name	Relation	
President	Republic of China	LIN, Wei- Tsun	Male	January 01, 2019	-	-	-	-	-	-	Mechanical Engineering Department at National Taipei University of Technology Managing Director to MPT punching department of Getac Group Vice President to National Aerospace Fasteners Corporation	President to NAFCO Suzhou Precision Co., Ltd.	-	-	-	-
Vice President	Republic of China	LI, Jia-Jui	Male	August 18, 2008	64,443	0.12%	2,127	0.00%	-	-	PhD in physics at William & Mary, U.S.A. QA Leader to Aerospace Center, ITRI	-	-	-	-	-
Vice President and Accounting Supervisor	Republic of China	LI, Wen- Cheng	Male	September 05, 2008	-	-	-	-	-	-	Audit Supervisor and Finance/Accounting Supervisor to National Aerospace Fasteners Corporation	Supervisor of NAFCO Suzhou Precision	-	-	-	-
Vice President	Republic of China	CHANG, Ya-Chu	Female	March 01, 2022	3,000	0.01%	-	-	-	-	Master in inter-culture communication at Université Paris VIII News Department at Shih Hsin University	-	-	-	-	-

Note 1: Including the information of the President, Vice President, Associate General Manager as well as the unit chief of each department and branch offices, together with the information of the personnel serving the position equivalent to President, Vice President or Associate General Manager regardless of the title.

Note 2: The experience related to the position currently served. If such person has served in the audit and CPA office or its affiliate during the aforesaid period, then describe the position and the duties being served.

Note 3: In the event the President or person (the Highest Manager) serving the equivalent position is the Chairman or the spouse of the Chairman or is a 1<sup>st</sup> degree relative, then explain the reasons, rationality, necessity, and responding actions (e.g. increasing the number of Independent Directors, and, ensuring the majority of directors are not concurrently serving as employees or managers, etc.)

Note 4: The shareholder list up to the ownership transfer cut-off date (March 27, 2023) of the Regular Meeting of Shareholders this time.

**III. Remuneration for directors, President and Vice President**  
**(1) Remuneration for general directors and independent directors**

Remuneration for general directors and independent directors: 2022; unit: NTD: thousand/ thousand shares

Position	Name	Remuneration for directors								Total amount for Item A, B, C and D and the percentage (%) of after-tax net profit (net loss).		Remuneration for co-acting employee.						Total amount for Item A, B, C, D, E, F and G and the percentage (%) of after-tax net profit (net loss).		The remuneration received from the reinvestment or the parent company other than the subsidiaries.		
		Remuneration (A)		Severance pension (B)		Director remuneration (C) (Note 1)		Business execution expenses (D)		Salary, bonus and special allowance (E)		Severance pension (F)		Employee remuneration (G)				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						
														Cash amount	Stock amount	Cash amount	Stock amount					
Chairman	Getac Holdings Corporation Representative: TSAI, Feng-Tzu																					
Director	Representative: MIAO, Hua-Pin																					
Director	National Development Fund, Executive Yuan Representative: ZHU, Song-Chu	-	-	-	-	830	830	1,351	1,351	1.45	1.45	3,700	3,700	-	-	-	-	-	-	3.92	3.92	992
Director	MiTac Technology Corporation Representative: LIN, Wei-Tsun																					
Director	Lien Jie Investment Co., Ltd. Representative: HSIEH, Feng-Jen																					
Director	ZHOU, Te-Chien																					
Independent Director	LI, Li-Hang																					
Independent Director	CHAO, Hsin-Che	-	-	-	-	780	780	1,488	1,488	1.51	1.51	-	-	-	-	-	-	-	-	1.51	1.5	-
Independent Director	WEN, Wang-Shou																					

Note 1: Please describe the payment policy, system, standard and structure relating to the independent director remuneration as well as the correlation between the amount of remuneration and the factors that should be assumed such as duties, risks and invested time.

When paying the director's remunerations, in addition to the director's performance evaluation result and the requirements specified in the company rules, the Board of Directors is also authorized to determine such remunerations according to the suggestions of Salary and Remuneration Committee, the extent of engaging in the company's operation and the salary paying method practiced by other companies and this Company.

Note 2: Apart from the disclosure through the aforesaid table, the remuneration received by the directors for the services provided in recent year (for example, serving as the non-employee consultant for the parent company, all companies mentioned in the Financial Report and reinvested business): None

Remuneration grade table

Grade of remuneration paid to each director of the company	Director name			
	Total amount of remunerations from the aforesaid 4 items (A+B+C+D)		Total amount of remunerations from the aforesaid 4 items (A+B+C+D+E+F+G)	
	The Company	All companies mentioned in the Financial Report H	The Company	All companies mentioned in the Financial Report I
Less than \$1,000,000.00	Getac Holdings Corporation: TSAI, Feng- Tzu, MIAO, Hua-Pin; National Development Fund, Executive Yuan: ZHU, Song-Chu; MiTac Technology Corporation: LIN, Wei-Tsun; Lien Jie Investment Co., Ltd.: HSIE, Feng-Jen/CHOU, Der-Chien/ZHAO, Shin-Tser/LI, Li-Hang/WEN, Wang-Shou	Getac Holdings Corporation: TSAI, Feng- Tzu, MIAO, Hua-Pin; National Development Fund, Executive Yuan: ZHU, Song-Chu; MiTac Technology Corporation: LIN, Wei-Tsun; Lien Jie Investment Co., Ltd.: HSIE, Feng-Jen/CHOU, Der-Chien/ZHAO, Shin-Tser/LI, Li-Hang/WEN, Wang-Shou	Getac Holdings Corporation: TSAI, Feng- Tzu, MIAO, Hua-Pin; National Development Fund, Executive Yuan: ZHU, Song-Chu; MiTac Technology Corporation; Lien Jie Investment Co., Ltd.: HSIE, Feng-Jen/ZHOU, Te-Chien/ZHAO, Shin-Tser/LI, Li-Hang/WEN, Wang-Shou	Getac Holdings Corporation: TSAI, Feng- Tzu, MIAO, Hua-Pin; National Development Fund, Executive Yuan: ZHU, Song-Chu; MiTac Technology Corporation; Lien Jie Investment Co., Ltd.: HSIE, Feng-Jen/ZHOU, Te-Chien/ZHAO, Shin-Tser/LI, Li-Hang/WEN, Wang-Shou
\$1,000,000 (including) ~ \$2,000,000 (excluding)				
\$2,000,000 (including) ~ \$3,500,000 (excluding)			LIN, Wei-Tsun	LIN, Wei-Tsun
\$3,500,000 (including) ~ \$5,000,000 (excluding)				
\$5,000,000 (including) ~ \$10,000,000 (excluding)				
\$10,000,000 (including) ~ \$15,000,000 (excluding)				
\$15,000,000 (including) ~ \$30,000,000 (excluding)				
\$30,000,000 (including) ~ \$50,000,000 (excluding)				
\$50,000,000 (including) ~ \$100,000,000 (excluding)				
Over \$100,000,000				
Grand Total	13	13	13	13

Note 1: The amount that should be distributed as being approved by the Board of Directors in the most recent year and will be reported to the Regular Meeting of Shareholders.

Note 2: The content of the remuneration disclosed in this form is different from the income concept specified in the Income Tax Act. Therefore, this form is mainly used for disclosing the information and will not be used for the purpose of taxation.

**(2) Remuneration for President and Vice President** 2022; unit: NTD: thousand/ thousand shares

Position	Name	Salary (A)		Severance pension (B)		Bonus and special allowance (C)		Amount of employee remuneration (D)				Total amount for Item A, B, C and D and the percentage (%) of after-tax net profit (net loss).		The remuneration received from the reinvestment or the parent company other than the subsidiaries.
		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	LIN, Wei-Tsun													
Vice President	LI, Jia-Jui													
Vice President and Accounting Supervisor	LI, Wen-Cheng (Note 1)	9,868	9,868	-	-	855	855	-	-	-	-	10,723 7.15%	10,723 7.15%	-
Vice President	CHANG, Ya-Chu (Note 1)													
Vice President	LI, Yu-Cheng (Note 2)													

**Remuneration grade table**

Grade of the remunerations paid to each President and Vice President of this Company.	Name of President and Vice President	
	The Company	All companies in the Financial Report
Less than \$1,000,000.00		
\$1,000,000 (including) ~ \$2,000,000 (excluding)	LI, Jia-Jui/ CHANG, Ya-Chu/ LI, Wen-Cheng/ LI, Yu-Cheng	LI, Jia-Jui/ CHANG, Ya-Chu/ LI, Wen-Cheng/ LI, Yu-Cheng
\$2,000,000 (including) ~ \$3,500,000 (excluding)	LIN, Wei-Tsun	LIN, Wei-Tsun
\$3,500,000 (including) ~ \$5,000,000 (excluding)		
\$5,000,000 (including) ~ \$10,000,000 (excluding)		
\$10,000,000 (including) ~ \$15,000,000 (excluding)		
\$15,000,000 (including) ~ \$30,000,000 (excluding)		
\$30,000,000 (including) ~ \$50,000,000 (excluding)		
\$50,000,000 (including) ~ \$100,000,000 (excluding)		
Over \$100,000,000		
Grand Total		

Note1: Appointed on March 01, 2022

Note 2: Dismissed on February 02, 2023

Note 3: The content of the remuneration disclosed in this form is different from the income concept specified in the Income Tax Act. Therefore, this form is mainly used for disclosing the information and will not be used for the purpose of taxation.

**(3) Name of managers entitled to employee remunerations and the distribution result**

	Position	Name	Stock amount	Cash amount	Grand Total	Ratio of total amount from the after-tax net profit (%)
Manager	President	LIN, Wei-Tsun	-	-	-	-
	Vice President	LI, Jia-Jui				
	Vice President and Accounting Supervisor (Note 1)	LI, Wen-Cheng				
	Vice President (Note 1)	CHANG, Ya-Chu				
	Vice President (Note 2)	LI, Yu-Cheng				

Note1: Appointed on March 01, 2022

Note 1: Dismissed on February 02, 2023

**(4) They are compared respectively. Its purpose is to analyze the ratio of the total remunerations, as being paid to the directors, supervisors, presidents, and vice presidents during the past two years, in the after-tax net profit that is specified in the individual finance report. In the meantime, it also explains the policy, standard, and portfolio established for the remuneration payment, the remuneration paying procedure, and its correlation with the operational performance and the future risks.**

(1) The analysis on the Ratio of the total remunerations, as being paid to the directors, supervisors, presidents, and vice presidents during the past two years, in the after-tax net profit that is specified in the individual finance report. :

Item Position	2022		2021		Increase/decrease percentage (%)
	The Company	Combine the reports prepared by all companies.	The Company	Combine the reports prepared by all companies.	
Director	5.43%	5.43%	-8.7774%	-8.7774%	161.86%
President and Vice President	7.15%	7.15%	-6.74%	-6.74%	206.08%

Note: The Audit Committee was organized by this Company on June 26, 2020. Therefore, the duties of the original supervisor have been replaced by the Audit Committee.

(2) The policy, standard and portfolio established for paying the remunerations to the directors and supervisors, together with the remuneration paying procedure, and its correlation with the operation performance and the future risks:

- A. Based on the requirements specified in Article 13-1 of the Company Rules: The Board of Directors is authorized to determine the remunerations that should be paid to the Chairman and the directors according to the suggestions of the Salary and Remuneration Committee, the extent of their engagement in the company operation, the value of contribution, the level of other companies and the salary payment method of this Company.
- B. Based on the requirements specified in Article 18 of the Company Rules: If profit is earned by this Company in that year (i.e. the profit before deducting the remunerations that should be distributed to the employees and directors and supervisors from the pre-tax profit), then over 1% shall be allocated for the Board of Directors to determine the distribution method; however, the percentage for the employee shall not be over 10% and that for the directors and supervisors shall not be over 2%.

(3) The policy, standard and portfolio established for paying the remunerations to the presidents and vice president, together with the remuneration paying procedure and its correlation with the operation performance and the future risks:

- A. The remunerations shall be paid to the president and the vice president of this Company according to their personal performance, the contribution to the overall

operation of the company, industry standards, and the operational risks of the company in the future. By doing so, the Salary and Remuneration Committee shall submit the proposal to the Board of Directors for discussion in order to determine the final result.

- B. Based on the requirements specified in Article of the Company Rules: if profit is earned by this Company in that year (i.e. the profit before deducting the remunerations that should be distributed to the employees, directors and supervisors from the pre-tax profit), then over 1% shall be allocated for the Board of Directors to determine the distribution method; however, the percentage for the employee shall not be over 10% and that for the directors and supervisors shall not be over 2%.

#### IV. Company management operating status

##### (1) Information of Board of Directors operating status

In previous year, 6 sessions of meetings were convened by the Board of Directors (A) and provided below is the presence status of directors:

Position	Name	Number of actual presence (attendance)-B	Number of authorized presence	Actual presence (attendance) rate (%) 【B/A】	Remarks
Director	Getac Holdings Corporation Representative: TSAI, Feng-Tzu	6	-	100.00	
Director	Getac Holdings Corporation Representative: MIAO, Hua-Pin	6	-	100.00	
Director	National Development Fund, Executive Yuan Representative: ZHU, Song-Chu	5	1	83.33	
Director	MiTac Technology Corporation Representative: LIN, Wei-Tsun	6	-	100.00	
Director	Lien Jie Investment Co., Ltd. Representative: HSIEH, Feng-Jen	6	-	100.00	
Director	ZHOU, Te-Chien	6	-	100.00	
Independent Director	LI, Li-Hang	6	-	100.00	
Independent Director	CHAO, Hsin-Che	6	-	100.00	
Independent Director	WEN, Wang-Shou	6	-	100.00	

Other notations:

I. If any of the following events occur to the operation of the Board of Directors, please explain the Board of Directors date, session, discussion content, the comments of all independent directors, and company's solutions for the comments raised by the independent directors.

(I) Items listed in Article 14-3 of Securities and Exchange Act:

Board of Directors Date, session	Discussion content	Comments raised by independent directors	Company's solutions for the comments raised by the independent directors.
January 20, 2022 10 <sup>th</sup> Meeting, Session-9	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.	No objections	N/A
	Distribution of bonuses and remuneration for the managers of this Company in 2021.	No objections	N/A
	Distribution of bonuses and remuneration for the president of this Company in 2021.	No objections	N/A
	Distribution of bonuses and remuneration for the Chairman of this Company in 2021.	No objections	N/A
February 22, 2022 11 <sup>th</sup> Meeting, Session-9	Recognition of terminating the lease of the plant located at Kunshan Fenglin Road and the disposition of relevant assets in order to coordinate with the operation planned for NAFCO Suzhou Precision, a subsidiary with 100% of shares owned by this Company.	No objections	N/A
	The "Asset Acquisition or Disposition Handling Procedure" is amended.	No objections	N/A
	External endorsement guarantee case provided by this Company.	No objections	N/A
	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.	No objections	N/A

April 28, 2022 12 <sup>th</sup> Meeting, Session-9	Recognition of machinery equipment acquired from NAFCO Suzhou Precision, a subsidiary with 100% of shares owned by this Company.	No objections	N/A
	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.	No objections	N/A
April 28, 2022 13 <sup>th</sup> Meeting, Session-9	Capital loan to NAFCO Suzhou Precision by this Company.	No objections	N/A
	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.	No objections	N/A
	The 6 <sup>th</sup> Employee Stock Option certificate case issued by this Company	No objections	N/A
September 13, 2022 14 <sup>th</sup> Meeting, Session-9	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.	No objections	N/A
October 31, 2022 15 <sup>th</sup> Meeting, Session-9	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.	No objections	N/A

(II) Except for the aforesaid matters, the resolutions reached in the Board of Directors that are rejected or resolved with comments reserved by the independent director and that are provided with record or the written statement: None

II. When executing cases in which a director has recused themselves due to a conflict of interest, it is required to record the name of the director, the discussion content, the reasons for the recusal and the voting status:

Date of the Board of Directors	Name of director subjecting to the avoidance of interests	Discussion content	Reasons for the avoidance of interests	Voting status
January 20, 2022	LIN, Wei-Tsun	Distribution of bonuses and remuneration for the president of this Company in 2021.	Has manager status.	Due to the avoidance of interests, Mr. <u>LIN, Wei-Tsun</u> , the President, excused himself from the discussion and the voting after explaining the important content of the interest confliction. After inquiring the opinions of the presented directors, the case is unanimously approved and the avoidance of Mr. LIN, Wei-Tsun is therefore permitted.
January 20, 2022	TSAL, Feng-Tzu	Distribution of bonuses and remuneration for the Chairman of this Company in 2021.	Has manager status.	Due to the avoidance of interests, Mr. <u>TSAL, Feng-Tzu</u> , the Chairman, excused himself from the discussion and the voting after explaining the important content of the interest conflict. After inquiring about the opinions of the presented directors, the case is unanimously approved and the avoidance of Mr. LIN, Wei-Tsun is therefore permitted.

III. Execution status of evaluation cycle and period, evaluation scope, method and evaluation content relating to the self (or associate)-assessment by the Board of Directors:

Evaluation cycle	Evaluation period	Evaluation scope	Evaluation method	Evaluation content
Evaluated once per year	January 01, 2022 December 31, 2022	1. Entire Board of Directors 2. Individual director member 3. Audit Committee 4. Salary and Remuneration Committee	1. Director member self-evaluation 2. Functional member self-evaluation	I. Board of Directors performance evaluation: 1. Extent of engagement in the company operation 2. Elevating the decision-making quality for Board of Directors 3. Organization and structure of Board of Directors 4. Appointment of directors and advanced study

				5. Internal control II. Performance evaluation of individual director member: 1. Company target and mission control 2. Perception of director duties 3. Extent of engagement in the company operation 4. Internal relationship maintaining and communication 5. Specialty of directors and advanced study 6. Internal control III. Functional Committee (Audit Committee, Salary and Remuneration Committee) 1. Extent of engagement in the company operation 2. Perception of duties for Functional Committee 3. Elevating the decision-making quality for Functional Committee 4. Organization of Functional Committee and selection of members 5. Internal control
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IV. Target of reinforcing the competence of Board of Directors for current year and previous year (e.g. setting up Audit Committee and elevating the information transparency, etc.) and evaluation of execution status:

- (1) Based on the applicable regulations, this Company has developed the “Board of Directors Meeting Rules” and it will be amended periodically in order to maintain an effective Board of Directors management system, to maintain a sound supervisory function and to intensify the management mechanism.
- (2) Through the “Company management” field on the Public information observatory, this Company disclosed the present status of directors and supervisor and their learning progress to the public investors periodically in order to provide real-time and transparent information.
- (3) Based on the applicable regulations, this Company has developed the “Practical Company Management Rules” in order to intensify the competence of the Board of Directors and to implement an efficiency company management framework.
- (4) This Company has developed the “Board of Directors Performance Evaluation Method” in order to realize the company management, intensify the Board of Directors function and improve the operating efficiency of the Board of Directors. In the meantime, this Company also conducted the internal Board of Directors performance evaluation at least once per year and also reported the result to the Board of Directors.
- (5) To improve the duties of the Functional Committee and to maintain well-balanced company management, this Company has organized the Audit Committee to replace the duties of the supervisors. .
- (6) In the following year, this Company will improve the competence required for the Board of Directors according to the regulations of the applicable laws and the company’s management demands.

Note: If the director and the supervisor are served by the legal person, then the name of the legal person shareholder and its representative shall be disclosed.

## (II) Operating status of the Audit Committee

1. This Company has organized the Audit Committee which is composed of 3 independent directors. Based on a professional and objective point of view, the Committee shall convene at least 4 sessions in order to fulfill the following duties and shall also submit the resolutions to the Board of Directors for discussion: The Committee will be operated by focusing on the supervision of following matters:

- (1) Appropriate expression of the company's financial report.
- (2) Appointment (dismissal) of CPA as well as independency and performance.
- (3) Effective execution of the company's internal control.
- (4) Ensure that the company will comply with applicable laws and rules.
- (5) Control of the company's existence or potential risks.

2. Described below are the duties of this Committee:

- (1) Develop or amend the internal control system according to the regulations specified in Article 14-1 of "Securities and Exchange Act".
- (2) Evaluate the effectiveness of the internal control system.
- (3) Based on the regulations specified in Article 36-1 of "Securities and Exchange Act", develop or amend or acquire or dispose the asset, engage in the transaction of derivative merchandise, load fund to others, provide endorsement for others, or provide the guarantee for the handling procedure of major financial operation behaviors.
- (4) The matters involving the private interests of the director.
- (5) Execute the transaction of major assets or derivative merchandise.
- (6) Loan or endorse major fund or provide guarantee.
- (7) Solicit, issue or engage in the private offering of marketable securities bearing the equity nature.
- (8) Appoint or dismiss the CPA or provide the remuneration.
- (9) Appoint and dismiss the financial, accounting or internal audit supervisor.
- (10) The annual financial report signed or stamped by the Chairman, manager and accounting supervisor.
- (11) Other major event specified by the company or the competent authority.

3. In recent year (2022), the Audit Committee convened 6 sessions of meeting (A) and provided below is the presence (attendance) status of independent directors:

Position	Name	Number of personal presence (B)	Number of authorized presence	Personal presence rate (%) (B/A) (Note)	Remarks
Independent Director	CHAO, Hsin-Che	6	-	100%	
Independent Director	LI, Li-Hang	6	-	100%	
Independent Director	WEN, Wang-Shou	6	-	100%	

Other notations:

I. If any of the following events occur to the operation of Audit Committee, please describe the Audit Committee Meeting convening date, session, content of discussion, independent director's opposing comments, reserved comments or major suggestions together with the resolutions reached by the Audit Committee and company's handling of comments raised by the Audit Committee.

(I) The matters listed in Article 14-5 of "Securities and Exchange Act".

Audit Committee meeting date / session	Discussion content	Opposing comments, reserved comments or major suggestions raised by independent directors.	Resolutions of Audit Committee	Company's handling of comments raised by Audit Committee.
January 20, 2022 9 <sup>th</sup> Meeting, Session-1	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.			
February 22, 2022 10 <sup>th</sup> Meeting, Session-1	<p>Recognition of terminating the lease of the plant located at Kunshan Fenglin Road and the disposition of relevant assets in order to coordinate with the operation planned for NAFCO Suzhou Precision, a subsidiary with 100% of shares owned by this Company.</p> <p>2021 Annual Operation Report and Financial Report case of this Company</p> <p>2021 loss make-up case of this Company</p> <p>2021 Effective Internal Control Self-evaluation Statement case of this Company</p> <p>“Company Rules” amendment case of this Company</p> <p>“Asset Acquisition or Disposition Handling Procedure” amendment case of this Company</p> <p>External endorsement and guarantee case of this Company</p> <p>Independency and competency of the CPA case of this Company</p> <p>Acquisition and disposition of derivative financial merchandise recognition case of this company</p>	N/A	Approved after review	N/A
April 28, 2022 11 <sup>th</sup> Meeting, Session-1	<p>2022 Q1 parent company and subsidiary combined financial report case of this company</p> <p>Recognition of machinery equipment acquired from NAFCO Suzhou Precision, a subsidiary with 100% of shares owned by this Company.</p> <p>Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.</p>			
July 28, 2022 12 <sup>th</sup> Meeting, Session-1	<p>2022 Q2 parent company and subsidiary combined financial report case of this company</p> <p>Loaning fund to NAFCO Suzhou Precision case of this company</p> <p>Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.</p> <p>The 6<sup>th</sup> Employee Stock Option certificate case issued by this Company</p> <p>Qualification conditions for the 6<sup>th</sup> Employee Stock Option certificate case as issued by this Company</p>			
September 13, 2022 13 <sup>th</sup> Meeting, Session-1	<p>Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.</p> <p>Amendment of recognition for the issuance of the 6<sup>th</sup> Employee Stock Option certificate and the stock option method case of this company.</p>			

	The recognition of the 6th Employee Stock Option certificate and the number of manager stock option case.			
October 31, 2022 14 <sup>th</sup> Meeting, Session-1	2022 Q3 parent company and subsidiary combined financial report case of this company			
	Recognition for the transaction of derivative financial merchandise acquired and disposed by the company.	N/A	Approved after review	N/A
	Amendment of “Internal Major Information Handling Procedure” case of this company			

(II) Except for the aforesaid matters, the resolutions reached in the Board of Directors that are not agreed upon by the Audit Committee but are approved by over two-thirds of the total directors: None

- II. When executing an interest-related case requiring recusal by one or more directors, it is required to record the name of the director, the discussion content, the reasons for the avoidance of interests, and the voting status: None
- III. Communication status between the independent director, the internal audit supervisor and the CPA (including the major event, method, and result that should be communicated for the company’s financial and business operation status, etc.)

(I) Communication between independent director and the internal audit supervisor: In addition to conducting the audit operation report in the Audit Committee Meeting regularly, the internal audit supervisor is also required to conduct independent communication meetings with the independent director at least once per year.

Date	Nature	Communication subject	Suggestions and the company’s handling status
January 20, 2022	9 <sup>th</sup> Audit Committee	2022 Q4 Audit Defect and Improvement Tracking Report	No comments
February 22, 2022	10 <sup>th</sup> Audit Committee	Self-evaluation operation for 2021 internal control system	After passing the review, the case was reported to the Board of Directors
April 28, 2022	11 <sup>th</sup> Audit Committee	2022 Q1 Audit Defect and Improvement Tracking Report	No comments
July 28, 2022	12 <sup>th</sup> Audit Committee	2022 Q2 Audit Defect and Improvement Tracking Report	No comments
October 31, 2022	14 <sup>th</sup> Audit Committee	1. 2022 Q3 Audit Defect and Improvement Tracking Report 2. 2022 Annual Audit Plan	1. No comments 2. Reported to the Board of Directors
October 31, 2022	Communication meeting	Communicate and understand the planning and the execution status of Internal Audit Plan and defect improvement status.	Help the internal control execution unit chief maintain and execute the internal control procedure in order to establish the risk preventive measures.

(II) Communication status between the independent director and the CPA: The independent directors of the Audit Committee shall work with the CPA to audit or review the financial report and communicate the updating of the applicable laws during the Audit Committee Meeting. If required, the CPA will conduct the communication and the discussion in written form and shall conduct an independent meeting with the independent director at least once per year.

Date	Nature	Communication subject	Suggestions and the company’s handling status
February 22, 2022	10 <sup>th</sup> Audit Committee	1. The CPA is presented at the Audit Committee to report and explain the audit scope of the 2021 combined financial report, relevant conclusions, major accounting estimates and the evaluation of the impact imposed by COVID-19. 2. Being affected by COVID-19, the audits for the subsidiaries in Mainland China are conducted by remote working operation in order to obtain the guidance required for securing the audit evidence.	No comments
April 28, 2022	11 <sup>th</sup> Audit Committee	1. The CPA is presented at the Audit Committee to report and explain the audit scope of the 2022 Q1 combined financial	No comments

		<p>report, relevant conclusions, major accounting estimates and the evaluation of the impact imposed by COVID-19.</p> <p>2. 2022 Communication Plan</p> <p>3. Role and responsibility of the dominating CPA</p> <p>4. Audit Plan</p> <p>5. Independence of the CPA</p>	
July 28, 2022	12th Audit Committee	The CPA is presented at the Audit Committee to report and explain the audit scope of the 2022 Q2 combined financial report, relevant conclusions, review the materiality and the evaluation of the impact imposed by COVID-19.	No comments
October 31, 2022	14th Audit Committee	<p>1. The CPA is presented at the Audit Committee to report and explain the audit scope of the 2022 Q3 combined financial report, relevant conclusions, review of the materiality and the evaluation of the impact imposed by COVID-19.</p> <p>2. Purpose and structure of Audit Quality Indicators (AQIs)</p>	No comments
October 31, 2022	Communication meeting	Work with the CPA to exchange opinions for as well as communicate and discuss the company's businesses, operation risks, internal control audit and operation audit.	No comments

**(III) Company’s management operation status and its variation with the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons**

Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Y	N	Summary	
I. Is the company developing and disclosing the company’s practical management rules according to “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”?	V		This Company has developed the “Corporate Governance Practice Principles” in order to maintain a well-balanced and efficient company management system and structure. In the meantime, this Company also disclosed the company’s practical management rules on the company’s website and the public information observatory.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
II. Company’s equity structure and the shareholder’s equity (I) Has the company developed the internal operation procedure for dealing with the suggestions, questions, dispute and lawsuit raised by shareholders and executed accordingly?	V		This Company has established the spokesman and acting spokesman system for handling the shareholder’s suggestions or disputes	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
(II) Is the company maintaining the main shareholders that are actually controlling the company and the final controller list of these main shareholders?	V		This Company is able to maintain the main shareholders that are actually controlling the company and the final controller list of these main shareholders. Based on the regulations of “Securities and Exchange Act”, we also reported the number of shares owned by the directors and the main shareholders.	
(III) Has the company established and implemented the risk control and the firewall mechanism with your affiliates?	V		Based on the applicable laws, we have established the internal control related system and put it into execution. We have maintained the well-defined personnel, asset, and financial management responsibilities between our affiliates. In the meantime, we also audited the accounts book and the internal control system of these affiliates and have also developed appropriate risk control and firewall mechanisms. The operation of this Company and the affiliates is conducted individually and we also developed the “Subsidiary Monitoring Operation Method”.	

Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Y	N	Summary	
(IV) Have you established the internal rules for preventing your employees from buying and selling the marketable securities with the undisclosed market information?	V		We have established “Internal Major Information Handling Procedure” and “Honest Operation Rules”. On a regular basis, we also communicated these rules to the directors and managers as well as the personnel that will be able to learn about the important internal information of the company through the identity, duties or control relationship. Further, we also urged the members involved to evade conflicts of interest relating to their duties in order to prevent using inside information and realizing such a system. When assigning the internal employee to assume its duties, we also provided the rules that should be followed according to the applicable laws	
III. Organization and responsibility of the Board of Directors (1) Has the Board of Directors developed the diversity policy and the substantial management target for its members and has the policy been put into execution?	V		<p>1. In our “Corporate Governance Practice Principles”, the diversity policy has been specified in Chapter 3: “Strengthening the Competence of the Board of Directors”. The members of our Board of Directors are nominated and selected according to the requirements specified in the Company Rules for which, the candidate nomination system is implemented. In addition to evaluating the education and working experience qualification of each candidate, they are also required to comply with “Director Appointment Procedure” and “Corporate Governance Best Practice Principles” to ensure the diversity and the independency of the director members.</p> <p>2. Aiming at the member composition, the diversified policy is developed by the Board of Directors. The diversified policy of the director members is specified in Article 20 of “Corporate Governance Best Practice Principles” and the detailed content is disclosed on our website.</p> <p>3. For detailed management target of the diversified members of the Board of Directors and its execution status, please refer to Page 15-16.</p>	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
(II) In addition to the Salary and Remuneration Committee and the Audit Committee, will you voluntarily organize other types of functional committees?	V		In addition to the Salary and Remuneration Committee and the Audit Committee, other types of functional committees will be organized according to actual demand of the company.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.

Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Y	N	Summary	
(III) Has the company set up the Board of Directors performance evaluation method and its evaluation method and conducted the performance evaluation regularly each year? Have you reported the result of performance evaluation to the Board of Directors and used it as the reference for determining the salary and remuneration for each individual director and for renewing their nomination?	V		We have developed the “Board of Directors Performance Evaluation Method”. Upon the end of each fiscal year, we will conduct the internal Board of Directors performance evaluation at least once. In this respect, we have reported the “2022 Board of Directors self-evaluation” and the director self-evaluation result in the Board of Directors Meeting held on February 22, 2023. In the meantime, we also posted the evaluation result in the “Company management” field of our website for checking. The remunerations due to the directors shall be offered according to the company rules. By doing so, we will offer reasonable remunerations according to the company’s operation result and their contribution to the company’s performance. The company’s “Board of Directors Performance Evaluation Method” is used as the basis of evaluation for setting up the amount of remuneration. Apart from references to the company’s overall operational performance and future industrial operation risks and development trends, consideration is also given to the personal performance accomplishment rate and their contribution to the company’s performance. Further, we also reviewed the remuneration system in due time according to actual operation status and the applicable laws in order to maintain a balanced sustainable operation and risk control.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
(IV) Have you evaluated the independency of the CPA regularly?	V		We will evaluate the independence and the competence of the hired CPA every year. Based on the requirements specified in Item 5 under Article 32 of “Corporate Governance Practice Principles” and that established for the Audit Quality Indicators (AQI), we evaluated Mr. WU, Wei-Hao and Ms. LI, Yen-Na, the CPAs of Pricewaterhouse Coopers, Taiwan. Aiming to the professional qualification of the aforesaid CPAs, we provided the audit services for several consecutive years to check if they have any interest relationship with the company (e.g. putting investment in this Company or co-acting the duties of this Company), if they are relatives of the company’s responsible person or any manager and if they are taking advanced lessons periodically. In the meantime, we also reported the evaluation report to the Audit Committee Meeting held on February 22, 2023 and it was also approved by the Board of Directors.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.

Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Y	N	Summary	
IV. Has the listed and OTC companies appointed appropriate number of competent company management persons and assigned the company management supervisor to execute the company management related matters (including but not limited to the information required for the directors and supervisors to execute the business operation, help the directors and supervisors comply with the statutory regulations, handle the Board of Directors meetings and the regular shareholders’ meetings related matters, as well as prepare the Board of Directors meetings and the regular shareholders’ meetings minutes)?	V		We have set up the co-acting unit for helping with the company management and the appointed staff are all equipped with the working experience required for managing the financial, stock or meeting related matters. As such, they are capable of executing company management effectively. In the future, we will appoint a company management supervisor according to actual needs. The service shall include the following: Provide the information required by the directors to execute the business, help the directors to comply with the laws, handle matters relating to the Board of Directors meetings and the regular shareholders’ meetings, handle the company registration and changes in registration, produce the Board of Directors meetings and the regular shareholders’ meetings minutes; as well as help the Board of Directors improve their competence, protect the equity of the stakeholders and realize equal treatment for shareholders, etc.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
V. Has the company provided a communication channel for the stakeholders (including but not limited to the shareholders, employees, customers and suppliers, etc.)? Has the company provided a stakeholder field in your website and properly responded to the important corporate social responsibility related issues of concern to the stakeholders?	V		<ol style="list-style-type: none"> <li>1. We have provided the “Stakeholder field” on our website and its address is termed as <a href="http://zh.nafco.com.tw/">http://zh.nafco.com.tw/</a>. Through the “Stakeholder field”, we are able to respond to the important corporate social responsibility related issues of concern to the stakeholders.</li> <li>2. In the meantime, the stakeholders are also allowed to communicate with the company through the spokesman and the acting spokesman channel officially. TEL : (03)450-8688 , E-mail : IR@nafco.com.tw</li> </ol>	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
VI. Has the company authorized the professional stock affairs agency to handle matters relating to shareholders’ meetings?	V		We have authorized the professional stock affairs agency established by the Stock Affairs Department of CTBC Bank to handle matters relating to shareholders’ meetings.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.

Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Y	N	Summary	
VII. Disclosure of information (I) Has the Company set up a website to disclose the financial and corporate governance information?	V		We have set up an official website (www.nafco.com.tw.) and have disclosed the financial operation and the company management related information under the “Investor relationship” field.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
(II) Has the company implemented other types of information disclosure methods (for example, setting up an English website, assigning a special person to collect and disclose the company’s information, setting up the spokesman system, and setting up the company’s website during the investor conference process)?	V		We have set up the Standard Chinese, Simplified Chinese, and English websites and assigned a responsible unit and staff to collect and disclose the information of the company. In addition to the spokesman, we also set up the acting spokesman system. In the meantime, we also published the investor conference related information on our website and public information observatory for the investors to analyze and to check.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
(III) Has the company published and submitted the annual financial report within 2 months after the fiscal year has ended? Has the company published and submitted Q1, Q2 and Q3 financial reports and the operation status of each month before the specified timeline?	V		We published and submitted the annual financial report within 2 months after the fiscal year ended and also published and submitted Q1, Q2 and Q3 financial reports and the operation status of each month before the specified timeline.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
VIII. Do you have any other important information that will help understand the Company’s management operation status (including but not limited to the employee equity, employee care, investor relationship, supplier relationship, stakeholder’s right, the advanced study status of directors and supervisors, the execution status of risk management policy and risk measuring	V		(I) Employee equity: Described below are the benefits, equity and welfare provided by the company for our employees: 1. Provide labor insurance, National Health Insurance and allocate pension as per the law. Establish a sound and lawful retirement system. 2. Welfare measures such as operation performance bonuses, employee commercial group insurance, festival and birthday bonus or gift, yearly free health inspection, sponsor or support employee travel, provide legal consultation for employees, employee canteen, aerial garden, fitness center, and breastfeeding room, etc. 3. Provide occupational safety and health related protection appliances and spare parts. Conduct labor safety seminar periodically.	Accord with the conception of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.

Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Y	N	Summary	
standard, the execution status of customer policy, and the insurance policy that should be purchased by the company for directors and supervisors, etc.)?)			<p>4. Organize well-planned employee welfare committees. Convene meetings periodically for organizing all kinds of employee welfare measures and activities so as to condense employee fellowship and intensify their cohesion for the company.</p> <p>5. Provide periodic education and training for all employees in the factory and organize employee’s annual occupation study plan.</p> <p>6. Set up professional medical care personnel to provide labor care, employee health education and injury/disease consultation, plan the improvement of human-factor engineering as well as prevent over-working, occupational bullying and female employee protection plan.</p> <p>(II) Employee care</p> <p>1. We provide an employee communication meeting periodically to clearly communicate the Company’s operation status and the target to the employees so as to motivate and encourage them to work together for achieving the required quality, delivery time, and profit. In this way, we may create the maximum profit for the company, the employees, and the shareholders.</p> <p>2. Provide a workplace with gender equality, personnel dignity, and non-discriminating and friendly environment.</p> <p>3. Promote the tobacco prevention policy to improve the health and the production ability of employees and we also established smoking control regulations.</p> <p>4. Maintain the cleanliness of foreign worker dormitories and disseminate epidemic prevention measures in order to promote the employee’s consciousness in maintaining residential hygiene and the disease prevention.</p> <p>5. Work with the NAFCO Social Charity Foundation in providing distress assistance and care for all employees.</p> <p>6. Care about the mental and physical health of all employees. Conducted the pressure-releasing activities periodically such as staff dining, festival activities and additional dishes.</p> <p>(III) Relationship with the investor: Abiding by honest, impartial principles, we promoted a transparent company management policy for announcing company operations and financial related messages to shareholders and stakeholders periodically. In the meantime, we also set up the spokesman and acting spokesman system for serving as the communication bridge between the company and the shareholders so as to fulfill due responsibilities and obligations in disclosing the company’s information. In addition, we also set up the spokesman and the acting spokesman's e-mail for dealing with the suggestions and the questions raised by the investors.</p> <p>(IV) Relationship with the supplier: We hope to maintain mutual long-term relationships with our suppliers. Through the complete and rich industrial experiences being accumulated over the past years and the amiable relationship with</p>	

Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons								
	Y	N	Summary									
			<p>the suppliers, it is hoped that all materials will be supplied continuously according to the quantity being planned.</p> <p>(V) Rights of stakeholders: To handle the requirements of the stakeholders such as shareholders and employees, we authorized the stock agent to provide services and maintain their rights through the following channels such as the investor service specialist, e-mail and employee relationship specialist, etc.</p> <p>(VI) Advanced study of directors and supervisors: All directors of this Company possess the professional industrial background and the duration of advanced study in 2022 has been executed as required. In the meantime, we also disclosed the advanced study details in the “Company management” field of Public Information Observatory for reference by the investors.</p> <p>(VII) Execution status of risk management policy and risk measuring standard: Pursuant to the applicable law, we have developed a variety of internal rules for conducting the risk management and evaluation.</p> <p>(VIII) Execution status of customer policy: Based on the techniques and the production ability being accumulated over the past years, we are able to service the customer through efficient resource integration so as to meet the customer’s demand for quality, cost, and delivery time. In this way, we will maintain a longer relationship with the customer.</p> <p>(IX) Purchasing of liability insurance policy for directors: Pursuant to the regulations specified in “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, we purchased liability insurance policy for our directors and it is also disclosed in the “Company management” field of Public Information Observatory.</p> <table border="1"> <thead> <tr> <th>Insurance target</th> <th>Insurance company</th> <th>Coverage (NTD: thousand)</th> <th>Insurance period (starting/ending)</th> </tr> </thead> <tbody> <tr> <td>All directors</td> <td>Fubon Insurance Co., Ltd.</td> <td>245,080</td> <td>From September 02, 2022 to September 02, 2023</td> </tr> </tbody> </table>	Insurance target	Insurance company	Coverage (NTD: thousand)	Insurance period (starting/ending)	All directors	Fubon Insurance Co., Ltd.	245,080	From September 02, 2022 to September 02, 2023	
Insurance target	Insurance company	Coverage (NTD: thousand)	Insurance period (starting/ending)									
All directors	Fubon Insurance Co., Ltd.	245,080	From September 02, 2022 to September 02, 2023									
<p>IX. Please explain the status of the items being improved according to the company management assessment result published by the Company Governance Center of The Taiwan Stock Exchange Corporation in previous years. Please also explain the items that should be improved in top priority and relevant strengthening measures. (Do not indicate the company that is not included in the evaluation list):</p> <p>(I) Please explain the improvement being executed according to the company management assessment result being published in previous years.</p> <table border="1"> <thead> <tr> <th>Session-9 Assessment Indicators</th> <th>Improvement status</th> </tr> </thead> <tbody> <tr> <td>Has the company convened the Regular Meeting for Shareholders by the end of May?</td> <td>We have convened the shareholder’s meeting on May 31, 2022.</td> </tr> </tbody> </table>					Session-9 Assessment Indicators	Improvement status	Has the company convened the Regular Meeting for Shareholders by the end of May?	We have convened the shareholder’s meeting on May 31, 2022.				
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Evaluation item	Operation status			Variation with the” Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Y	N	Summary	
Has the company developed the diversity policy for the members of the Board of Directors and have you disclosed the physical management target and the execution status of the diversity policy in the company’s website and annual report?				We have disclosed the details in our website and annual report.
Has the company’s Board of Directors evaluated the independency of the CPA periodically (at least once per year) and have you disclosed the evaluation procedure in your annual report?				We have disclosed the details in our annual report.
Have you implemented the cybersecurity risk management framework, set up the cybersecurity policy, physical management programs and deployed the cybersecurity management resources and disclosed them in your website or annual report?				We have implemented the cybersecurity risk management framework and disclosed it on our website.
Have you developed the human rights protection policy and physical management program according to International Bill of Human Rights and disclosed them in your website or annual report?				We have disclosed the details in our website and annual report.
Has employee personal safety together with the working environment protection measures and executing status been disclosed in your website and annual report?				We have disclosed the details in our website and annual report.
Has the established supplier management policy been disclosed on your website, annual report or sustainability report? Have you urged the supplier to comply with the applicable requirements established for the environmental protection, occupational safety and health or the worker’s human right? Please also explain the execution status.				We have disclosed the details in our website and annual report.
<p>(II) Priority strengthening items and measures for the items not improved according to the company management assessment result published in the latest year (2022): Based on the regulations imposed by the competent authority, we have conducted the company management self-assessment and have proposed the priority improvement measures according to the company’s existing status for the items not improved so as to improve the company’s management step by step. Besides, We also established a well-organized and effective company management system and framework in order to elevate the information transparency and the company management image.</p>				

**(IV) If the Salary and Remuneration Committee is organized by the company, please disclose its composition, duties and operation status:**

1. We have organized the Salary and Remuneration Committee. In each year, the committee will convene at least two sessions in order to fulfill the following duties and submit the suggestions to the Board of Directors for discussion:

- (1) Periodically review the company rules and propose amendment suggestions.
- (2) Set and periodically review the performance evaluation standard for the directors and the managers of this Company, the yearly and long-term performance target as well as the salary and the remuneration related policy, system, standard and structure.
- (3) Periodically evaluate the performance target accomplishment status of the directors and the managers of this Company. Based on the evaluation result obtained from the performance evaluation standard, set up the content and the amount of the respective salary and remuneration.

2. Information of Salary and Remuneration Committee members

Identity (Note 1)	Conditions Name	Professional qualification and experience	Status of independency (Note 3)	Number of the members serving as the Salary and Remuneration Committee member of other public offering company.
Independent Director (Convener)	LI, Li-Hang	Please refer to the information disclosed in Page 13 regarding the professional qualification of the director and the independency of the independent directors.	1. Employees not hired by this Company and the affiliates. 2. Directors and supervisors not appointed by this Company and the affiliates. 3. Natural person shareholders owning over 1% of the total distributed shares or being among the Top 10 shareholders, which is not registered under the name of the principal and its spouse or minor children or others. 4. Employees not mentioned in the aforesaid Item 1 or the spouse, the direct-blood relative within 2nd-degree or within 3rd-degree as mentioned in Item 2 and Item 3. 5. Legal person shareholders that are neither directly owning over 5% of shares of the total shares distributed by this Company nor listed among the Top 5 in share owning; nor the director, supervisor or employee of the legal person shareholder that is appointed as the representative to serve as the director or the supervisor of this Company, as specified in Item 1 or Item 2 under Article 27 of Company Act.	0
Independent Director	CHAO, Hsin-Che		6. The director, supervisor or employee of another company that is not controlled by the same person who is the director of the company or who is holding more than half of shares entitled to the voting right 7. The director (director member), supervisor (supervisor member) or employee of other company or entity that is not the same person as or the spouse of the company's Chairman, President or the person serving the equivalent position 8. The director (director member), supervisor (supervisor member), the manager or the shareholder owning over 5% of shares of another company or entity that is not engaging in financial or business transactions with this Company.	2
Independent Director	WEN, Wang-Shou		9. The professional person or the owner of the sole proprietorship company, the partner company, the incorporated company or its partner, director (director member), supervisor (supervisor member), manager, and its spouse that is not engaging in the audit service for this Company or any affiliate or where the amount of accumulated remunerations received for the commercial, legal, financial or accounting related services within the recent 2 years is less than NT\$500,000 during previous two years. 10. Not maintaining the spouse or within 2nd-degree relative relationship with other directors. 11. Not performing any of the actions specified in the clauses under Article 30 of Company Act. 12. Not appointing the government official, legal person or its representative as the members according to Article 27 of Company Act.	1

### 3. Operation status information of Salary and Remuneration Committee

- (1) The Salary and Remuneration Committee of this Company is composed by 3 members.  
 (2) Term of Office for the existing members: From June 16, 2020 to June 15, 2023 and 3 sessions of meetings (A) have been convened for the Salary and Remuneration Committee during the recent year (2022). Described below is the qualification of members and their presence status:

Position	Name	Number of personal presence (B)	Number of authorized presence	Personal presence rate (%) (B/A) (Note)	Remarks
Convener	LI, Li-Hang	3	-	100%	
Committee member	CHAO, Hsin-Che	3	-	100%	
Committee member	WEN, Wang-Shou	3	-	100%	

Other notations:

- I. When rejecting or amending the suggestions raised by the Salary and Remuneration Committee, the Board of Directors shall describe the Board of Director meeting date, session, discussion content, Board of Director resolutions and the handling of comments raised by the Salary and Remuneration Committee (if the salary and remuneration granted by the Board of Directors is higher than that suggested by the Salary and Remuneration Committee, then describe the variation and reasons): None
- II. If any member is opposing the resolutions made by the Salary and Remuneration Committee or reserved comments and where record or written statement is maintained, then describe the Salary and Remuneration Committee meeting date, session, discussion content, comments raised by all members and the handling of member's comments: None
- III. Meeting date held by the Salary and Remuneration Committee in recent year as well as session, discussion content and resolutions together with the handling of the comments raised by the Salary and Remuneration Committee.

Salary and Remuneration Committee meeting date and session.	Discussion content	Resolutions	Company's handling of the comments raised by the Salary and Remuneration Committee.
January 20, 2022 5th Meeting, Session-4	2021 Board of Directors performance evaluation indicator case of this Company	Unanimously agreed by all of the presented members.	N/A
	Distribution of bonuses and remuneration for the managers of this Company in 2021.	Unanimously agreed by all of the presented members.	N/A
	Distribution of bonuses and remuneration for the president of this Company in 2021.	Unanimously agreed by all of the presented members.	N/A
	Distribution of bonuses and remuneration for the Chairman of this Company in 2021.	Unanimously agreed by all of the presented members.	N/A
February 22, 2022 6th Meeting, Session-4	2021 employee, director and supervisor remuneration distribution case of this Company	Unanimously agreed by all of the presented members.	N/A
	High-level supervisor promotion case of this Company	Unanimously agreed by all of the presented members.	N/A
	Manager salary adjustment case of this Company	Unanimously agreed by all of the presented members.	N/A
July 28, 2022 7th Meeting, Session-4	The recognition of the 6th Employee Stock Option certificate and the number of manager stock option case.	Unanimously agreed by all of the presented members.	N/A

### 4. Combined description of director and manager performance evaluation and remuneration

Based on the requirements specified in Article 18 of Company Rules: When earning the profit each year (i.e. the profit before deducting the employee, director and supervisor remunerations from the pre-tax profit), this Company shall allocate more than 1% for distributing the remunerations in which, the remuneration for the employee shall not be over 10% and that for the directors and supervisor shall not be over 2%. The performance evaluation and the salary/remuneration for directors and managers are proposed by Salary and Remuneration Committee according to the salary paying standard of other companies, personal performance, company's operational performance and the correlated rationality of future risks and then it will be submitted to the Board of Directors for decision.

Provided below are the performance evaluation indicators of directors and managers:

Scope	Director member	Manager
Indicators	Control level of company target and missions. Awareness level of director duties. Engagement level of company operation. Internal relationship maintaining and communication. Specialty and advanced study. Internal control	Financial indicator Key job indicator

5. Committee member nomination related information and operation status related information: Not applicable because the nomination committee is not established by this Company.

**(V) Sustainable development promotion status as well as the variation with “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and reasons:**

Promoted item	Execution status (Note 1)			Variation with “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and reasons:												
	Y	N	Summary (Note 2)													
I. Has the company implemented the management framework required for promoting the sustainable development and established the sustainable development special (co-acting) unit for which, the Top Management is authorized by the Board of Directors to oversee and the execution status is also supervised by the Board of Directors?	V		To help promote the sustainable development in this Company, the President (the President Office) shall work with the corresponding responsible units (including HR, Legal, Work Safety, Environmental Engineering, Stock Affairs, Audit, Finance, General Affairs/Factory Affairs, Purchase, Sales and Foundation, etc.) to organize the co-acting task forces. These teams will be responsible for promoting the sustainable development relating to the environment, social and company management (e.g. human rights, employee benefits, environment safety and health, supplier relationship, corporate ethics education/training, employee performance evaluation as well as stakeholder’s rights and company management, etc.) and supervise the execution progress. In the meantime, they will prepare the execution report and then submit it to the President (the President Office). Based on the schedule, the President shall submit the operation management report to the Board of Directors for the latter to supervise the promotion progress.	Abiding by the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.												
II. Has the company conducted risk evaluation according to the criticality principle for the company’s operating related environment, social and company management issues and developed the risk management policy or strategies?	V		<p>Based on the criticality principle, we have conducted the risk evaluation for the company operation related environment, social and company management issues. Based on the evaluated risks, we also developed the required risk management policy or strategies, as below:</p> <table border="1"> <thead> <tr> <th>Major issues</th> <th>Risk evaluation items</th> <th>Risk management policy or strategies</th> </tr> </thead> <tbody> <tr> <td>Environment</td> <td>1. Climate change and energy conservation/carbon reduction</td> <td>1. Maintain the effectiveness of the certified ISO14001 environment management system 2. Execute the waste and emission reduction approaches 3. Maintain the green energy certificate policy</td> </tr> <tr> <td>Social</td> <td>1. Employee occupational safety and health 2. Employee health promotion and caring 3. Promote social corporate and donate charity/public service</td> <td>1. Introduce the certification of ISO45001 occupational safety management system 2. Strengthen the company’s epidemic prevention guidance policy and measure. Conduct employee health care tracking each day 3. Maintain the public service donation policy established by NAFCO Social Charity Foundation.</td> </tr> <tr> <td>Company management</td> <td>1. Commercial strategies and operation performance 2. Occupational ethics and</td> <td>1. Corresponding to the rapid change if the international market and the internal/external objective environmental</td> </tr> </tbody> </table>	Major issues	Risk evaluation items	Risk management policy or strategies	Environment	1. Climate change and energy conservation/carbon reduction	1. Maintain the effectiveness of the certified ISO14001 environment management system 2. Execute the waste and emission reduction approaches 3. Maintain the green energy certificate policy	Social	1. Employee occupational safety and health 2. Employee health promotion and caring 3. Promote social corporate and donate charity/public service	1. Introduce the certification of ISO45001 occupational safety management system 2. Strengthen the company’s epidemic prevention guidance policy and measure. Conduct employee health care tracking each day 3. Maintain the public service donation policy established by NAFCO Social Charity Foundation.	Company management	1. Commercial strategies and operation performance 2. Occupational ethics and	1. Corresponding to the rapid change if the international market and the internal/external objective environmental	Abiding by the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.
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Company management	1. Commercial strategies and operation performance 2. Occupational ethics and	1. Corresponding to the rapid change if the international market and the internal/external objective environmental														

			<p>honest behavior</p> <p>3. Information security</p>	<p>factors, the strategic meeting and the operation meeting will be held periodically in order to adjust the strategic objectives and the operating direction.</p> <p>2. Maintain periodic announcement and dissemination of the honest and credible operation rules as well as the employee training approaches.</p> <p>3. Help promote the ISO27001 information security management system.</p>	
<p>III. Environmental issues</p> <p>(I) Has the company developed suitable environmental management system according to its industrial characteristics?</p>	V		<p>Based on the industrial characteristics, this Company has established Work Safety Office and Environmental Engineering Section to implement the environment hygiene, public safety and environmental protection works in order to comply with the applicable regulations. To meet the global trend and customer requirements, we also set up an efficient environment management system according to the planned schedule; for example, ISO14001: In 2015, the company attained the ISO14001 certification and it will be valid until May 2024. We also set up a special Work Safety Office, Wastewater Operation Division and Environmental Engineering Section to implement occupational safety, environment hygiene, public safety, and environmental protection works in order to comply with applicable regulations. To meet the global trend and customer requirements, we also set up efficient environmental management system and regulations according to the planned schedule.</p> <p>1. Based on the environmental regulations established by the competent environmental protection bureau for handling wastewater, wastes, air pollution, and specific chemical substances, we also appointed the operators and the administrators who are granted Class-A/Class-B qualification licenses.</p> <p>2. This Company (together with each plant site) also maintains the validity of the certificates that meet the international verification qualification required for ISO14001 environmental safety management system. In this respect, the verification qualification certificate will be valid until May 2024.</p> <p>3. Based on the applicable regulations, we also reported the wastewater treatment equipment, waste disposal and treatment and air pollution equipment to the local competent environmental protection authority. In the meantime, we also passed the periodic inspection and have been awarded the</p>	<p>Abiding by the concept of “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies” and execute the operation.</p>	

			qualification certificate issued by the competent environmental protection authority.	
(II) Has the company engaged in enhancing the energy utilization efficiency and using the recyclable materials that will bring about low impact on the environmental load?	V		<p>1. Based on the “only one earth” concept, active measures have been taken to enhance the performance of dealing with climate change, pollution prevention and control, energy and resource conservation, waste reduction, safety and health management, and fire prevention in order to minimize the environmental protection, safety and health related risks.</p> <p>2. To enhance the utilization efficiency of the available resources, we have implemented the energy conservation measures such as installing more solar panels, using LED energy-saving lamps, installing rainwater recovering facilities, automatic sensing faucet, conserving the water consumption and introducing waste reduction equipment, etc. To minimize the impact to the environment, we also promoted the paper-free e-based operation, encouraged employees to use double-side paper and use the recyclable plastic trash bags, etc.</p> <p>3. External sectors: To catch up with the international trend and target of carbon reduction and carbon neutrality, we also promoted the green transition for the upstream supply chain. The goal is to realize the green purchase while ensuring that the provided products will not contain restricted substances.</p>	Abiding by and implementing the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”.
(III) Have you evaluated the potential risks and opportunities that may be imposed by climate change to the company at present time and in the future, and taken the required responding actions?	V		To deal with the impact of climate change on the company’s operation and to execute information disclosure relating to climate change, this Company has worked with its subsidiaries to conduct a business operations audit and risk identification in order to deal with climate change. In this regard, the measures taken include the analysis of the physical impact resulting from the extreme climate directly or indirectly, the transformation impact required by the statutory regulations, techniques or market, as well as the risks and the opportunities that will be brought by the social aspect to the company’s operational activities. Based on the analysis result, it is hoped that we may intensify the company’s ability in dealing with climate change, including the launching of ISO14064-1 GHG Inventory and the development of objectives and strategies for carbon reduction and emission. The purpose is to evaluate the financial	Abiding by and implementing the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”.

correlativity systematically so as to minimize the risks and control the business opportunities.  
 Being affected by climate change, extreme weather is more frequently seen all over the world. The elevated consciousness of climate risks has also influenced the corporation's operation and the consuming behavior of the consumers directly or indirectly. Based on the TCFD (Task Force on Climate-related Financial Disclosure), the company is managed according to the following four core objectives and they are governance, strategy, risk management and indicator/target. Based on the schedule specified in the applicable laws, we will present the sustainable development report required for the period after 2024. Through this, it is hoped that the stakeholders will understand the responding actions developed by NAFCO in dealing with the impact of climate change on the risks and opportunities in minimizing the risks.

Climate change management framework:

Governance	When executing climate risk management, the ESG Sustainability Promotion Committee is commissioned to discuss, evaluate and reach climate change related resolutions. As a next step, ESG Chief Member and Executive Member will report to the Top Management about the execution progress of the working plan and the required improvement suggestions. Based on the schedule specified in the applicable laws, the sustainability report will be presented after 2024. After that, ESG will explain and report the annual promotion result and the working plan for the following year. In this case, ESG will make the correction according to the comments rendered by the Board of Directors. It will be included in the climate change risk related issues and its management objectives
Strategies	Based on the schedule specified in the applicable laws, we will evaluate the impact of climate change related risks and opportunities to the strategies and the planning of this Company after 2024. Based on the climate change related scenario analysis conducted by TCFC, we will use the qualitative and quantitative analysis methods in order to take the responding actions. Based on the short-term, middle-term, and long-term definitions discussed during the ESG Sustainability Promotion Committee Meeting as mentioned in "Reference 2 °C Scenario (2DS), we set the short-term as "1-3 years", the middle-term as "3-5 years" and the long-term as "6-10 years". Such data will be used to assess climate related risks and opportunities. The climate related risks comprise the following two types, i.e. transition risks and physical risks. These risks will be sub-divided into policy, statutory regulations, techniques, market, goodwill, immediacy and chronicity. The opportunities will be sub-divided into the following 5 categories, i.e. resource efficiency, energy source, product, service, market and organizational resilience.
Risk management	Based on the schedule specified in the applicable laws, we will complete the assessment of the aforesaid risks during the "TCFD Climate Change related Financial Disclosure Discussion Meeting" held by the ESG Sustainability Promotion Committee after 2024. During the meeting, we will discuss the climate change factors that are provided by the units involved and that may create the transition and physical risks and opportunities to the company's operation.
Indicators and objectives	1. To minimize the impact on the ambient environment during the operation process, we have invested huge amounts of resources in all of the environmental indicators; for example, launching the energy conservation/carbon reduction, energy using efficiency, water resource

			<p>using efficiency, pollution prevention, hazardous substance management in order to pursue the planned vision of sustainable development.</p> <p>2. We also completed the GHG Inventory</p>	
<p>(IV) Have you calculated the GHG emission amount, water consumption, and total waste weight for the past two years, and have you developed the GHG reduction, water consumption reduction or other waste management policy?</p>	V	<p>The impact of climate change is one of the major environmental issues encountered by all countries on this planet. Through the process improvement, the development and the implementation of energy-saving policy, it is hoped that we may realize the objectives of energy conservation, carbon reduction, lower pollution, lower energy consumption and being eco-friendly. By now, we have set up the GHG reduction target. In 2023, the total GHG emission (including Category 1, Category 2, Category 3, and Category 4) of the parent company has been reduced by 10 tons of CO<sub>2</sub>e when compared with that of 2022. We have invested in the implementation and management measures in the waste reduction equipment by setting 20 ton/year of waste reduction as the target. We will promote the water conservation policy continuous by setting 1 ton/year of water reduction as the target. Starting from 2019, active moves have been taken by this Company in operating the environmental protection and energy conservation policy, promoting the environmental education, establishing the environmental protection and energy conservation culture and executing the environmental protection and energy conservation measures.</p> <p>1. Statistics of solar power generation: In 2019, the solar power generation system being installed for the respective plant site (Plant #1, Plant #2 and Plant #3) has yielded 156,744 kWh of solar power energy (honored 15 pieces of renewable energy certificates by Ministry of Economic Affairs - MOEA). The solar power yielded in 2020 is 168,144 kWh (honored 54 pieces of renewable energy certificates by MOEA). The solar power yielded in 2021 is 170,835 kWh. In 2021, we have reduced some 85,417.5kg of GHG emissions for which, 69 pieces of renewable energy certificates were issued by MOEA. The solar power yielded in 2022 has increased to 212,584 kWh. In 2022, we have reduced some 108,205kg/CO<sub>2</sub>e of GHG emissions for which, 60 pieces of renewable energy certificates were issued by MOEA.</p> <p>2. Electric energy consumption (total energy consumption/year): In 2019, the total power consumption of</p>	<p>Abiding by the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.</p>	

		<p>the respective plant (Plant #, Plant #2 and Plant #3) is 18,091,422 kWh; in 2020, it is 14,309,842 kWh; in 2021, it is 14,716,440 kWh; and in 2022, it is 17,620,680 kWh.</p> <p>3. Equivalent of GHG emission (kg/CO<sub>2</sub>e): In 2019, the equivalent of GHG emission of the respective plant (Plant #, Plant #2 and Plant #3) is 9,225,582 kg/CO<sub>2</sub>e; in 2020, it is 7,297,755 kg/CO<sub>2</sub>e, in 2021, it is 7,399,633 kg/CO<sub>2</sub>e; and in 2022, it is 8,968,927 kg/CO<sub>2</sub>e. By now, we have set up the GHG reduction target. In 2023, the total GHG emission (including Category 1, Category 2, Category 3, and Category 4) of the parent company has been reduced by 10 tons of CO<sub>2</sub>e when compared with that of 2022.</p> <p>4. Statistics of water consumption: In 2019, the total water consumption of the respective plant (Plant #, Plant #2 and Plant #3) is 113,667 tons; in 2020, it is 93,647 tons; in 2021, it is 79,877 tons; and in 2022, it is 103,015 tons. We will promote the water conservation policy continuous by setting 1 ton/year of water reduction as the target.</p> <p>5. Statistics of wastewater (effluent water) discharge: In 2019, the total wastewater discharge amount of the respective plant (Plant #1, Plant #2, and Plant #3) is 79,370 tons; in 2020, it is 60,043 tons; in 2021, it is 54,582 tons; and in 2022, it is 72,301 tons.</p> <p>6. We have also installed the rainwater recovery system in order to reduce the consumption of water resource. Rainwater recovery amount: In 2019, the rainwater recovery amount of the respective plant (Plant #1, Plant #2, and Plant #3) is 1,005 tons; in 2020, it is 903 tons; in 2021, it is 896 tons; and in 2022, it is 899 tons.</p> <p>7. Waste statistics: In 2019, the total weight of the waste released from the respective plant (Plant #1, Plant #2 and Plant #3) is 474.59 tons; in 2020, the total weight is 315.239 tons; in 2021, the total weight is 387.29 tons; and in 2022, the total weight is 421.03 tons.</p> <p>8. With the wastewater reduction equipment of the low-temperature vacuum process continuously operated, the plant can reuse 75% of the returned production process wastewater as the sub-grade household water through the water separating system. In this way, 30% of waste/wastewater can be reduced. The target is set at reducing 20 tons of waste per year.</p>	
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		<p>9. We also promoted the energy-saving activities such as elevated the utilization efficiency of the respective resource, used the solar power, remodeled the green lighting, installed the energy-saving LED lamps, used the variable-frequency devices, and changed to automatic A/C control, etc.</p> <p>10. Installed the RO hard water recovery system to reduce the water consumption.</p> <p>11. We promoted the paper-free e-based operation by encouraging employees to use double-sided paper and use recyclable plastic trash bags, etc.</p> <p>12. We introduced the ISO14064-1 GHG Inventory and verification. By now, we have completed the inventory checking in 2022 and it has been honored the AFNOR accreditation. Result of GHG emission checking: Category #1 is 140.49t/CO<sub>2</sub>e; Category #2 is 7,510.58 t/CO<sub>2</sub>e; Category #3 is 29,105.11 t/CO<sub>2</sub>e; and Category #4 is 1,296.42 t/CO<sub>2</sub>e.</p>	
<p>IV. Social issues</p> <p>(I) Has your company developed the required management policy and procedure according to the competent laws and International Bill of Human Rights?</p>	<p>V</p>	<p>1. Pursuant to the requirements specified in “The Convention on the Elimination of all Forms of Discrimination Against Women-CEDAW”, “Convention on the Rights of the Child-CRC” and “Convention on the Elimination of All Forms of Racial Discrimination-ICERD”, we respect the internationally recognized basic human rights; including the elimination of all types of discrimination against individuals, organization, corporate to female employees, children and different races and the protection of the reproductive right.</p> <p>2. To protect legal rights of employees, we established the “Working Rules“ in order to specify the rights and obligations related to the company and the employees. The purpose is to ensure that each individual employee will be treated and respected fairly and decently. We also developed the “Sexual Harassment Prevention Measures and Punishment Method” and provided a complaint channel to protect employee’s rights.</p> <p>3. We organized the Employee Appraisal Committee and confirmed that differential treatment will not occur to the human resource implementation policy in terms of gender, race, social/economic class, age, marriage and family status. Its purpose is to realize the fairness and impartiality for</p>	<p>Abiding by the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and execute the operation.</p>

			employment, hiring conditions, salary, welfare, training, evaluation and promotion opportunities, etc.	
(II) Have you developed and implemented reasonable employee welfare measures (including salary, vacation and other welfares, etc.) and reflected the operation performance or results appropriately in the employee salary?	V		<p>1. Employee salary and welfare measures:</p> <p>(1) In 2022, the average yearly salary of the employees in the entire plant is a sum of NT\$47,713. The average yearly salary of female employees is a sum of NT\$48,634.00 in 2022.</p> <p>(2) It has been specified in the company rules that if profit is earned by the company in that year (the profit before deducting the remunerations of employees, directors and supervisors from the pre-tax profit), then the company will allocate over 1% in which, less than 10% will be allocated as the employee remunerations.</p> <p>(3) Based on the Labor Standards Act, the company has developed the “Working Rules” and it comprise salary, bonus, working time, vacation, presence, evaluation and welfare measure sections. For detailed employee welfare measures, please refer to the description of labor-employer relationship provided in this Annual Report.</p> <p>2. Reflecting the operation performance in employee salary: To encourage and to urge employee’s devotion and diligence, we have set up the well-defined reward and punishment standard and bonus system. When discovering the breaching behavior, besides asking for immediate improvement, we will report the offender for punishment and the punishment result will be connected with the reward and remunerations established for the performance evaluation system. In the meantime, the company’s performance result is also connected with the employee bonus and its purpose is to expect all employees will follow applicable regulations and the internal control mechanism when performing all types of operational activities.</p> <p>3. Occupational diversity and equality:</p> <p>(1) In this Company, the Ratio of female employees is 22% and the Ratio of the high-level female supervisors (above the Deputy Section Chief level) is 16.3%.</p> <p>(2) The employee welfare measures (for example: employee salary occupational diversity and equality,</p>	Abiding by and implementing the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”.

			vacation, allowances, cash gift, and subsidies, etc.) will remain unchanged in terms of gender or race.	
(III) Have you provided a safe and health working environment for the employees and conducted the employee safety and health education periodically?	V		<p>We will comply with the “Occupational Safety &amp; Health Act” and fulfill the following requirements:</p> <ol style="list-style-type: none"> <li>1. System and measures: The purpose is to protect the safety of the working environment and the employees, execute the ISO45001 certified occupational safety and health management system, create a safe and hygienic working environment, promote the safety and health operation conception continuously, set zero safety and health incidents as the management target and urge all employees to abide by the safety and health rules and system.</li> <li>2. Pursuant to the occupational safety and health regulations, we have set up special Work Safety Office and Factory Medical Room. In accordance with the applicable laws, each plant site (Plant #1, Plant #2 and Plant #3) of this Company is provided with Occupational Safety Administrator, Occupational Safety Staff, and Occupational Safety Supervisor that possesses the required qualification license.</li> <li>3. In 2021, we have acquired the ISO45001 occupational safety and health management system certification for each plant site (Plant #1, Plant #2 and Plant #3) of this company and such certification will be valid until June 2024. The scope of such certificate shall include each plant site of this Company.</li> <li>4. Starting from 2021, we assigned the occupational safety medical physician to reside at the plant for rendering the desired services. In this way, we provide the professional medical caring service for the specific occupational safety-related high risk employees or the health-related high risk employees.</li> <li>5. Yearly number of employee occupational hazards /victims reported by each plant site (Plant #1, Plant #2 and Plant #3) of this Company: In 2020, the number of hazard is 2 cases (person); in 2021, it is 2 cases (person); and in 2022, it is 6 cases (person). It accounts for about 1.3% of the total employees.</li> <li>6. Each plant site (Plant #1, Plant #2, and Plant #3) of this Company will provide a safe and healthy working environment for all employees, including the required</li> </ol>	Abiding by and implementing the concept of “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”.

		<p>safety protection gear and equipment as well as health and first aid facilities. In the meantime, efforts have also been taken by each plant site to minimize the hazardous factors that will jeopardize the safety and health of employees in order to prevent occupational hazards.</p> <p>7. Pursuant to the applicable laws, this Company provided the required safety and health education and training programs that will be suitable for newcomers to perform the respective work. To protect the safety and the health of all workers, they are required to coordinate with and engage in emergency incident responding actions, learning of fire fighting and first aid-related basic knowledge and drills. In the meantime, we also disseminated safety, hygiene, and health knowledge that is related to the worker's operation. In terms of the working safety, the employee's emergency responding ability and safety concept are also sharpened through continuous education, training and dissemination. Its purpose is to reinforce employee's perception ability in order to reduce accident events that may be caused by unsafe actions.</p> <p>8. Pursuant to the applicable laws, we conducted labor working environment monitoring semi-yearly in order to learn about actual situations of their operating environment and the worker's exposure status.</p> <p>9. Pursuant to the applicable fire fighting laws, we appointed fire fighting management staff. By law, we also conducted a semi-yearly fire fighting drill, yearly reporting of fire fighting equipment safety inspection, and yearly reporting of building safety inspection. All of the above are comply with the regulations. On an irregular basis, the special work safety person of the company will check the occupational safety gears and the fire fighting equipment at the safety audit point.</p> <p>10. The company has set up the entrance control system to monitor the real-time status of the system and the security guards. In addition, we also conducted the regular inspection and the 24-hour monitoring for the plant site safety.</p> <p>11. We set up a health-care center to protect employee health and the center is also granted with a occupational health promotion certification issued by the Health Promotion</p>	
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(IV) Has the company developed an efficient occupational ability development training plan for the employees?	V	It is the goal of the company to create an efficient environment for the occupational development of the employees. Based on the need of the work, the department supervisor shall assign its associate to participate in the professional training. The purpose is to help the employees develop deeper knowledge and higher competence, and enhance their working efficiency and quality so that the learning and the growth of the employees will be	Abiding by and implementing the concept of "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".

		linked to the company's development objectives. Based on duties or professionalism, the employee may raise be allowed to continue advanced studies. Pursuant to the statutory regulation, we also allow the employees to attend continuous or qualification related advanced study in order to acquire the required licenses or professional skills so as to intensify their ability in occupational development. During the personnel performance evaluation and the promotion operation, we also referenced the employee's performance status. We encouraged the employee to engage in self-learning and to intensify their competence so that further harmony will be achieved in the aspect of individuals, family and work. To that extent, the virtuous cycle can be achieved in terms of talent training, talent retaining and personal growth. In the appropriate manner, we reflected the company's operation performance or result to the employee salary policy to ensure the recruitment, retention and encouragement will be achieved for the human resources so as to attain the sustainable operation goal.	
(V) Regarding the issues of the product and service related customer health and safety, customer privacy, marketing and labeling, do you follow the applicable laws and international criteria and develop the policy and complaint procedure in order to protect the equity of consumers or customers?	V	Our marketing and labeling of the product and service are conducted pursuant to the applicable laws and international criteria. The marketing and the labeling of the product are conducted according to the requirements of ISO and TS quality system and customer's demand. Product marketing is conducted according to requirements of international criteria and local regulations. In the meantime, we also developed the customer right and privacy protection policy and complaint procedure such as "Service Management Procedure", "Customer Rejection & Complaint Management Method", "Confidential Information Protection Policy" and "Customer Satisfaction Investigation Method" so that we may protect the equity pertaining to the consumers during R&D, purchase, production, operation and service processes. To elevate customer's a confidence in the company's information security, we also introduced the ISO27001 information security management system to strengthen hacking prevention ability and to acquire a third-party certification in the meantime.	Abiding by and implementing the concept of "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".
(VI) Have you developed a supplier management policy to urge that a supplier should comply with the established requirements when handling the environmental protection,	V	1. We developed the "Purchase Management Procedure" to specify the supplier screening conditions in terms of environmental protection, human rights, health and	Abiding by and implementing the concept of "Corporate Governance Best Practice Principles for TWSE/TPEX Listed

<p>occupational safety and health or labor human rights issues and how about its execution status?</p>		<p>sustainable development as well as the demand and expectation for the suppliers in the aspects of environment safety and health risks, ethics standard and honest operation, etc.</p> <p>2. We also organized the supplier guidance project. By using cooperation as the basis, it is hoped that sustainability will be realized in the daily supply chain management through supplier selection, audit guidance, performance evaluation, training, and supplier forum. In 2022, the cooperating suppliers of this company have completely (100%) met the following conditions.</p> <table border="1" data-bbox="958 491 1621 1406"> <tr> <td data-bbox="958 491 1218 863">Supplier evaluation</td> <td data-bbox="1218 491 1621 863"> <ol style="list-style-type: none"> <li>1. All suppliers must pass the supplier assessment and follow the supplier conduct code.</li> <li>2. The process-related aerospace raw material supplier must pass certification for AS9100 quality management system, and the industrial raw material supplier must pass the certification of ISO9100 quality management system.</li> <li>3. The factory affairs and relevant operation contractors must secure the certification for ISO45001 occupational safety and health management system.</li> </ol> </td> </tr> <tr> <td data-bbox="958 863 1218 1086">Supplier audit</td> <td data-bbox="1218 863 1621 1086"> <p>This Company has organized the Audit Team and the Guidance Team for monitoring supplier's defect improvement progress so that they may work together to elevate the quality and techniques, reinforce the environmental protection related safety and health performance, and introduce the automation for improving the production capacity.</p> </td> </tr> <tr> <td data-bbox="958 1086 1218 1385">Supplier training</td> <td data-bbox="1218 1086 1621 1385"> <p>On an irregular basis, the company will guide and communicate with the supplier through supplier seminars and yearly audit assessments in order to enhance their performance in environmental protection, safety and health while meeting the international standard. The training courses shall include occupational hygiene, employee health, fire fighting maintenance, carbon inventory, climate change, legal risks and occupational ethics, etc.</p> </td> </tr> <tr> <td data-bbox="958 1385 1218 1406">Supplier forum and</td> <td data-bbox="1218 1385 1621 1406"> <p>On an irregular basis, this Company will</p> </td> </tr> </table>	Supplier evaluation	<ol style="list-style-type: none"> <li>1. All suppliers must pass the supplier assessment and follow the supplier conduct code.</li> <li>2. The process-related aerospace raw material supplier must pass certification for AS9100 quality management system, and the industrial raw material supplier must pass the certification of ISO9100 quality management system.</li> <li>3. The factory affairs and relevant operation contractors must secure the certification for ISO45001 occupational safety and health management system.</li> </ol>	Supplier audit	<p>This Company has organized the Audit Team and the Guidance Team for monitoring supplier's defect improvement progress so that they may work together to elevate the quality and techniques, reinforce the environmental protection related safety and health performance, and introduce the automation for improving the production capacity.</p>	Supplier training	<p>On an irregular basis, the company will guide and communicate with the supplier through supplier seminars and yearly audit assessments in order to enhance their performance in environmental protection, safety and health while meeting the international standard. The training courses shall include occupational hygiene, employee health, fire fighting maintenance, carbon inventory, climate change, legal risks and occupational ethics, etc.</p>	Supplier forum and	<p>On an irregular basis, this Company will</p>	<p>Companies”.</p>
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Supplier forum and	<p>On an irregular basis, this Company will</p>										

			citation	hold the supplier seminars. In addition to communicating company's sustainability concept and target, we also recognized suppliers that have performed excellently and that have made superior contributions in the aspects of quality elevation, cost reduction, on-time delivery and sustainable performance.	
V. Have you referenced the common international reports for compiling the criteria or guide or sustainability report that will be used to disclose company's non-financial information? Have the aforesaid report been provided with the validation or guarantee comments by the third-party verification unit?		V	By referencing to the common international report, we have compiled the criteria or the guide. In 2022, we also completed the GHG inventory and verification according to ISO14064-1 and will complete the compilation of Sustainability Report by 2023.		It doesnot meet the requirements of "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" yet.
<p>VI. If the company has compiled the sustainable development rules according to "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", please explain the variations between its operation and the established rules.</p> <p>Although we haven't compiled the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", however we also appointed the responsible unit to handle the employee equity, environmental protection, environment safety and community relationship issues, etc.</p>					
<p>VII. Other important information that will help promote the execution of sustainable development:</p> <p>(I) Environmental protection: Please refer to the description of "III. Environmental issues.</p> <p>(II) Community engagement, social contribution, social service and public service:</p> <ol style="list-style-type: none"> <li>1. We have organized the "NAFCO Social Charity Foundation". In each year, we will provide the social contribution and the public service donation that should be executed by the social enterprise : <ol style="list-style-type: none"> <li>a. On an irregular basis, we contributed our donation to the social welfare groups and education groups and the public service feedback. In the meantime, we also encourage the rural children to acquire more learning opportunities .</li> <li>b. On a regular basis, we keep close contact with other social welfare groups to discuss their status and the assistance required for the scheduled activity plans.</li> <li>c. In 2022, we donated a sum of NT\$550,000 for the charity public service sector and listed below are the entities receiving the support: (1) Taoyuan City Policy Friend Association. (2) Quaker Minor Family Care Center (number of children of the minor families is 80 persons). (3) Bo Yu Social Welfare Foundation, a legal person.</li> <li>d. In 2022, we donated a sum of NT\$500,000 to the education public service sector, and listed below is the entity receiving the support: National Yang Min-Jiao Tung University (Principal Seminar Plan), hoping that the donation will be used for retaining the high-tech PhD talents to set their root in Taiwan for contributing to the development.</li> </ol> </li> <li>2. Irregularly we conducted the volunteer activities and also encouraged our employees to participate.</li> <li>3. Cooperated with the selected school in providing the on-hand practicing opportunities for their students so that they may accumulate industrial experiences.</li> </ol> <p>(III) Consumer's right: Please refer to the description of "IV. Social issues</p> <p>(IV) Human rights</p> <ol style="list-style-type: none"> <li>1. Abiding by the spirit of concern about workers and complying with the local labor laws strictly and openly, we will observe human rights, labor and child labor related laws and regulations so as to respect human rights, improve the working environment continuously and promote amiable labor-employer relationship in the hope that we will become the corporate employer that is credible, honest and that is worthy of trust .</li> <li>2. To maintain gender equality in work and personal dignity, we have set up the rules to prohibit the sexual harassment in the job location and we also put up the posters around the job location to disseminate such message. <ol style="list-style-type: none"> <li>(1) System and measures: <ol style="list-style-type: none"> <li>a. Prohibiting forced labor. No hiring of child labor.</li> </ol> </li> </ol> </li> </ol>					

- b. The working hours, salary and welfare that are equal to or greater than the statutory regulations.
- c. Humane treatment, diversified gender equality and non-discrimination: The employment standard will be the employee's working ability. All employees will be treated equally regardless of gender, religion, race, nationality or political party. Such approaches will be expressly specified in the employment policy to ensure that the applicants and the employees will be fairly treated in the aspects of recruitment, appointment, development, evaluation and reward, etc. Protect the human rights of workers. They will not suffer from differential treatment in employment or work regardless of any distinction in the aspects of race, color, gender, language, religion, politics or other viewpoints, nationality or social level, property, birth or other identity, etc.  
Maintain working equality and dignity for the diversified gender. Prohibit sexual harassment in the job location in order to present a working environment emphasizing diversified gender equality.
- d. Provide a health and safe environment.

(2) Execution status

- a. The company has never hired non-voluntary employees by means of threatening, guarantee or contract. The company has neither hired any person under 15 years in age nor a person that is lower than the age of compulsory education.
- b. We comply with the normal working hours specified by the law. We also exercised the labor relationship and paid the equivalent remuneration on the meeting of mind basis between both parties. We recognize the contribution of diversified employees. The addition of hiring conditions or the approach amendment is executed through the communication and negotiation by both parties during the Labor and Employer Meeting. The Welfare Committee elected by the employees will convene the Welfare Committee Meeting regularly and provide relevant welfare activities for labors. Enhance the employee's physical and mental health as well as maintain pleasant mood in performing the work. No dispute until now.
- c. We respect every employee and prohibit sexual harassment, physical punishment, mental or verbal scolding for any purpose. We also commit and guarantee that different standards and unequal treatment will not be exercised when dealing with the salary, promotion, reward, and training opportunities by making the human species, color, age, gender, race or political party as the excuse. The aforesaid requirements are expressly specified in the company management rules. In addition to communicating the newcomer onboarding training courses and set up the anonymous suggestion box, we also printed posters and posted them on the bulletin in order to provide a most secure working environment for all employees. No dispute until now.
- d. By law, we also set up a medical care physician and the labor safety and health administrator and provided the pre-job and the on-the-job health, safety and hygiene related education and training. The medical care physician will trace the health status of high-risk employees periodically as well as help and instruct the employee to refrain from the behaviors or habits that may harm their health. Pursuant to the applicable laws, we also provided the protection gears required for the job location in order to provide the safest and healthiest working environment for all employees. Until now, all programs are operating normally.

(V) Safety and health:

1. System and measures:

- a. To protect the working environment and the employee's safety, we planned the ISO45001 international certification for the occupational safety and health management system in order to create a safe and hygienic working environment. Its purpose is to promote safety and health related operation conception continuously so as to achieve the management target of zero safety and health incident and to urge all employees to observe the safety and health related regulations and systems.
- b. We set up the health-care center to protect employee's health. In the meantime, we have also secured the occupation health promotion certification issued by Health Promotion Administration, Ministry of Health and Welfare.

2. Execution status:

- a. With the ISO45001 certification acquired, we are able to implement the occupational safety and health management system in order to elevate the safety and health management performance continuously.
- b. On a regular basis, we conducted the health inspection and health promotion activities in order to provide the health-care services in the hope that all employees may maintain a healthy physical and mental conditions.
- c. We developed the "Production Work Safety and Health Operation Method for Manufacturing Location" to prevent the occupational hazard from occurring. We also created a safe and healthy working environment and promoted the safe and healthy operation conception continuously. In the meantime, we also set zero safety and

- health incident as the management target. Further, all employees are required to observe the safety and health related regulations and system.
- d. In addition to the aforesaid “Production Work Safety and Health Operation Method for Manufacturing Location”, the Work Safety Office also audited the safety and health activities in the job location periodically to prevent the hazard from occurring.
  - e. Through the employee education and training, we have executed more effective protection measures for the working environment and employee’s personal safety so as to protect the employees from the occupational injury.
  - f. By setting up standardized working safety, the employee’s sense of safety has been elevated to prevent the incident. Through the safety and health management works, it is our hope to provide a comfortable and safety environment as the target for the work safety policy.

**(V-I) Listed and OTC company climate related information**

**1. Execution status of climate-related information**

Item	Execution status
<ol style="list-style-type: none"> <li>1. Describe the supervision and the governance that will be executed by the Board of Directors and the Top Management for the climate-related risks and opportunities.</li> <li>2. Describe how the identified climate-related risks and opportunities will affect the business, strategies and finance of the company (short-term, middle-term, long-term).</li> <li>3. Describe the impact of extreme climate events and transition action to the financial status.</li> <li>4. Describe how the climate risk identification, evaluation and management process can be incorporated in the overall risk management system.</li> <li>5. When using the scenario analysis evaluation for the resilience of climate change risks, explain the used scenarios, parameters, hypothesis, analytical factors and primary financial impact.</li> <li>6. If a transition plan is available for responding to climate-related risk management, explain the content of the plan as well as the indicators and the target used to identify and manage physical risks and transition risks.</li> <li>7. When using the internal carbon pricing as the planning tool, explain the price setting standard.</li> <li>8. When setting the climate-related target, explain the covered activities, the GHG emission category, the planned schedule and yearly progress accomplishment. When using the carbon offset or RECs (Renewable Energy Certificate) in order to achieve the planned target, explain the allowance source and the quantity of the offset carbon reduction or the quantity of RECs.</li> <li>9. GHG Inventory and validation status (filled in 1-1)</li> </ol>	<ol style="list-style-type: none"> <li>1. The NAFCO climate risk management will be discussed and evaluated by the ESG Sustainability Promotion Committee. After reaching the climate change related resolutions, the ESG Chief Member/Executive Member will report to the Top Management about the working plan execution progress and the required improvement suggestions. Based on the schedule specified in the applicable laws, the sustainability report will be presented after 2024. After that, ESG will explain and report the annual promotion result and the working plan for the following year. In this case, ESG will make the correction according to the comments rendered by the Board of Directors. It will be included in the climate change risk related issues and its management objectives</li> <li>2. Based on the schedule specified in the applicable laws, the identified climate change risk category will be presented in the Sustainability Report after 2024. Such report will also explain the influencing period and the level of impact. Through this, it is hoped that the stakeholders will understand the responding actions developed by NAFCO in dealing with the impact of climate change on the risks and opportunities in minimizing the risks.</li> <li>3. Nowadays, more frequent extreme weather has been seen due to the climate change. With the rising understanding of the global climate crisis, it has also affected the enterprise operation and the consumer’s consuming behaviors directly or indirectly. Therefore, the report prepared by the TCFD (Task Force on Climate-Related Financial Disclosures) is referenced to carry out the management for the following four core aspects, i.e., governance, strategies, risk management and indicator/target.</li> <li>4. Based on the schedule specified in the applicable laws, it is the plan of NAFCO to complete the risk assessment during the “TCFD Climate Change related Financial Disclosure Discussion Meeting” that will be held by ESG Sustainability Promotion Committee after 2024. During the meeting, the discussion will be conducted for the company’s operation transition and physical risks and opportunities that might be caused by the climate change related factors as being provided by the units involved.</li> <li>5. Based on the schedule specified in the applicable laws and the TCFD-related climate scenario analysis result, it is the plan of NAFCO to use the quantitative and qualitative analysis method for analyzing the impact of the climate-related risks and opportunities to this</li> </ol>

company's strategies and plans that will be developed after 2024. Based on the short-term, middle-term, and long-term definitions discussed during the ESG Sustainability Promotion Committee Meeting as mentioned in "Reference 2 °C Scenario (2DS), we set the short-term as "1-3 years", the middle-term as "3-5 years" and the long-term as "6-10 years". Such data will be used to assess climate related risks and opportunities. The climate related risks comprise the following two types, i.e. transition risks and physical risks. These risks will be sub-divided into policy, statutory regulations, techniques, market, goodwill, immediacy and chronicity. The opportunities will be sub-divided into the following 5 categories, i.e. resource efficiency, energy source, product, service, market and organizational resilience.

6. Based on the schedule specified in the applicable laws, the TCFD report will be referenced to explain the method of reducing the impact of the identified climate change risks in the Sustainability Report that will be prepared after 2024. Through this, it is hoped that the stakeholders will understand the responding actions developed by NAFCO in dealing with the impact of climate change on the risks and opportunities in minimizing the risks.
7. We will comply with the carbon pricing standard that will be established by the competent authority.
8. This Company has set up the solar power generation system. Until now, we are granted with 222 pieces of REC certificates. For details, please refer to the information disclosed in our annual report.
9. Our parent company has prepared the "2021 GHG Report" and has acquired the validation and verification certificate from *AFAQ*-AFNOR Group (BellCERT Group) .

<p>Basic information of this Company</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The company, steel making industry and cement industry with capital fund over NT\$10 billion.</li> <li><input type="checkbox"/> The company with capital fund over NT\$5 billion up to NT\$10 billion</li> <li><input checked="" type="checkbox"/> The company with capital fund below NT\$5 billion</li> </ul>	<p>Based on the listed and OTC company sustainable development route map, followings shall be disclosed:</p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Parent company individual inventory</li> <li><input checked="" type="checkbox"/> Parent company individual validation</li> <li><input type="checkbox"/> Subsidiary inventory for Combined financial report</li> <li><input type="checkbox"/> Subsidiary validation for Combined financial report</li> </ul>
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Category 1	Total emission (Ton CO2e)	Density (Ton CO2e/NT\$Million) (Note 2)	Validation entity	Description of validation status (Note 3)
Parent company	140.4948	0.00007139347	( AFAQ-AFNOR Group (BellCERT Group) verification entity(Certificate No.: VB004)	AFNOR ASIA has confirmed that the inventory has been conducted for the GHG emission of each NAFCO plant in Taiwan in 2021 according to the verification standard specified in the protocol and has submitted the report. The report indicated that the reasonable guarantee class of the inventory data is rated as Category 1 and Category 2 without any comments reserved (the global warming GWP value is quoted from “IPCC 2013 5 <sup>th</sup> Evaluation Report).
Subsidiary	To be completed by 2023.	To be completed by 2023.		
...(Note 1)	To be reported in 2023 separately	To be reported in 2023 separately		
Total	140.4948	0.00007139347		
Category 2	Total emission (Ton CO2e)	Density (Ton CO2e/NTD: thousand) (Note 2)	Validation entity	Description of validation status (Note 3)
Parent company	7,510.5800	0.00381655719	( AFAQ-AFNOR Group (BellCERT Group) verification entity(Certificate No.: VB004)	AFNOR ASIA has confirmed that the inventory has been conducted for the GHG emission of each NAFCO plant in Taiwan in 2021 according to the verification standard specified in the protocol and has submitted the report. The report indicated that the reasonable guarantee class of the inventory data is rated as Category 1 and Category 2 without any comments reserved (the global warming GWP value is quoted from “IPCC 2013 5 <sup>th</sup> Evaluation Report).
Subsidiary	To be completed by 2023.	To be completed by 2023.		
...(Note 1)	To be reported separately.	To be reported separately.		
Total	7,510.5800	0.00381655719		
Category 3	29,105.1163	0.01478998172	( AFAQ-AFNOR Group (BellCERT Group)	AFNOR ASIA has confirmed that the inventory has been conducted for the GHG emission of each NAFCO plant in Taiwan in 2021 according to the verification standard specified in the protocol and has submitted the report. The report indicated that the

			verification entity(Certificate No.: VB004)	reasonable guarantee class of the inventory data is rated as Category 1 and Category 2 without any comments reserved (the global warming GWP value is quoted from “IPCC 2013 5 <sup>th</sup> Evaluation Report).
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### 1.1 GHG Inventory and validation status

Table preparing descriptions:

- 1、 In this table, the information of Category 1 and Category 2 is disclosed according to the schedule specified in Item 2 under Article 10 of this Criteria. As for the information of Category 3, the company may disclose as required.
- 2、 The company may conduct the GHG inventory according to the following standard:
  - (1) Greenhouse Gas Protocol (GHG Protocol)
  - (2) ISO 14064-1 announced by International Organization for Standardization (ISO)
- 3、 The validation entity shall comply with the validation regulations specified in the Sustainability Report compiled by The Taiwan Stock Exchange Corporation and Taipei Exchange (TPEX).
- 4、 The subsidiaries may prepare the report in individual, summarized (for example: by country or region) or combined way (Note 1).
- 5、 The density of the GHG emission may be calculated according to the per unit product/service or revenue method, but it shall at least disclose the data being calculated according to the revenue (NT\$million) (Note 2).
- 6、 The Ratio of the operation locations or the total emissions of the subsidiaries not included in the inventory calculation shall not be higher than 5%. The aforesaid total emissions refers to the emission amount being calculated according to the compulsory inventory scope specified in Instruction 1 required for preparing the table.
- 7、 The description of the validation details shall explain the content of the validation report prepared by the validation entity. In the meantime, all of the validation comments report shall also be attached to the Annual Report (Note 3).

**(VI) Status of fulfilling the honest operation as well as the variations with the “Honest Operation Rules for Listed and OTC Companies” and reasons.**

Evaluation item	Operation status			Variations with the “Honest Operation Rules for Listed and OTC Companies” and reasons.
	Y	N	Summary	
I. Developing the honest operation policy and solutions (I) Has the company developed the honest operation policy that is approved by the Board of Directors? Have the company rules and external documents defined the honest operation policy and approaches together with the commitment that the Board of Directors and the Top Management will execute the operation policy proactively?	V		<p>We have developed the “Honest Operation Rules” and it has been approved by the Board of Directors. Further, we have published the rules on our website and defined the honest operation policy in the aforesaid rules. Based on the aforesaid rules, the Board of Directors and the Top Management will execute the required operations.</p> <p>This Company will engage in the commercial activities according to the fair, honest, credible and transparent principles. To realize the honest operation policy and prevent the dishonest behaviors, we urge all of our employees (including the subsidiaries) to obey and comply when executing the operations.</p> <p>In the aspect of proactive execution being committed by the Board of Directors and the Top Management, all directors of this Company are abiding by the high-level of self-discipline rules. When dealing with the issues that may present conflicts of interests with themselves or the representing legal person that will impair company’s benefits, they will provide comments and answer the questions only without being involved in the discussion. In the meantime, they will recuse themselves during the discussion and the voting and will not represent other directors in exercising their voting right. All directors are also abiding by the self-discipline rules and will not collude with each other improperly.</p>	Abide by the honest operation rules required for the listed and OTC companies
(II) Has the company established the dishonest behavior related risk assessment mechanism? Has the company analyzed the business activities periodically to learn about the business operations that may present higher dishonest behavior risks and developed the dishonest behavior prevention solutions according to the analysis result? Further, such assessment mechanisms shall at least cover the prevention measures against the behaviors specified in the clauses of Item 2 under Article 7 of “Honest Operation Rules for the Listed and OTC companies”.	V		In the “Honest Operation Rules”, this Company has defined the prevention measures that will be taken for dealing with the business activities carrying higher dishonest behavior risks within the operation scope. It also contains the rules prohibiting the offering and the receiving of bribery, the offering of illegal politic contribution, the improper charity donation or sponsorship as well as the offering or receiving of unreasonable gift, services, entertainment or other improper benefits and the engagement in unfair competition, etc. As such, the rules will be proactively disseminated in order to realize the honest operation policy.	Abide by the honest operation rules required for the listed and OTC companies

Evaluation item	Operation status			Variations with the “Honest Operation Rules for Listed and OTC Companies” and reasons.
	Y	N	Summary	
(III) Has the company defined the operation procedure, conduct guideline, violation punishment and complaint system in the dishonest behavior prevention solution and has it been strictly executed, reviewed and corrected periodically?	V		In the “Honest Operation Rules”, this Company has clearly and comprehensively defined the dishonest behavior prevention solution (including employee conduct rules and employee complaint management method, etc.) and it has been strictly executed during the internal management and commercial activities. In this Company, the Human Resource Department is responsible for the compilation and the supervision of honest operation policy and prevention solutions. In the meantime, the internal audit unit will check the compliance status periodically and then submit the prepared audit report to the Board of Directors.	Abide by the honest operation rules required for the listed and OTC companies
II. Implementing the honest operation (I) Has the company evaluated the credibility record of the transaction target and defined the honest behavior clauses in the contract signed with the business transaction target?	V		We have signed the “Integrity Guarantee Agreement” with the distributor, supplier, customer of other business transaction target.	Abide by the honest operation rules required for the listed and OTC companies
(II) Has the company set up the special unit that belongs to the Board of Directors for promoting the honest operation and that shall report to the Board of Directors about the honest operation policy, the dishonest behavior prevention solution, and the supervising result regularly (at least once per year)?	V		This Company has assigned the Human Resource Department to develop and supervise the honest operation policy and the prevention solution. In the meantime, the internal audit unit will check the compliance status irregularly and then submit the prepared audit report to the Board of Directors. The Board of Director will fulfil the duty of care pertaining to a good-faith administrator in order to supervise and prevent dishonest behaviors. In addition, the Board of Directors will also review the execution effect and will execute the continuous improvement to ensure that the honest operation policy will be strictly executed.	Abide by the honest operation rules required for the listed and OTC companies
(III) Has the company developed the interest confliction prevention policy, provided appropriate explanation channel and put it into execution?	V		This Company has developed the interest confliction prevention policy and also has provided an appropriate channel for the Board of Directors and the managers to explain if any potential interest conflict exists within the company.	Abide by the honest operation rules required for the listed and OTC companies

Evaluation item	Operation status			Variations with the “Honest Operation Rules for Listed and OTC Companies” and reasons.
	Y	N	Summary	
(IV) Has the company executed the honest operation and developed an effective accounting system and internal control system? Has the company authorized the internal audit unit to develop an audit plan according to the dishonest behavior risk evaluation result in order to audit the compliance when executing the dishonest behavior prevention solution or authorized the CPA to execute the audit?	V		This Company has developed an effective accounting system and internal control system. Based on the risk assessment result, we developed the Annual Audit Plan in order to execute the respective internal audit. In this regard, we also reported the Audit Plan execution status and the subsequent improvement solution to the Audit Committee and the Board of Directors in order to realize the audit effect. Through the annual company internal self-evaluation, we urged each department subsidiary to design the self-inspection internal control system in order to confirm the execution effectiveness.	Abide by the honest operation rules required for the listed and OTC companies
(V) Have you provide the internal and external education and training for honest operation periodically?	V		On an irregular basis, we will conduct the education and training and dissemination so that the employees will understand company’s determination in executing the honest operation, policy, and prevention solution as well as the consequences breaching the honest behavior.	Abide by the honest operation rules required for the listed and OTC companies
III. Operation status of the company’s offence-reporting system (I) Has the company developed a practical offence-reporting and reward system, implemented convenient offence-reporting channel and assigned the case-accepting person for dealing with the reported target?	V		This Company has set up a practical offence-reporting system, implemented and announced the independent internal offence-reporting box and direct line for use by the person inside and outside the company . We also assigned special person or unit to accept the reported case and conduct the investigation.	Abide by the honest operation rules required for the listed and OTC companies
(II) Has the company developed a standard investigation operation procedure for accepting the offence-reporting case as well as the subsequent measures and relevant confidential mechanism that should be taken after completing the investigation?	V		This Company has appointed the special person or unit to accept reports and establish the category of the reported case and relevant standard investigation operation procedure. If there is a major violation or if it is discovered the company may suffer from major damage during the investigation, then we will prepare the report immediately and then submit the written report to the independent directors. We will keep secret the reporting person’s identity and the reporting content.	Abide by the honest operation rules required for the listed and OTC companies
(III) Has the company taken the measures for protecting the reporting person from improper disposition due to the reporting action?	V		We have taken the measures for protecting the reporting person from improper disposition due to the reporting action.	Abide by the honest operation rules required for the listed and OTC companies
IV. Reinforcing the information disclosure (I) Has the company disclosed the content of the developed honest operation rules and the promotion effect on your website and Public Information Observatory?	V		We have developed the “Honest Operation Rules” and have also published on our website and Public Information Observatory. In addition, we also disclosed the execution information about the “Honest Operation Rules”.	Abide by the honest operation rules required for the listed and OTC companies

Evaluation item	Operation status		Summary	Variations with the “Honest Operation Rules for Listed and OTC Companies” and reasons.
	Y	N		
(V) If you have developed your “Honest Operation Rules” according to “Honest Operation Rules for the Listed and OTC Companies”, please explain the variation between its operation and the developed rules. We have developed the “Honest Operation Rules” and it also meets the conception and the execution requirements specified in the “Honest Operation Rules for the Listed and OTC Companies”.				
VI. Other important information that will help understand the company’s honest operation status: (for example, company’s review and correction of the developed “Honest Operation Rules” ): None				

**(VII) If the company has developed the company governance rules and relevant regulations, please disclose its inquiry method:**

Regarding the company governance related rules developed by this Company, please visit the “Company governance” field of our website and it has also been published on the Public Information Observatory. For detailed information, please visit the Public Information Observatory where you can inquire the desired content by clicking “Company governance/Develop company governance related rules”.

**(VIII) Please also disclose other important information that will help further understand the company’s governance operation status: None**

## **(IX) Execution status of internal control system**

### **1. Internal Control Statement**

#### **National Aerospace Fasteners Corporation**

#### **Internal Control System Statement**

Date: February 22, 2023

Based on the self-evaluation result, we hereby certify the internal control system for 2022 as below:

- I. We are aware of that the development, execution and maintenance of internal control system are the responsibilities that should be fulfilled by the Board of Directors and managers. By now, we have established such system. It is developed to provide a reasonable guarantee for achieving the target being established for the operation effect and efficiency (including profit-earning, performance and asset safety protection, etc.), the reliability, timeliness, and transparency of the report as well as the compliance with applicable requirements and applicable regulations.
- II. The internal control system has its innate limitation. Regardless of how perfect the design will be, an effective internal control system will provide reasonable guarantee for the accomplishment of the aforesaid three targets only. Besides, the effectiveness of the internal control system may change along with the change of the environment and the situation. In spite of this, our internal control system is equipped with a self-monitoring mechanism. Once identifying the defect, it allows this Company to take corrective action immediately.
- III. Pursuant to the internal control system effectiveness judgment items specified in the “Regulations Governing Establishment of Internal Control System by Public Companies” (hereunder briefed as the “Governing Regulations” ), we are able to determine whether the design and the execution of internal control system are effective or not. Based on the judgment items of the internal system control adopted by the “Governing Regulations” and the management control process, the internal control system is divided into the following 5 composing elements: 1) Environment control; 2) Risk assessment; 3) Control operation; 4) Information and communication; and 5) Supervision operation. Each composing element also comprises several items. For details of the aforesaid items, please refer to the regulations specified in “Governing Regulations” .
- IV. Based on the judgment items of the aforesaid internal control system, we evaluated the effectiveness of the design and the execution of the internal control system.
- V. Based on the aforesaid evaluation result, we consider that the internal control system reported on December 31, 2022 (including the supervision and the management of subsidiaries), including the accomplishment extent of operation effect and efficiency target, is reliable, timely, transparent and meeting the applicable requirements and laws. As such, it is concluded that the design and the execution of the internal control system are effective and that it can guarantee the accomplishment of aforesaid target in reasonable way.
- VI. This Statement will become the main content of the Annual Report and the Prospectus of this Company and it will be disclosed to the public as well. If any illegal forgery and hiding occurs to the aforesaid disclosed content, then we shall be subject to the legal responsibilities specified in Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
- VII. This is to certify that the Statement has been approved by the Board of Directors of this Company on February 22, 2023. Among 9 presented directors, none of them are holding objections and so this Statement is approved by all of the directors unanimously.

National Aerospace Fasteners Corporation

Chairman: TSAL,Feng-Tzu (signature)

President: LIN, Wei-Tsun (signature)

2. When authorizing the CPA is to review the internal control system in project type, the CPA review report should be disclosed: None

**(X) If punishment is imposed on the company and its internal employee by the law in the previous year and up to the Annual Report printing date or if punishment is imposed on the company and its internal employee due to breaching the requirements of internal control system and where the punishment result may bring about major impact on the shareholder’s equity or the stock price, please indicate the punishment content, main defects and improvement status: None**

**(XI) Important resolutions reached in Shareholder Meeting and Board of Directors in previous year and up to the Annual Report printing date.**

Shareholder’s meeting

Meeting date:	Important motions	Resolutions	Execution status
May 31, 2022	1. 2021 operation report and financial report recognition case	The case is approved after the voting.	Execute the resolution result.
	2. 2021 loss make-up recognition case	The case is approved after the voting.	Execute the resolution result.
	3. Discussion on the amendment case for part of the clauses provided in “Company Rules”	The case is approved after the voting.	Operate according to the amended “Company Rules”.
	4. Discussion on the amendment case for part of the clauses provided in “Asset Acquisition or Disposition Operation Procedure”	The case is approved after the voting.	Operate according to the amended “Asset Acquisition or Disposition Operation Procedure”

Board of Directors

Meeting date:	Summary of important motions
February 22, 2022	1. Approved the recognition of terminating NI plant site lease and asset disposition due to the operation planning of NAFCO Suzhou Precision, a subsidiary 100% owned by this Company.
	2. Approved the “2021 operation report and financial report case”.
	3. Approved the “2021 loss make-up case”.
	4. Approved the “Company Rules” amendment case.
	5. Approved the “Asset Acquisition or Disposition Operation Procedure” amendment case.
	6. Approved the “2022 shareholder regular meeting convening date, convening reasons and shareholder motion raising period” case
	7. Approved the external endorsement guarantee case.
April 28, 2022	1. Approved the machinery equipment acquisition recognition case as required by NAFCO Suzhou Precision, a subsidiary 100% owned by this Company.
	2. Approved the “Board of Directors Meeting Rules” case.
July 28, 2022	1. Approved the capital loaning case required by NAFCO Suzhou Precision
	2. Approved and “Company Governance Practical Rules” amendment case.
	3. Approved the issuance of the 6th Employee Stock Option certificate subscription case.
October 31, 2022	1. Approved 2023 audit plan.
	2. Approved the “Board of Directors Meeting Rules” case.
	3. Approved the “Internal Major Information Processing Procedure” amendment case.
February 22, 2023	1. Approved 2022 employee and director remuneration distribution case. Employee remuneration: NT\$2,500,000.00 in cash. Director remuneration: NT\$1,610,000.00
	1. Approved 2022 Operation Report and Financial Report case
	2. Approved 2022 profit distribution case: Shareholder bonus: Cash dividend per share – NT\$1.02
	3. Approved the “Company Rules” amendment case.
	4. Approved the “Shareholder Meeting Rules” amendment case.
	5. Director election case.
	6. Released the director’s non-compete restriction case.
7. Approved 2023 shareholder’s regular meeting convening date, convening reasons, shareholder motion and director candidate list period setting case.	

**(XII) In the previous year and up to the Annual Report printing date, controversies are held by the director or the supervisor for the important resolutions reached in the Board of**

**Directors, with the record or written statement being maintained; the main content: None**  
**(XIII) Summarized report is maintained for the resignation and the dismissal of the company's Chairman, President, accounting supervisor, financial supervisor, internal audit supervisor, company governance supervisor and R&D supervisor: None**

## V. Public charge information relating to the CPA

### (I) Charge information relating to the CPA

Amount unit: NTD: thousand

Name of CPA office:	Name of CPA:	CPA auditing period:	Auditing charge	Non-auditing charge	Total	Remark
Pricewaterhouse Coopers	Wei-Hao Wu	January 01, 2022~December 31, 2022	2,260	290	2,550	
	Yen-Na Li	January 01, 2022~December 31, 2022				

Note 1: If CPA or the CPA office should be changed by this Company in the current year, please indicate the audit period and then explain the reasons for such change in the Remarks column.

Note 2: The non-auditing charge is a sum of NT\$290,000.00, which is required for transferring the fixed review charge, the CPA's report checking and the disbursement fee.

**(II) If the change of CPA office and the paid audit charge during the change year is less than that of the year before the change, then disclose the amount of audit charges before and after the change and the reasons: No such situation**

**(III) If the audit charge is less than that of previous year by more than 10%, then disclose the amount of the reduced audit charge together with its percentage and reasons: No such situation**

**VI. CPA change information: N/A**

**VII. If the company's Chairman, President, or the manager responsible for the financial or accounting matters has served in the office or its affiliate owned by the CPA in previous year, please disclose the name, the position and the period working in the office or its affiliate owned by the CPA: None**

**VIII. Equity transfer and pledged share change status of the director, supervisor, manager and the shareholder owning the shares more than 10%, which has occurred in previous year and up to the Annual Report printing date:**

**(I) Equity change status of directors, supervisors, managers and major shareholders**

Position	Name	2022		Up to March 27, 2023	
		Share increase (decrease):	Pledge share increase (decrease)	Share increase (decrease):	Pledge share increase (decrease)
Chairman	Getac Holdings Corporation	-	-	-	-
	Representative of Getac Holdings Corp.: TSAI, Feng-Tzu	30,000	-	-	-
Director	Getac Holdings Corporation	-	-	-	-
	Representative: MIAO, Hua-Pin				
More than 10% of shareholders	Getac Holdings Corp.	-	-	-	-
Director	MiTac Technology Corporation	-	-	-	-
	Representative: Wei-Chun Lin	(2,000)	-	-	-
Director	National Development Fund, Executive Yuan	-	-	-	-
	Representative: ZHU, Song-Chu	-	-	-	-
Director	Lien Jie Investment Co., Ltd.	-	-	-	-
	Representative: HSIEH, Feng-Jen	-	-	-	-
Director	ZHOU, Te-Chien	-	-	-	-
Independent Director	LI, Li-Hang	-	-	-	-
Independent Director	CHAO, Hsin-Che	-	-	-	-
Independent Director	WEN, Wang-Shou	-	-	-	-
President	LIN, Wei-Tsun	-	-	-	-
Vice President	LI, Jia-Jui	-	-	-	-
Vice President and Co-acting Accounting Supervisor (Note 1)	LI, Wen-Cheng	-	-	-	-
Vice President (Note 1)	CHANG, Ya-Chu	-	-	-	-
Vice President (Note 2)	LI, Yu-Cheng	-	-	-	-

Note 1: Appointed on March 01, 2022

Note 2: Dismissed on February 02, 2023

Note 3: The shareholders owning more than 10% of the total shares issued by the company shall be indicated as major shareholders and they should be listed separately.

Note 4. If the opponent of the equity transfer or the equity pledge target is serving as the interested party, then such person shall be indicated in the following table.

**(II) Equity transfer information: N/A**

**(III) Equity pledge information: N/A**

**IX. The information of the shareholders owning shares among the Top 10, who are serving as the interested party or the spouse or the relative within 2nd-degree with each other.**

March 27, 2023

Name (Note 1)	Shares owned by the principal.		Shares owned by spouse and minor children		Total shares owned under the names of others		If the interested party or spouse or relative within 2nd-degree is existed amount the Top 10 shareholders, please indicate the title or name and relationship. (Note 3)		Remarks
	Shares	Ratio of shares (%)	Shares	Ratio of shares (%)	Shares	Ratio of shares (%)	Title (or name)	Relation	
Getac Holdings Corporation Representative: HUANG, Ming-Han	20,578,174	39.08	-	-	-	-	-	-	-
National Development Fund, Executive Yuan	3,773,188	7.17	-	-	-	-	-	-	-
Management Committee of Yaohua Glass Co., Ltd.	1,915,304	3.64	-	-	-	-	-	-	-
Lih Ta Fasteners Co., Ltd. Representative: WANG, Tsang-Chung	1,425,616	2.71	-	-	-	-	-	-	-
Cheng Shi Investment Co., Ltd. Representative: Da Kuan Capital Co., Ltd.	1,015,000	1.93	-	-	-	-	-	-	-
Lien Chuang Investment Co., Ltd Representative: CHANG, Chih-Cheng	709,000	1.35	-	-	-	-	-	-	-
JP Morgan Securities Co., Ltd. special account under the trusted custody by HSBC.	679,000	1.29	-	-	-	-	-	-	-
UBS European SE investment account under the trusted custody by Bank of America.	548,057	1.04	-	-	-	-	-	-	-
TSAI, Jia-Ling	453,000	0.86	-	-	-	-	-	-	-
Time First Investment Co., Ltd. Representative: CHOU, Der- Chien	425,684	0.81	-	-	-	-	Getac - Holdings Corporation	The parent company of this company	-

Note 1: The Top 10 shareholders shall be listed. In case of the legal person shareholder, the name of the legal person shareholder and the name of the representative should be listed separately.

Note 2: The Ratio of shares is calculated under the name of the principal, the spouse, the minor children or others.

Note 3: The relationship between the shareholders, including legal person and natural person, being listed above shall be disclosed according to the requirements of "Financial Report Compilation Criteria for Share Distribution Companies".

Note 4: The shareholder list up to the ownership transfer cut-off date (March 27, 2023) of the Regular Meeting of Shareholders this time.

**X. The shares of the same reinvestment business that are owned by the company, the company's director, supervisor, manager or the business directly or indirectly controlled by the company and the Ratio of share owning shall be calculated altogether:**

Unit: Shares  
March 31, 2023

Reinvestment business (Note)	Invested in this Company		The investment made by the director, the supervisor or the business directly or indirectly controlled by the company.		Summary of investment	
	Shares	Share holding ratio	Shares	Share holding ratio	Shares	Share holding ratio
NAFCO Group Ltd.	13,000,000	100.00%	-	-	13,000,000	100.00%
NAFCO Holdings Ltd.	13,000,000	100.00%	-	-	13,000,000	100.00%
NAFCO Suzhou Precision (Note 1)	-	100.00%	-	-	-	100.00%

Note 1: The subsidiary in Mainland China is organized in Limited Company type that does not own any shares.

Note 2: The long-term investment conducted by the company pursuant to “Equity Law”.

## FOUR. Fund raising status

### I. Capital and shares

#### (I) Distributed shares

March 31, 2023

Unit: NTD: thousand/ thousand shares

Year and month	Distributed price	Approved capital		Paid-in capital		Remark		
	(NT\$/share)	Shares	Amount	Shares	Amount	Source of fund	Offsetting the capital with the properties other than cash.	Others
January 2015	10	580,000	5,800,000	52,550	525,501	Cash capital increase: 10,000	-	
March 2015	10	580,000	5,800,000	52,647	526,472	Employee Stock Option: 97	-	Jing-Shou-Shang-Tze-10401101680 Letter of June 01, 2015
March 2023	10	580,000	5,800,000	52,659	526,591	Employee Stock Option: 12		Change registration not handled yet.

#### (II) Type of shares

March 27, 2023

Type of shares	Approved capital				Remarks
	Circulated shares		Undistributed shares	Total	
	Listed (OTC)	Note listed (OTC)			
Common stock	52,659,155	0	527,340,845	580,000,000	

#### (III) Structure of shareholders

March 27, 2023

Structure of shareholders	Government institution	Financial institution	Other legal person	Individuals	Foreign institution and foreigners	Total
Quantity						
Number of shareholders	1	3	186	13,414	37	13,641
Shares held	3,773,188	289,182	27,522,047	18,081,725	2,993,013	52,659,155
Ratio of shares (%)	7.17%	0.55%	52.26%	34.34%	5.68%	100.00%

Note 1: The firstly listed (OTC) company and the OTC company shall disclose the Ratio of shares owned by Mainland China investors. The Mainland China investor refers to the people, legal person, group, other institution that is based in the Mainland China or the company putting the investment in the third area as specified in Article 3 of "Regulations Governing the Permit of Investment in Taiwan by the People of Mainland China".

Note 2: The information is valid up to March 27, 2023 which is the ownership transfer date of the Shareholder's Regular Meeting according to the shareholder list.

**(IV) Equity distribution status**

## 1. Common stock

NT\$10 face value per share

March 27, 2023

Classification of share owning	Number of shareholders	Shares held	Ratio of shares (%)
1-999	10,777	391,458	0.74%
1,000-5,000	2,270	4,272,172	8.11%
5,001-10,000	257	2,030,791	3.86%
10,001-15,000	97	1,234,600	2.34%
15,001-20,000	51	931,134	1.77%
20,001-30,000	57	1,425,728	2.71%
30,001-40,000	35	1,249,476	2.37%
40,001-50,000	15	657,360	1.25%
50,001-100,000	38	2,779,544	5.28%
100,001-200,000	22	3,164,512	6.01%
200,001-400,000	12	3,000,357	5.70%
400,001-600,000	3	1,426,741	2.71%
600,001-800,000	2	1,388,000	2.64%
800,001-1,000,000	0	0	0.00%
Over 1,000,001 shares	5	28,707,282	54.51%
Total	13,641	52,659,155	100.00%

Note: The information is valid up to March 27, 2023 which is the ownership transfer date of the Shareholder's Regular Meeting according to the shareholder list.

## 2. Preferred stock: N/A

**(V) Main shareholder list: The names of shareholders owning more than 5% of shares or the shareholders listed among the Top 10 in share owning together with the quantity and Ratio of shares.**

March 27, 2023

Shares	Shares held	Ratio of shares
Name of major shareholders		
Getac Holdings Corporation	20,578,174	39.08%
National Development Fund, Executive Yuan	3,773,188	7.17%

Note: The information is valid up to March 27, 2023 which is the ownership transfer date of the Shareholder's Regular Meeting according to the shareholder list.

**(VI) The market price per share, net value, profit, dividend and relevant information in previous 2 years.**

Unit: NTD: thousand/ thousand

shares

Item		Year		2021		2022		Current year is up to March 31 (Note 6)	
		Before adjustment	After adjustment	Before adjustment	After adjustment				
Market price per share	Highest	70.8	70.3	78.8	78.8			69.00	
	Lowest	45.05	44.55	49.7	49.7			93.20	
	Average (Note 2)	60.48		66.68				82.69	
Net value per share	Before distribution	33.70		36.99				-	
	After distribution	33.70		35.97				-	
Profit per share	Weighted average number of shares	52,647	52,647	52,647	52,647 (Note 1)				
	Profit per share	(1.84)	(1.84)	2.85	2.85 (Note 1)				
Dividend per share	Cash dividend	-	-	1.02	1.01976756				
	Stock grants	Surplus allotments	-		-				
		Capital surplus allotments	-		-				
	Cumulative unpaid dividend	-		-				-	
Investment return analysis	P/E ratio (Note 3)	-		21.86				-	
	Divident/price ratio (Note 4)	-		61.09 (Note 1)				-	
	Cash dividend yield (Note 5)	-		1.64% (Note 1)				-	

Note 1: 2022 profit distribution case was approved by the Board of Directors, but it has not been recognized by the Shareholder's Meeting yet.

Note 2: The average market price of each year is calculated according to the transaction value and the turnover of each year.

Note 3: P/E ratio = Current year average closing price per share ÷ Profit per share

Note 4: Divident/price ratio = Current year average closing price per share ÷ Cash dividend per share

Note 5: Cash dividend yield = Cash dividend per share ÷ Current year average closing price per share

Note 6: Net value per share and profit per share are the data being certified by the CPA in the quarter before the Annual Report printing date. The rest of other columns are showing the current year data up to the Annual Report printing date.

## **(VII) Company dividend policy and execution status:**

1. Described below is the dividend policy being developed according to the "Company Rules":

If the annual general final accounts reveal that profits are earned, then this Company shall allocate the due income tax and remedy the yearly loss first and then allocate 10% for using as the statutory surplus reserve; except where the statutory surplus reserve has reached the total capital amount of the company. As a next step, the company will allocate or revolve special surplus reserve pursuant to the regulations imposed by the law or the competent authority. If reserve still remains, then its balance will be added with the cumulative undistributed surplus for the Board of Directors to conclude the distribution. If the reserve is issued by distributing new shares, then this Company shall submit the case to the Shareholder's Meeting for determining the distribution method. If the reserve is issued to distributing the cash, then the Board of Directors will be authorized, pursuant to the regulations specified in Item 5 under Article 240 of Company Act, to distribute according to the resolutions that have been agreed by over two-thirds of the presented directors and over half of the presented directors. After that, the aforesaid distribution will be reported to the shareholder's meeting.

Regarding the Ratio of cash dividend, it shall be determined by the Board of Directors according to the company's financial structure, future capital demand and profit-earning status and then it will be distributed in the percentage not less than 10% of the total dividend.

2. It is the plan of this Company to maintain stabilized dividend policy and the distributed dividend will not be less than 30% of the reserve that can be distributed in that year according to the company's demand of future development. However, the actual amount to be distributed shall be discussed and resolved by the Board of Directors.
3. Discussion of dividend distribution of the current-term Board of Directors meeting:
  - (1) According to the regulations specified in Item 5 under Article 240 of Company Act and Item 3 under Article 18 of Company Rules, where the dividend will be distributed in cash, it shall be authorized to the Board of Directors for determining the distribution method and then the result will also be reported to the Shareholder's Meeting.
  - (2) On February 22, 2023, a decision has been resolved by this Company that a sum of NT\$53,700,098 will be distributed as the cash dividend for the shareholders in which, a sum of NT\$1.02 will be distributed as the cash dividend (due to the change of shares resulting from the right of employees for participating in the Stock Option certificate required for subscribing to common stocks, the payout ratio is adjusted as distributing NT\$1.01976756 for each share). For this reason, the cash dividend will be distributed on April 26, 2023.
4. Briefing on the anticipated significant change of dividend policy: It is estimated that significant change will not occur to the company's dividend policy.

## **(VIII) Impact of stock grants to be discussed in the shareholder's meeting to the company's performance and the reserve per share:**

Not applicable because the stock grants case has not been executed for the 2022 reserve distribution.

## **(IX) Remunerations for employees, directors and supervisors:**

1. Portion or scope of remunerations for the employees, directors and supervisors as mentioned in the Company Rules.

If profit is earned by the company in each year (the profit before deducting the remunerations for employees, directors and supervisors from the pre-tax profit), then over 1% will be allocated in which, less than 10% will be used for the employee's remunerations and less than 2% will be used for the director and supervisor remunerations. The profit will be distributed according to the resolutions reached in the Board of Directors. If cumulative loss occurs to the company, then the make-up amount shall be reserved beforehand.

The target qualified for receiving the stock or cash for using as the remunerations shall include the employees of the companies controlled by and subordinating to this Company that meet the specified conditions. In this regard, the Chairman will be authorized to determine the specified conditions

2. The recognition of the remuneration amount for employees, directors and supervisors estimated for current term: The basis for calculating the number of shares that will be distributed to the employee as the remuneration and the accounting process when actual amount to be distributed is different from the estimated recognition number.
  - (1) Recognition of the amount allocated for the employee, director and supervisor remunerations: In 2022, the employee remunerations are recognized at 1%~10% of the profit before deducting the

employee, director and supervisor remunerations from the pre-tax profit; whereas, the remunerations for directors and supervisors are recognized according to the estimated distribution amount.

- (2) The basis for calculating the number of shares that will be distributed to the employee as the remuneration and the accounting process when actual amount to be distributed is different from the estimated recognition number: Not applicable because the stock distribution has not been executed for using as the employees remuneration in 2022.
- (3) Accounting process when actual amount to be distributed is different from the estimated recognition number: If variation exists between the distributed amount and the recognized amount; If variation exists between the distributed amount and the recognized amount, then it will be listed as a gain or loss of the following year.

3. Approving of remuneration distribution by the Board of Directors:

- (1) If the employee remuneration distributed by means of cash or stock and the remuneration amount for directors and supervisors are different from the amount of the expense recognition year, please explain the amount of variation, reasons and handling status:

Provided below are the employee remunerations and the director/supervisor remunerations that will be distributed according to the resolutions reached in Board of Director on February 22, 2023:

Expressed in thousands of New Taiwan Dollars

Distribution items	Distributed amount (A)	Recognized amount (B)	Variation (A) – (B)	Variation reasons and handling status
Employee cash remuneration	2,500	2,500	-	It is because of the variations estimated by Accounting and such variation amount will be adjusted as a gain or loss for 2023.
Director remuneration	1,610	2,500	(890)	

- (2) Ratio of employee remuneration through stock distribution in the remuneration amount of directors and supervisors: Not applicable because cash dividend will be distributed for the current-term fiscal year.

4. Distribution status of employee, director and supervisor remunerations in 2021 (including distributed stocks, amount and stock price). If variation exists among the recognized employee, director and supervisor remunerations, please explain the variation amount, reasons and handling status:

Not applicable because loss is existed according to 2021 final account and it has been resolved by the Board of Directors, held on February 22, 2022, that remunerations will not be distributed to employees, directors and supervisors.

**(X) Company's buying back the stocks of this Company:**

**II. Company debt handling status: None**

**III. Preferred stock handling status: None**

**IV. Global Depository Receipt (GDR) handling status: None**

## V. Employee Stock Option certificate handling status:

### (I) Handling status for disclosing the undue Employee Stock Option certificate up to the Annual Report printing date and its impact on the shareholder's equity:

March 31, 2023

Type of Employee Stock Option certificate	5th Employee Stock Option certificate	6th Employee Stock Option certificate
Reporting effective date and total unit number	December 19, 2018 3,560 (Note 1)	August 26, 2022 2,412 (Note 1)
Distribution (execution) date	December 13, 2019	October 21, 2022
Distributed unit number	3,560 (Note 1)	2,412 (Note 1)
Distribution unit number available	-	-
Ratio of the stock option number in the total distributed shares	6.76%	4.58%
Stock option existence period	6 years	6 years
Contract execution method	Distributing new shares	Distributing new shares
Restrictive stock subscription period and percentage (%)	Two years after the authorized Employee Stock Option certificate until 10 days before the expiry date, except for the ownership transfer suspension period, the share subscriber may exercise the stock option right according to the schedule provided below. <u>Schedule</u> <u>Ratio of stock option available</u> Expired for 2 years                      50% Expired for 3 years                      75% Expired for 4 years                      100%	Two years after the authorized Employee Stock Option certificate until 10 days before the expiry date, except for the ownership transfer suspension period, the share subscriber may exercise the stock option right according to the schedule provided below. <u>Schedule</u> <u>Ratio of stock option available</u> Expired for 2 years                      50% Expired for 3 years                      75% Expired for 4 years                      100%
Number of shares subscribed	12,000	-
Share subscription amount paid	1,048,800	-
Number of shares not subscribed (Note 2)	2,688,000 shares	2,276,000 shares
Subscription price per share for the shares not subscribed	NT\$87.40	NT\$587.6
Ratio of share not subscribed in the total distributed shares (%)	5.10%	4.32%
Impact on shareholder's equity	Two years after the expiry of the authorized Employee Stock Operation certificate, the stock subscriber of this Company will be allowed to exercise the stock option according to the schedule provided in this Method. Therefore, it will not bring about significant impact on shareholder's equity.	Two years after the expiry of the authorized Employee Stock Operation certificate, the stock subscriber of this Company will be allowed to exercise the stock option according to the schedule provided in this Method. Therefore, it will not bring about significant impact on shareholder's equity.

Note 1: Each individual unit of Stock Operation certificate may subscribe 1,000 shares of common stock distributed by this Company.

Note 2: The result by deducting the shares being confiscated or overdue.

**(II) The name, acquisition and subscription status of the managers that have acquired the Employee Stock Option certificate and the Top 10 employees that have acquired the shares permitted by the certificate until the Annual Report printing date.**

Unit: NTD: thousand/ thousand shares  
March 31, 2023

	Position	Name	Number of shares subscribed	Ratio of subscribed shares in the total distributed shares	Subscribed				Not subscribed			
					Number of shares subscribed	Price of shares subscribed (Note 1)	Amount of subscription	Ratio of subscribed shares in the total distributed shares	Number of shares subscribed	Price of shares subscribed (Note 2)	Amount of subscription	Ratio of subscribed shares in the total distributed shares
Manager	President	LIN, Wei-Tsun	390,000	0.74%	-	-	-	-	390,000	87.40 57.60	26,755	0.74%
	Vice President	LI, Jia-Jui										
	Vice President and Accounting Supervisor	LI, Wen-Cheng										
	Vice President	CHANG, Ya-Chu										
Employee	Manager	TSENG, Chi-Feng	624,000	1.18%	-	-	-	-	624,000	87.40 57.60	44,942	1.18%
	Managing Director	LIU, Min-Kung										
	Manager	CHANG, Ting-Chia										
	Managing Director	HO, Ming-Tang										
	Manager	TSENG, Shuan-Ching										
	Manager	LI, Tse-Jian										
	Manager	CHEN, Chih-Ruon										
	Manager	CHI, Chih-Jieh										
	Manager	CHAO, Chao-Kuei										
	Manager	CHENG, Wen-Yuan										

**VI. Employee right restriction execution status: None**

**VII. Execution status of merging or acquiring new share distributed by other companies: None**

**VIII. Capital implementation plan execution status: None**

## FIVE. Overview of operation

### I. Business operation content

#### (I) Scope of business operation

The main products manufactured by this Company are the fasteners that meet the requirements of Aerospace Quality System (AS9100) and Automotive Quality System (TS16949). These products are primarily applied in the aerospace engine structural body, thin-plate bonding system and automotive equipment, etc.

1. Provided below is the main business operation content and the operation percentage currently executed by this Company:

Main business operation content	Percentage in revenue
Aerospace fasteners and aerospace turning-processed parts.	83.43%
Industrial fasteners	16.57%

2. Merchandises and service items rendered by this Company up until now  
Abiding by the higher level of professional ethics, this Company is providing excellent core competence in the aspects of manufacturing and services. The company is operated by focusing on the manufacturing of “aerospace-class parts and special automotive fasteners”. Our purpose is to provide the advanced professional precision fasteners and turning-processed parts for the global aerospace sector, the structural vendors and the custom-made automotive products. On this basis, we provide the following full-face manufacturing services for our customers:

- a. Manufacturing, fabrication, distribution and transaction of fasteners and structural parts used by aircrafts and vessels.
- b. Manufacturing, fabrication, distribution and transaction of fasteners and structural parts used by vehicles and industries.
- c. Import/export trading business for the products manufactured by the aforesaid local and foreign vendors.
- d. Agent operation of marketing business for the products manufactured by local and foreign vendors.

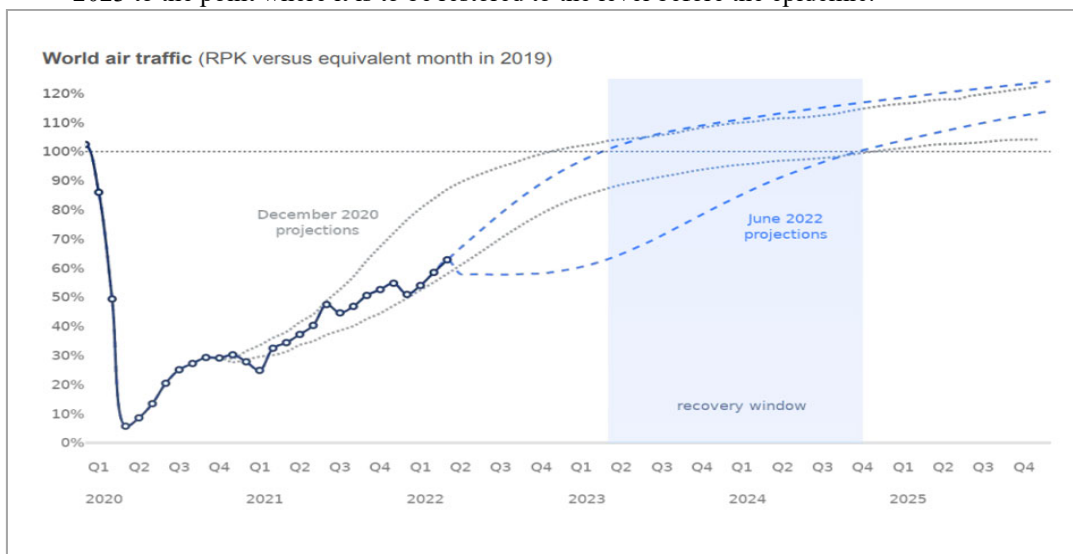
3. New product to be developed

For the product that will be developed in the current year, please refer to the R&D plan of the coming years as mentioned in the Overview of R&D provided in the following item.

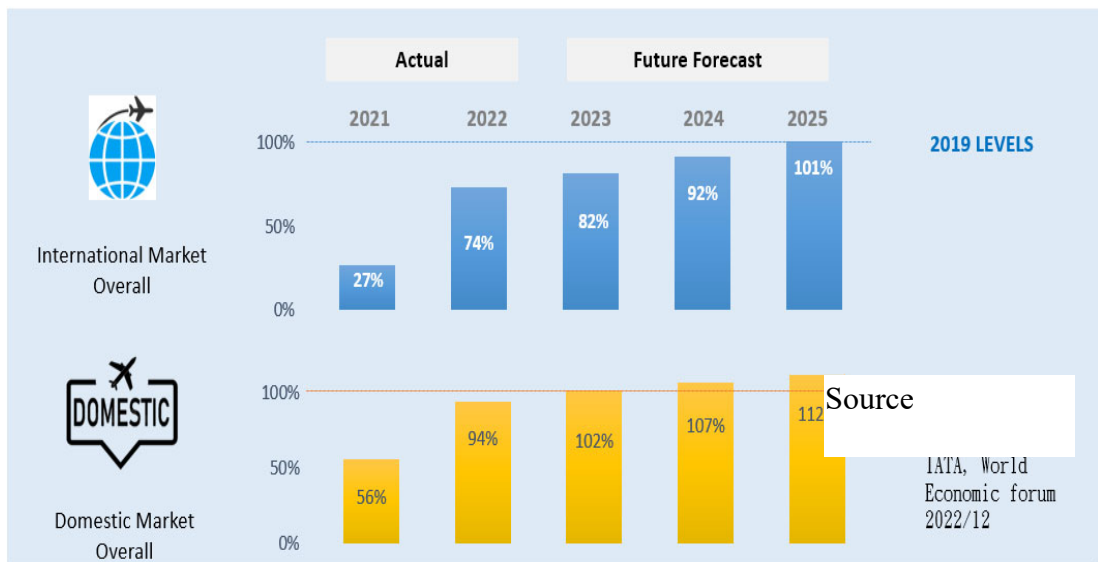
#### (II) Overview of the industry

1. Present industrial status and development

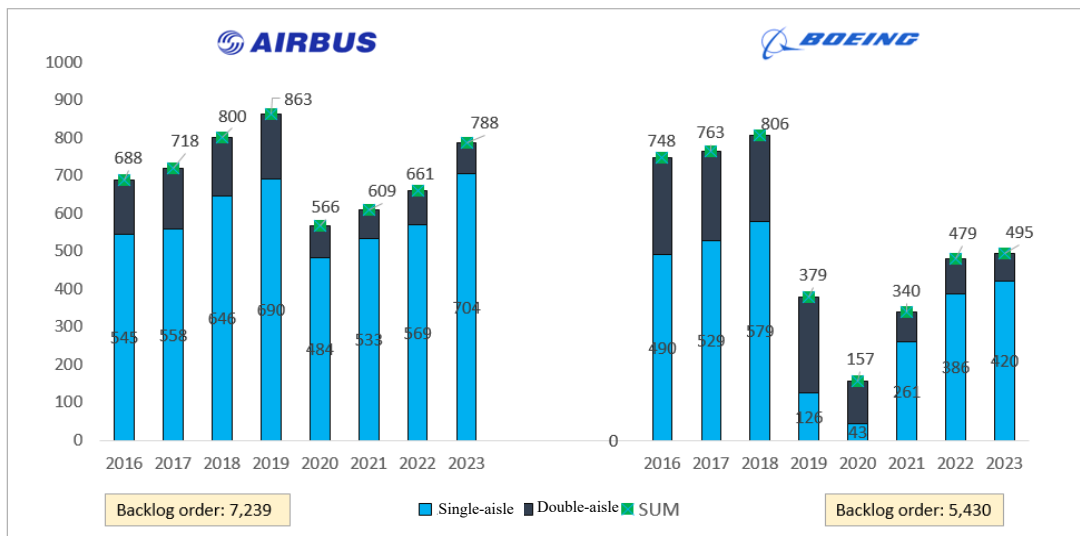
In 2020, the aviation industry was suffering from serious impact that has led to the drastic declining of passenger capacity in the global aviation business. By the end of 2022, however, most countries liberated the travel restrictions being established for preventing the COVID-19 epidemic disease. As such, the total passenger capacity experienced by December 2022 has been recovered to 76.9% of December 2019. By the market estimation, continuous recovery of the status of aviation is expected in 2023 to the point where it is to be restored to the level before the epidemic.



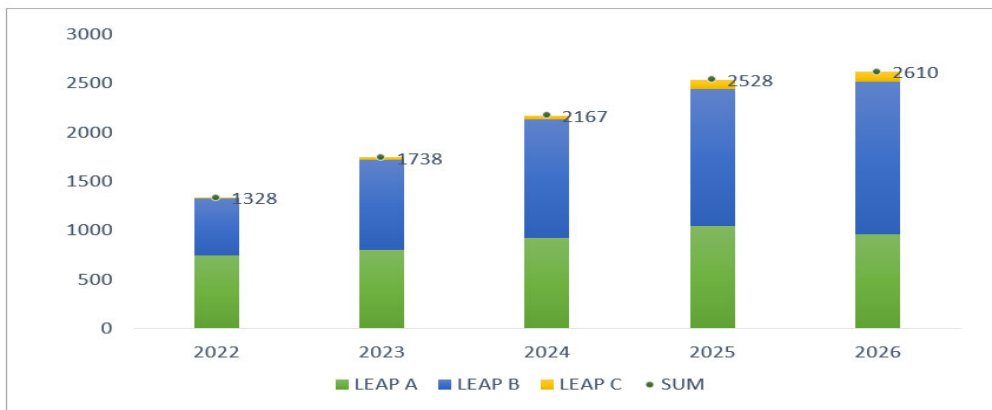
Source: IATA



From the aircraft market, Boeing and Airbus are still the two major aircraft manufacturers. Because the double-aisle aircraft orders have been cancelled by the airlines in massive amounts, the aircraft manufacturers were forced to adjust their production line. Due to this reason, it is estimated that the single-aisle aircrafts will become the mainstream in the market. Based on the estimate conducted by the market survey company (Roland Berger), it is anticipated that the growth in aircraft demand and manufacturing between 2024~2025 will be higher than before the epidemic due to the release of travel restrictions by most countries and the turnover of old and new aircrafts.



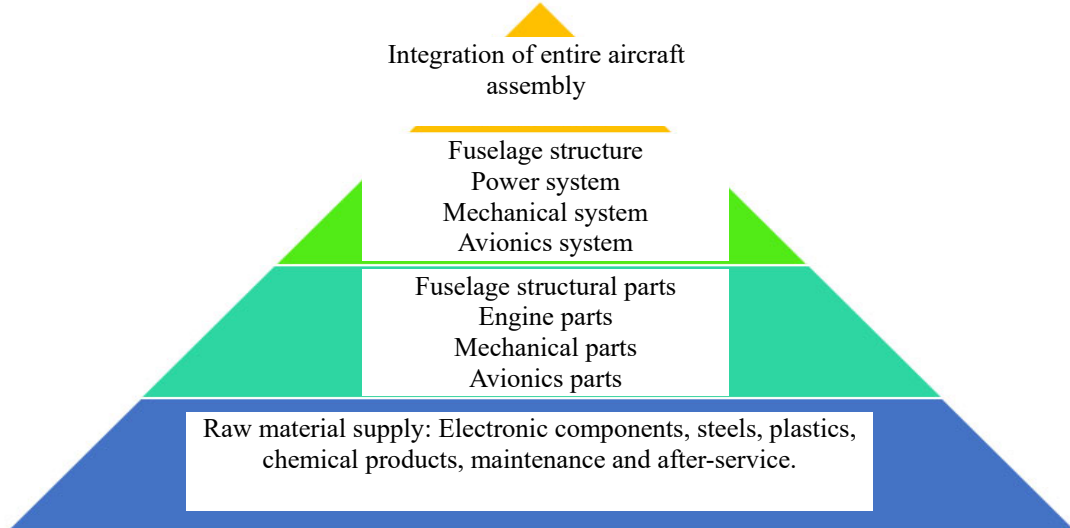
Source: Airbus&Boeing



\* Production in 2019: 1,736 units

Source: Flight Global

2. Correlativity between upstream, middle stream and downstream of the industry



At present stage, the commercial aircrafts of the world are mainly manufactured and assembled by Boeing and Airbus companies for which, the main engine suppliers are GE, Rolls-Royce, Pratt & Whitney and Safran S.A. groups. This Company is mainly engaging in the manufacturing of parts and fasteners required for the engine, fuselage structure, brake and landing gear system. In addition to supplying aerospace fasteners, we also cooperated with special automotive fasteners and Tier 1 vehicle manufacturers in developing custom-made automotive fasteners. These fasteners are mainly designed for the vehicle body and the chassis.

3. Product development trends and competition status

In December 2019, Boeing announced in a message that they had suspended the production of Boeing 737 MAX and then the COVID-19 epidemic began spreading in January 2020. To deal with the epidemic, all countries began lockdown and border control measures that led to the dwindling of the global passenger capacity. In result, it also created a violent impact on the international aerospace market

With the launching of vaccines, the control measures taken by each country have subsided and gentle growth has been experienced for the passenger capacity of the world. After the FAA relieved the suspension order of 737 MAX in November 2020, the service of 737 MAX was restored in December 2020 for the North America regions. Together, the turning point began to emerge for the slumping aviation market.

Since the outbreak of the COVID-19 epidemic, a slight change has occurred to the supply chain. Being affected by the Russia-Ukraine war, labor shortage and inflation factors, they have brought about certain conflicts to the production capacity of the competitors in the European and North American markets. To ease the problems found in the supply chain, the customers are forced to search for the second supply source.

**(III) Overview of techniques and R&D:**

The R&D expenses invested in current fiscal year and the techniques or the products successfully developed:

High-temperature engine self-lock nuts	The fasteners mainly used for the high temperature environment where the jet engine is operated. Including the reversible nuts, handle-mounted nuts, flat plate nuts.
Gang Channel	The rail-molding techniques. It is used for the self-lock nuts secured by anchoring method. By saving the drilling and rivet installation time, it achieves faster assembly and dismantling.
Automotive Front End fasteners	As these fasteners are mainly the parts designed for the automotive Front End module, they can help the company expand the revenue scale.
Milling techniques	These techniques are mainly used for the CNC machining of the aerospace parts in order to develop more complicated assembly parts.
Special Process	By implementing Special Process, it not only elevates the add-on value for the aerospace products but also expands the revenue scale of the company.
Aerospace engine bolts	We developed the bolts that can be used for assembling the aerospace fuselage and the engine.

We also established the R&D Center and Smart-base Development Department to focus on carrying out the forging and the smart-base production. Until March 31, 2022, all R&D plans are being executed in this Company.

#### (IV) Long-term and short-term business development plans

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

- (1) Expand the production line, ranging from the aircraft engine to the fuselage parts.
- (2) Contact the aircraft parts distributor system proactively in order to expand more types of the company's customer group.
- (3) Transform from the OEM market to the automotive assembly direct supply market. For this purpose, we have taken active moves in cooperating with the Tier 1 Suppliers of the automotive industry.

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

- (1) Corresponding to the approaching of post-epidemic era and the border relief of each county, we will take actions to expedite the quality certification for each individual product and production process
- (2) Active move will be taken to expand the T1 suppliers in the European and American marketplaces for the automotive industry. To achieve this, we will maintain mutual cooperation with the customers in order to solve their problems with the production line assembly. Further, we will also develop our ability in providing the custom-made products.
- (3) It is our plan to maintain higher quality, consolidate relationships with the existing customers and develop new engine customers.
- (4) We will provide efficient custom-made services in order to develop the automotive and industrial fastener customers.

## II. Overview of market and marketing

### (I) Market analysis

#### 1. Sales region of main merchandises:

The products of this Company are mainly sold to the important channel vendors in other countries. In this respect, 98.11% of our products are sold to foreign companies based in America, Europe and Asia.

Provided below is the turnover being sold to each region over the past 3 years:

Expressed in thousands of New Taiwan Dollars

Region		2020		2021		2022	
		Amount	%	Amount	%	Amount	%
Export	American market	863,754	50.69	630,847	44.23	951,260	43.38
	European market	544,382	31.95	483,247	33.88	860,877	39.26
	Asian market	278,901	16.36	258,092	18.10	337,008	15.36
	Mid-East market	-	-	-	-	-	-
	Australian market	1,897	0.11	2,951	0.21	2,405	0.11
	African market	-	-	-	-	-	-
Domestic market		15,097	0.89	51,068	3.58	41,371	1.89
Total		1,704,031	100.00	1,426,205	100.00	2,192,921	100.00

### (II) Market share

Expressed in thousands of New Taiwan Dollars

Product items	Net turnover	Market share in Taiwan
Aerospace fasteners and aerospace turning-processed parts.	1,829,569	Note
Industrial fasteners	363,352	Note
2022 turnover	2,192,921	

Note: The products manufactured by this Company are mainly intended for export purposes, and the export ratio in 2022 was 98.11%. As such, the market share in Taiwan will not be applicable for our products.

#### 1. Market supply-demand status and growth in the future

By now, sophisticated manufacturing techniques have been achieved in terms of the industrial fasteners in local market. Besides, local industry is also equipped with the ability in developing new product that stronger competitiveness is armed for competing in the international market. Currently, the yearly production ability is about 1.30 million tons which represents some US\$1.8 billion for the annual production value. In this regard, the export accounts for 86% and the main focus is the American market which takes about 48%. In nature, this Company is the aerospace fastener supplier and we are one of the few companies in the Asian-Pacific Region that have been certified by the engine manufacturers. For

this reason, we are listed together with Arconic (Howmet Aerospace), PCC and LISI as the No. 4 aerospace engine fastener manufacturers. Among them, this Company is the smallest that can exhibit the biggest develop potential. Nowadays, active moves have been taken by China and India in supporting their aerospace net industries in order to supply the growing demand of the Asian market.

Normally, the aircraft parts market comprises the following two aspects, i.e. the parts required for manufacturing new aircrafts and secondly, the parts required for the backup and the maintenance in supporting the operation of old aircrafts.

(1) Aerospace fastener market:

Being affected by the epidemic, labor shortage and the Russia-Ukraine War, the production capacity of the aerospace fastener manufacturers in the America and the Europe are significantly affected.

When encountering further cost pressure brought by the inflation, these aerospace engine manufacturers are forced to shift their strategies to develop the Asian suppliers.

(2) Automotive fastener market:

On average, some 2,000 fasteners are used by a single car in the American market and they are mainly used with different subsystems such as engine, suspension system, interior decoration and exhaust system, etc. In the future, the annual growth rate of the total demand for fasteners in the US automotive industry will be 3.3%.

2. Competitive niche:

Based on the strategic method, it is our plan to work with major international plants to develop the international and the Asian markets. In this respect, the niche available for both parties is the utilization of the R&D ability, manufacturing capacity, specific production efficiency and production method that are developed by NAFCO. The main objectives will be focusing on the reduction of production costs in order to present the most competitive price strategies. On this basis, we may set a firm base in the international market by incorporating the market experiences, reputation and sales network being established by the major international plants. Further, we will be allowed to cut into the rapidly growing Asian market by combining NAFCO's successful experience in the Asian market with the well-organized production line and the systematic sales strategies of major international plants. To this extent, we will not only acquire the existing market but will also develop wider application scope in order to expedite the revenue growth and to expand the market share.

3. Advantageous and disadvantageous factors for the development vision and the responding actions

(1) Advantageous factors

A. Higher added-value, stabilized supply-and-demand and replacing the import:

Since the company was established in October 1997, we have been engaging in the manufacturing, fabrication, agent operation and transaction of aerospace fasteners and structural parts as the main business items. As indicated in the report issued by Metal Industries Research & Development Center (MIRDC), MOEA, the following 3 product categories of aerospace fasteners, automotive fasteners as well as architectural and bridge high-strength fasteners will be the items that are worthy of development and investment by the domestic fastener manufacturers at current stage. The primary business opportunity is the higher added-value in which, the automotive fasteners will be focusing on the higher added-value custom-made product that can be jointly designed and developed with the customer. In terms of the aerospace fasteners, the demand is relatively stable because of higher aircraft development costs and longer model life cycles. In the meantime, the aircraft replacement wave is also stimulated by the launching of the newer generation engines. Despite the aerospace market suffering from the impact of the COVID-19 epidemic during 2020~2022, it is anticipated that the demand for the aerospace market will resume the level before the epidemic with the launching of vaccines and the relieved border restrictions by each country. As such, promising prospect will be envisaged.

B. We are equipped with stronger international competitiveness by acquiring a number of certifications from domestic and foreign institutions.

We have been granted the ISO9001/TS-16949. In addition, we were also honored a number of original manufacturer certifications such as the military equipment qualified manufacturer certification in national defense industry, qualified manufacturer certification in AIDC assessment as well as the qualified manufacturer certification granted by international enterprises like GE, Safran Group, Rolls-Royce, Collins Aerospace, Honeywell and Moog, etc., together with the certification by international automotive T1 manufacturer, aerospace NADCAP and AS-9100 certifications, etc. Summing up, the aforesaid certifications are the solid evidence in justifying that this Company is equipped with the world-class competitiveness.

C. In terms of the supply and sales aspects, the conventional industrial fastener manufacturers in Taiwan are not in a position of replacing the advantageous standing of this Company.

This Company can sell the fasteners directly to the fastener manufacturers, suppliers, electronic consuming vendors, automotive parts manufacturers and airlines. As for the conventional industrial fastener manufacturers in Taiwan, their sales channels are restricted to the relationship between them and the manufacturers or they are selling the product through the trader and importer/exporter channel. As such, they are considered as the conventional OEM vendors.

D. Because we are cooperating with the primary suppliers through the strategic partner operation mode, we are able to maintain a healthy purchase and supply price mechanism. Despite the rapid eastward moving trend of the western industries, the suppliers that possess the integral competitive level are not so many. Driven by the market development potential and growth in the future and facing the price-cutting pressure, the major international manufacturers are expediting their pace in moving the product towards the east. Being restricted by the cost, quality and techniques, the suppliers that can satisfy the demands of these major manufacturers are still few. Since the incorporation, the company is operated by setting the high quality and the high techniques as the development target and so, we will be the most ideal cooperation target for the aforesaid major manufacturers.

(2) Disadvantageous factors and responding actions:

A. Longer material delivery time:

Being affected by the Russian-Ukraine War in 2022, the price of energy is soaring and the situation is even worsened by 2~3 years of COVID-19 epidemic when the production capacity of the upstream supply chain was compressed by the labor shortage problem. In result, the delivery time of the raw material supplier has been lengthened to 70~80 weeks. Due to this reason, a material shortage problem will be expected when the demands are gradually recovered during the post-epidemic era.

Responding actions of this Company:

Facing the impact and the test of the lengthened delivery time, we will confirm with the customer for expediting the order placement through the production and marketing mechanism so that we may prepare the materials beforehand in order to minimize the impact posed by the delivery time.

B. Facing the international market testing and the historical price-cut competition from competitors:

In view that lower demand will be presented by local market for the high-precision fasteners manufactured through aerospace techniques, the economic scale kind of production capacity cannot be achieved by local manufacturers at current stage. When engaging in the production, manufacturing and transaction of aerospace-class fasteners, the vendor must consider the global market demands; in other words, they must encounter the test posed by the international market directly. To the new rise vendors, it is undoubtedly a cruel change. Besides, all of the competitors are experienced western enterprises possessing sophisticated production ability and techniques. To meet the price reduction demanded by the customers, they are forced to erect factories in the low-cost countries (e.g. Mexico, India, Turkey and North Africa) in order to enhance their market competitiveness.

Responding actions of this Company:

By considering the product value and the production ability of local market, the primary product will be positioned at moderate and high unit price structural fastening system for the aviation engines. In the meantime, we will take active moves in applying for and acquiring the required certifications in order to prove that the products manufactured by this Company shall meet the stringent quality requirements established for the aerospace industry. By acquiring the certification from major international manufacturers, we will expand the required channels in the hope to expand the market share for the same products so as to achieve the economic scale at an earlier stage. Further, we will keep promoting product technique improvement projects with a hope to reduce the production cost, improve the quality, shorten the delivery time, and develop new products for the engine bolt. The final purpose is to intensify the market competition standard and to expand the market share.

C. Facing the climbing pressure of raw material prices:

Responding actions of this Company:

(A) In terms of the technical development, we will keep developing the super alloy forging techniques, promoting the automation, combining the optical inspection techniques and conducting the vertical integration in order to achieve higher production efficiency and quality. Through the privately developed smart-based manufacturing system, it is our hope

to optimize the production process, elevate the Yield rate and reduce the production cost to ensure that the long-term competitiveness will be maintained for the company.

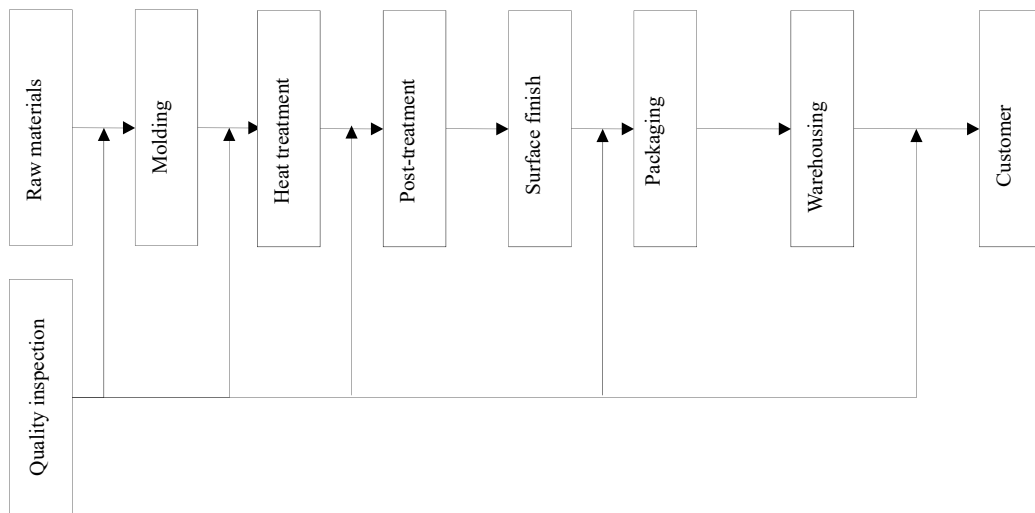
- (B) By promoting the TPS (Toyota Production System) and the near line production. Further, the production process will be adjusted according to the product line concept. Through the advanced production scheduling system and the production IoT, we will integrate the production schedule in order to elevate the production capacity and the production efficiency for the company.
- (C) We will raise the price increase demand to the customer in order to reflect the pressure imposed on the raw material cost.

**(III) Important purpose of primary products and production process**

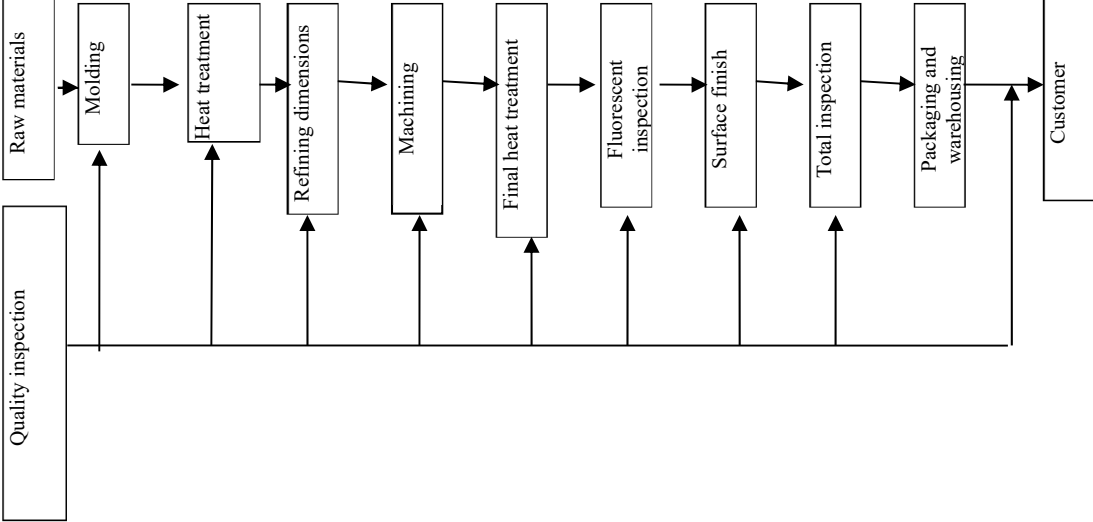
1. Purpose of primary product

Name of product	Important function of purpose (scope that can be applied)
INSERT	Electronic/communication/aerospace/automobile/ high-speed rail/medial
BRASS INSERT	Electronic/communication/aerospace/ high-speed rail/medial
Fixed Nut	Aerospace power structure system/automotive engine system
Special Bolt & Screw	Aerospace / electronic/ communication/ high-speed rail/automobile
GangChannel	Aerospace power structure system
Tube Cap	Aerospace hydraulic pipeline

2.(1) Industrial product production process



(2) Aerospace product production process



**(IV) Supplying status of primary materials**

Primary materials	Main supply source	Supplying status
Nickel Alloy Steel	ATF Company	Stabilized
Nickel Alloy Steel	C Company	Stabilized
Nickel Alloy Steel	HA Company	Stabilized
Nickel Alloy Steel	T Company	Stabilized
Nickel Alloy Steel	U Company	Stabilized
Nickel alloy steel and stainless steel	D Company	Stabilized
Nickel alloy steel and stainless steel	R Company	Stabilized
Low-carbon steel coil	J Company	Stabilized
Free Cutting Steel and stainless steel	G Company	Stabilized
C3604 Free Cutting Copper	S Company	Stabilized

**(V) Name of customers that has accounted for over 10% of the total sales amount in any year of the most past two years as well as its purchase/sales amount and percentage**

- Supplier list that has accounted for over 10% of total purchase/sales amount for its purchase in the past two years:

Unit: NTD: thousand

Item	2021				2022			
	Title	Amount	Ratio of net purchase in the entire year (%)	Relationship with the publisher	Title	Amount	Ratio of net purchase in the entire year (%)	Relationship with the publisher
1	C	164,791	38.18	N/A	C	206,038	30.47	N/A
2	S	58,159	13.48	N/A	ATF	96,653	14.29	N/A
3	ATF	49,977	11.58	N/A	-	-	-	-
	Others	158,635	36.76		Others	373,535	55.24	
	Net purchase amount	431,562	100.00		Net purchase amount	676,226	100.00	

Note 1: Please indicate the name of the supplier that has accounted for over 10% of total purchase amount in the past two years, together with its purchase amount and percentage; however the code can be indicated for such supplier if it has specified in the contract that the name of such supplier cannot be disclosed or where the target is the individual and not the interested party.

Note 2: If the company has been listed or engaging in the transaction in the business office of the securities firm up the Annual Report printing date, then its financial being lately audited, certified or reviewed by the CPA should be disclosed.

2. Customer list that has accounted for over 10% of total sales amount for its sales in past two years: Unit: NTD: thousand

Item	2021				2022			
	Title	Amount	Ratio of net sales amount in the entire year (%)	Relationship with the publisher	Title	Amount	Ratio of net sales amount in the entire year (%)	Relationship with the publisher
1	B	349,352	24.49	N/A	B	509,511	23.24	N/A
2	S	197,216	13.83	N/A	S	307,294	14.01	N/A
	Others	879,637	61.68		Others	1,376,116	62.75	
	Net sales amount	1,426,205	100.00		Net sales amount	2,192,921	100.00	

Note 1: Please indicate the name of the customer that has accounted for over 10% of total sales amount in the past two years, together with sales amount and percentage; however the code can be indicated for such customer if it has specified in the contract that the name of such customer cannot be disclosed or where the target is the individual and not the interested party.

Note 2: If the company has been listed or engaging in the transaction in the business office of the securities firm up the Annual Report printing date, then its financial being lately audited, certified or reviewed by the CPA should be disclosed.

### (VI) Production capacity/value table in recent two years

Unit: K-PC; NTD: thousand

Production capacity/value	Year	2021			2022		
		Productivity	Production capacity	Production value	Productivity	Production capacity	Production value
Primary product							
Aerospace fasteners and aerospace turning-processed parts.		33,000	13,656	991,820	33,000	21,875	1,647,119
Industrial fasteners		400,000	226,121	281,826	400,000	180,549	261,565
Total		433,000	239,777	1,273,646	433,000	202,424	1,908,684

Note 1: The production capacity refers to the quantity that can be yielded with the existing production equipment under normal operation status when the company needs to shut down the work and during the holidays.

Note 2: If the production process of each product can be replaced with each other, then the production capacity can be calculated altogether and the explanation shall be provided accordingly.

### (VII) Measured sales value table in recent two years

Unit: K-PC; NTD: thousand

Measured sales value	Year	2021				2022			
		Domestic sales		Export		Domestic sales		Export	
	Primary product	Measured	Values	Measured	Values	Measured	Values	Measured	Values
Aerospace fasteners and aerospace turning-processed parts.		105	17,649	11,360	1,104,296	195	33,931	18,163	1,795,638
Industrial fasteners		30,415	33,419	146,901	270,841	5,175	7,440	158,279	355,912
Total		30,520	51,068	158,261	1,375,137	5,370	41,371	176,442	2,151,550

## III. Overview of employees

Employee information in past 2 years and up to the Annual Report printing date:

Year		2021	2022	Current year, up to March 31, 2023
Employee number	Management person	128	143	151
	R&D, technical person	124	136	135
	Operators	351	396	419
	Total	603	675	705
Average age		38	37.50	37.30
Average service seniority		5.96	5.73	5.6
Education distribution rate	PhD	0.17%	0.15%	0.14%
	Master	6.8%	6.52%	5.96%
	College	62.52%	61.78%	62.55%
	Senior high school	27.53%	27.70%	28.09%
	Below senior high school	2.99%	3.85%	3.26%

## IV. Information of environmental protection expenditures:

The losses resulting from the environment pollution in previous year and up to the Annual Report printing date (including the compensation and the item breaching the Environmental Protection Act as revealed by the environmental protection audit result, indicating the disposition date, disposition document number, statutory clauses offended, content of regulations offended and content of disposition). Please also disclose the estimated

amount that may occur at present time and in the future as well as the responding actions. If the losses cannot be estimated reasonably, please explain the fact that cannot be reasonably estimated.

(I) To realize the environmental protection conception and fulfill due social responsibilities, this Company will execute and follow the applicable environmental protection regulations. We will execute environmental protection according to the applicable laws and the specified discharge standard and we also authorized the qualified treatment disposal vendor to dispose the waste produced by the factory.

(II) In addition to observing the applicable environmental protection laws and the environmental protection requirements imposed by the competent authority, we also elevate employee's consciousness and concept for the environmental protection. Provided below are the environmental protection measures established by this Company:

1. Quality Certification System

Each factory of this Company is operated according to the attributes of the product. By now, we have been honored the following management system certifications specified in the international standards such as ISO 9001 Quality Management System, ISO 14001 Environment Management System, IATF16949:2016(ISO/TS 16949) Automobile Industry Quality Management System, AS9100 Aerospace Quality Management System and ISO 45001 Occupational Safety and Health Management System.

2. The wastewater discharge and the waste management are executed according to the applicable regulations and the specified discharge standard.

3. To realize the environmental protection conception and fulfill due social responsibilities, this Company initiated the following measures such as energy conservation/carbon reduction and cherish water resources as well as putting investment in installing solar panels, wastewater treatment facilities and water recovering equipment. It is our goal to fulfill the responsibilities due to the enterprise citizen in order to protect the earth.

4. Described below are the environment performance examples executed by this Company:

- (1) Effect in increasing the solar panels: In 2019, the recovered electricity is about 84,508 kWh and in 2020, the recovered electricity has been increased to 168,144 kWh. The electricity recovered in 2021 is about 170,835 kWh, which is equivalent to the reduction of 85,417kg/CO<sub>2</sub>e GHG emission. The electricity recovered in 2022 is 212,584 kWh, which is equivalent to the reduction of 108,205kg/CO<sub>2</sub>e GHG emission. In this respective, we have acquired 60 pieces of renewable energy certificated from the government. In 2023, a plan has been developed to expand the green solar power facilities and implement the real-time electricity monitoring management platform for Fab #3.
- (2) Effect in water-saving equipment: In 2019, the tap water consumption is 113,667 tons and the rainwater being recovered is 1,005 tons. In 2020, the tap water consumption is 93,647 tons and the rainwater being recovered is 903 tons. In 2021, the tap water consumption is 79,877 tons and the rainwater being recovered is 896 tons. In 2022, the tap water consumption is 103,015 tons and the rainwater being recovered is 899 tons.

## V. Labor-employer relationship:

**(I) Described below are the employee's welfare measures, advanced study, training, retirement system and execution status as well as the agreement between labors and employer and the employee equity upholding measures:**

1. Employee welfare measures

Listed below are the employee welfare measures provided by the company currently:

- (1) Labor Insurance, National Health Insurance and Employee Commercial Group Insurance.
- (2) Sponsoring or subsidizing employee travel.
- (3) Yearly free health inspection
- (4) Other welfare measures like employee legal consultation, employee canteen, aerial garden, fitness center and breastfeeding room, etc.
- (5) Operation performance bonus, festival and birthday cash bonus and or/or gift.
- (6) Appoint professional factory medical care physician to provide labor care, employee health education and injury/disease consultation, plan human-factor improvement measure, prevent over-working and occupation bullying, and develop female employee protection plan.

2. Retirement system

To appreciate and show solicitude for the employee's care and devotion, a well-based employee retirement method has been established in the Company Rules. In this Company, the employee's retirement system will be implemented according to the regulation specified in Labor Standards Act. For this purpose, the Labor Retirement Preparatory Fund Supervising Committee was organized on

August 10, 1998 by the company. Currently, the pension will be allocated by retrieving 2% from the total monthly salary for using as the retirement reserve. Starting from October 1998, the retrieve pension fund was deposited in the bank account opened at Bank of Taiwan. Pursuant to “Enforcement Rules of the Labor Pension Act”, the retrieving rate of the pension fund to be borne by the employees was changed to 6% of employee’s monthly salary since July 1, 2005.

3. Advanced study and training system

This Company provides the newcomer training program for newcomers in order to help them to break into the working environment more quickly. We provide internal employee education and training programs for existing employees. In each year, we will also develop occupational advanced study plans for our employees.

4. Labor-employer agreement:

Abiding by the employee caring and profit-sharing conception and adequate coordination with employees, we will convene labor and employer coordination meetings irregularly.

In the meantime, we will also explain the company’s operation status to our employees so that we may understand and reply their opinions and suggestions in order to maintain an amiable labor and employer relationship. Based on the concept of humane management, we will provide multiple communication channels in the future in order to intensify their cohesion for the company. Apart from maintaining the existing amiable relationship between employees and employer, we are hoping that the labor and employer relationship will be upgraded to another level.

5. Employee equity protecting measures:

- (1) On a regular basis, we will convene a total employee communication meeting in order to clearly communicate the company’s operating status and the target to all employees. In this way, we may expect and encourage our employees to work together with the company for achieving the required quality, delivery time and profits for the company. It is our ultimate goal to create the maximum benefits for the company, the employees and shareholders.
- (2) Provide occupational safety and health related protection gears and spares, conduct the labor safety seminar periodically, and launch a complete occupational safety education and training plan.
- (3) Organize the well-based Employee Welfare Committee. On a regular basis, we also convened the meeting for discussing the employee welfare measures and activities; for example, sponsoring the employee travel, Christmas luncheon, additional dishes for festivals, etc. The purpose is to achieve closer fellowship and intensify their cohesion for the company.
- (4) By the end of each year, we collected the demands raised by each unit for compiling the training program of the following year. The training program will be supported with the contingent professional or generality training that will be held irregularly.
- (5) In each year, we will evaluate company’s profit-earning status of previous year or revenue profit status of current year. In the meantime, we will also adjust the company’s salary policy according to the salary investigation result or consumer commodity price index.

**(II) Social responsibilities and feedback:**

In May 2013, we organized the “NAFCO Social Charity Foundation”. Its main purpose is to donate and support the social charity institution of each county and city in Taiwan in conducting the charity activities. In the meantime, the NAFCO Foundation also provides the distress assistance and care for our employees.

Being affected by the plague prevention policy during the COVID-19 in 2022, the company was unable to engage in many public service activities. In spite of this, NAFCO Foundation still extends its care to the social welfare groups and other institution according to the spirit of caring the minor groups and pay the feedback to the society. Based on actual need, we offered out donation to the following institutions such as Hueilung Quaker Church Poor Family Care Center, Boyu Social Charity Foundation and Taoyuan Police Fellowship Association, etc.

**(III) The loss suffered from the labor and employer dispute in previous year and until the Annual Report printing date (including the case where the labor inspection result breaches the Labor Standards Act, listing the disposition date, disposition document reference number, statutory clause offended, regulations offended and disposition content). Please also disclose the estimated amount that may occur at present time and in the future, together with the responding measures. If reasonable estimation is impossible, please explain the fact that cannot be reasonably estimated.**

There isn’t any loss case that is caused by the labor and employer dispute in previous year and until the Annual Report printing date.

**VI. Cybersecurity management:**

**(I) Describe the cybersecurity risk management structure, cybersecurity policy, substantial management solution and the resources used in the cybersecurity management.**

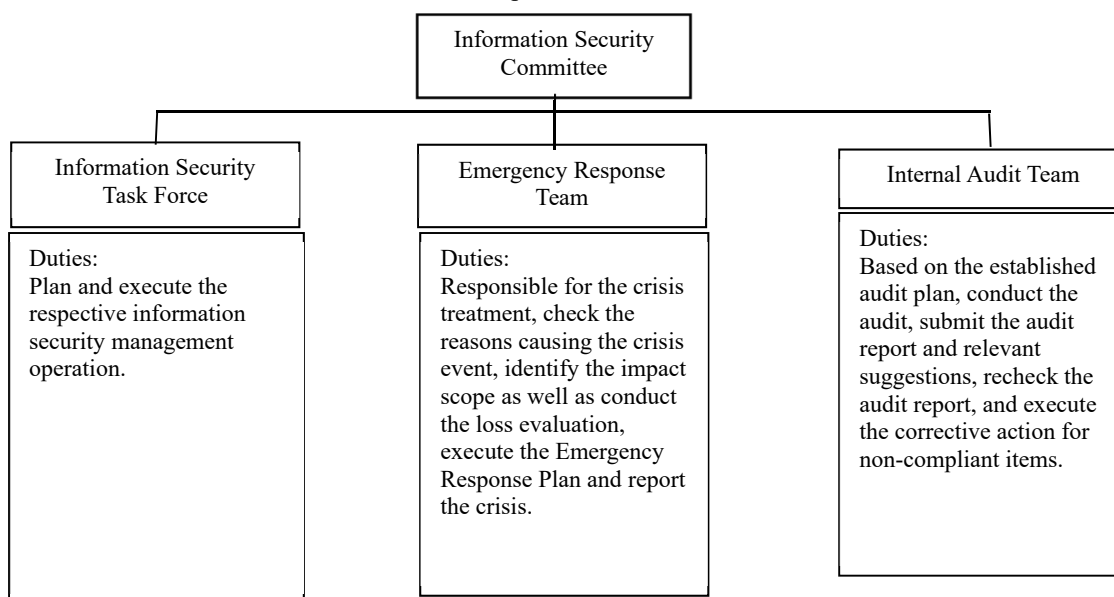
1. Information Security Management System

Corresponding to the rapid change of technological environment and the diversified business development, the Information Security Management System is established to protect the operation-related information for the company and the customer effectively and provide the efficient information security governance. Its purpose is to protect the information assets of the customer, the company and each individual from suffering the deliberate or accidental internal and external sabotage and to fulfill the diligent protection and management responsibilities required for the processed, stored or transmitted information. For the purpose of above, we have acquired the ISO 27001 international certification in July 2022. To connect with the international information safety standard and to deal with the new-rise threat, this Company will review and amend relevant information security policy, management procedure and operation method continuously each year. On an irregular basis, we will allow each unit to understand the information safety policy through education/training and dissemination method. As such, each unit will comply with the required control procedure so that the confidentiality, integrity and availability of all operations required for the information service system will be upgraded continuously. Its goal is to maintain information safety and the sustainable operation concept required for all of the operations in this Company.

2. Information security management organization

The company has established the Information Security Committee to elevate the overall information service management performance of the company, to ensure the consistency between information and business requirements, and to execute the information security management effectively. The Vice President of the Management Department shall serve as the Chief Member and the Executive Secretary shall be served by the highest-ranking supervisor of Information Department. The Information Security Committee comprises Information Security Task Force, Internal Audit Team and Emergency Response Team. The information security policy and requirements of this Company are reviewed and amended according to the information security strategic approaches, the operation need of this Company, statutory regulation changes, customer security demands, technical changes and acceptable risk assessment, etc.

Organization operation mode: The PDCA (Plan-Do-Check-Act) circulation type of management is adopted to ensure that the reliability target will be accomplished and improved continuously. Based on the cybersecurity inspection and audit items specified in the Annual Audit Plan, the Audit Room will conduct the audit and then report the result to the Board of Directors.



### 3. Resources used in the cybersecurity management

This Company will reinforce the information security related systems in order to prevent the new-rise malicious threat:

- (1) Implement the physical network isolation and monitoring mechanism to prevent the external threat effectively.
- (2) Implement the anti-virus system and proactive prevention warning platform. Intensify the monitoring of the known and the unknown information security threat.
- (3) Implement the service backup platform and the multi-layer backup system.
- (4) Execute the information security education and the case dissemination, which will be included in the compulsory courses of the employee education and training in order to elevate their consciousness of information security.
- (5) Timely amend the hazardous factors and conduct responding actions in order to strengthen the internal information security of the company.

### 4. Information Service Continuous Operation Plan

Ensure that correct response measures can be taken when major hazard occurs to the information service so as to minimize its impact to the business operation and to restore the operation within the shortest period of time. This Company has developed the Information Service Continuous Management Plan which will be drilled and reviewed each year in order to maintain the responding ability and the company's continuous operation.

**(II) Indicate the loss suffered from the major cybersecurity event in previous year and until the Annual Report printing date, as well as the potential impact and the responding measures. If reasonable estimation is impossible, please explain the fact that cannot be reasonably estimated.**

There isn't losses resulting from the major cybersecurity event in previous year and until the Annual Report printing date.

## VII. Important contract:

The supply and sales contract, the technical cooperation contract, the construction contract and the long-term loaning contract that is still effectively existence until the Annual Report printing date, together with the parties of important contract that will affect the shareholder's equity.

Nature of the contract	Parties	Contract starting/ending date	Main content	Restrictive clauses
PROCUREMENT AGREEMENT	Party B, Party C	We will supply the product to Party B and Party C starting from January 01, 2022 to December 31, 2026.	Provide products to Party B and C.	N/A
Long-term Loaning Contract	Land Bank of Taiwan	From December 29, 2016 to December 29, 2036.	To meet the requirements of operation and the purchase of land and erection of plant, the Land Bank of Taiwan hereby offers the credit for the long-term secured loan borrowed by this Company.	Per the agreement specified in the contract.
Long-term Loaning Contract	Taiwan Cooperative Bank	From September 11, 2013 to September 11, 2033.	To meet the requirements of operation and the purchase of land and erection of plant, the Taiwan Cooperative Bank hereby offers the credit for the long-term secured loan borrowed by this Company.	Per the agreement specified in the contract.

## SIX. Financial status

### I. Simplified Balance Sheet and Comprehensive Income Statement

#### (I) Simplified Balance Sheet

##### 1. Combined Simplified Balance Sheet – using the international financial statement criteria

Expressed in thousands

of New Taiwan Dollars

Fiscal year		Financial information of recent 5 years				
		2018	2019	2020	2021	2022
Item						
Current Assets		1,329,000	1,447,070	974,814	1,103,929	1,540,977
Property, plant and equipment		3,202,640	3,372,150	3,329,994	3,136,622	2,960,242
Intangible assets		15,240	21,168	17,711	14,089	9,631
Other assets		46,544	142,160	67,771	51,087	62,076
Total amount of assets		4,593,424	4,982,548	4,390,290	4,305,727	4,572,926
Current Liabilities	Before the distribution	1,051,690	1,133,102	528,662	675,277	1,074,349
	After the distribution	1,183,309	1,273,670	554,986	675,277	1,128,049
Non-current Liabilities		1,827,392	1,934,144	1,988,479	1,856,251	1,551,318
Total amount of liabilities	Before the distribution	2,879,082	3,067,246	2,517,141	2,531,528	2,625,667
	After the distribution	3,010,701	3,207,814	2,543,465	2,531,528	2,679,367
Equity due to owner of parent company		1,714,342	1,915,302	1,873,149	1,774,199	1,947,259
Capital stock		526,472	526,472	526,472	526,472	526,472
Capital surplus		340,105	341,785	373,241	398,499	411,394
Reserved surplus	Before the distribution	876,153	1,093,020	1,013,244	891,118	1,045,458
	After the distribution	744,534	952,452	986,920	891,118	991,758
Other equity		(28,388)	(45,975)	(39,808)	(41,890)	(36,065)
Treasury stock		-	-	-	-	-
Non-controlled equity		-	-	-	-	-
Total Equity	Before the distribution	1,714,342	1,915,302	1,873,149	1,774,199	1,947,259
	After the distribution	1,582,723	1,774,734	1,846,825	1,774,199	1,893,559

Note: 1. The financial information listed above has been certified by the CPA.

2. If the financial information quoted from International financial report criteria is less than 5 years, please prepare another type of financial information prepared according to the “Regulations Governing Financial and Accounting Criteria” enforced in Taiwan.

## 2. Simplified Individual Balance Sheet – using International financial report criteria

Expressed in thousands of New Taiwan Dollars

Fiscal year Item		Financial information of recent 5 years				
		2018	2019	2020	2021	2022
Current Assets		1,170,171	1,303,014	916,675	1,059,354	1,419,767
Property, plant and equipment		2,902,997	3,010,294	2,940,372	2,805,685	2,721,410
Intangible assets		13,027	16,230	16,523	13,205	9,461
Other assets		407,611	488,636	438,760	368,882	364,484
Total amount of assets		4,493,806	4,818,174	4,312,330	4,247,126	4,515,122
Current Liabilities	Before the distribution	952,072	1,027,959	479,894	636,815	1,030,767
	After the distribution	1,083,691	1,168,527	506,218	636,815	1,084,467
Non-current Liabilities		1,827,392	1,874,913	1,959,287	1,836,112	1,537,096
Total amount of liabilities	Before the distribution	2,779,464	2,902,872	2,439,181	2,472,927	2,567,863
	After the distribution	2,911,083	3,043,440	2,465,505	2,472,927	2,621,563
Equity due to owner of parent company		1,714,342	1,915,302	1,873,149	1,774,199	1,947,259
Capital stock		526,472	526,472	526,472	526,472	526,472
Capital surplus		340,105	341,785	373,241	398,499	411,394
Reserved surplus	Before the distribution	876,153	1,093,020	1,013,244	891,118	1,045,458
	After the distribution	744,534	952,452	986,920	891,118	991,758
Other equity		(28,388)	(45,975)	(39,808)	(41,890)	(36,065)
Treasury stock		-	-	-	-	-
Non-controlled equity		-	-	-	-	-
Total Equity	Before the distribution	1,714,342	1,915,302	1,873,149	1,774,199	1,947,259
	After the distribution	1,582,723	1,774,734	1,846,825	1,774,199	1,893,559

Note: 1. The financial information listed above has been certified by the CPA.

## (II) Simplified Comprehensive Income Statement

### 1. Simplified Comprehensive Income Statement – using International financial report criteria

Expressed in thousands of New Taiwan Dollars

Fiscal year Item	Financial information of recent 5 years				
	2018	2019	2020	2021	2022
Operating revenue	2,279,430	2,816,190	1,704,031	1,426,205	2,192,921
Gross profit	704,523	848,520	325,967	166,088	511,634
Operating income/loss	362,631	473,471	33,645	(117,173)	126,848
Non-operating revenue and expenses	25,509	(15,633)	17,421	11,804	18,206
Pre-tax net profit	388,140	457,838	51,066	(105,369)	145,054
Current-term net profit of continuing operation unit	301,004	350,824	59,832	(96,729)	149,975
Loss of discontinued operating unit	-	-	-	-	-
Current-term net profit (loss)	301,004	350,824	59,832	(96,729)	149,975
Current-term other comprehensive income/loss (after-tax net amount)	(7,873)	(19,925)	7,127	(1,155)	10,190
Total current-term comprehensive income/loss	293,131	330,899	66,959	(97,884)	160,165
Net profit due to owner of parent company	301,004	350,824	59,832	(96,729)	149,975
Net profit due to non-controlled equity	-	-	-	-	-
Total comprehensive income/loss due to owner of parent company	293,131	330,899	66,959	(97,884)	160,165
Total comprehensive income/loss due to non-controlled equity	-	-	-	-	-
Profit per share	5.72	6.66	1.14	(1.84)	2.85

Note: 1. The financial information listed above has been certified by the CPA.

2. If the financial information quoted from International financial report criteria is less than 5 years, please prepare another type of financial information prepared according to the “Regulations Governing Financial and Accounting Criteria” enforced in Taiwan.

## 2. Simplified Individual Income Statement – using International financial report criteria

Expressed in thousands of New Taiwan Dollars

Fiscal year Item	Financial information in recent 5 years				
	2018	2019	2020	2021	2022
Operating revenue	2,041,065	2,432,978	1,541,040	1,298,303	1,967,894
Gross profit	586,853	694,095	337,059	193,136	459,144
Operating income/loss	308,671	378,275	80,782	(48,552)	126,736
Non-operating revenue and expenses	68,384	54,546	(12,398)	(53,866)	18,318
Pre-tax net profit	377,055	432,821	68,384	(102,418)	145,054
Current-term net profit of continuing operation unit	301,004	350,824	59,832	(96,729)	149,975
Loss of discontinued operating unit	-	-	-	-	-
Current-term net profit (loss)	301,004	350,824	59,832	(96,729)	149,975
Current-term other comprehensive income/loss (after-tax net amount)	(7,873)	(19,925)	7,127	(1,155)	10,190
Total current-term comprehensive income/loss	293,131	330,899	66,959	(97,884)	160,165
Net profit due to owner of parent company	301,004	350,824	59,832	(96,729)	149,975
Net profit due to non-controlled equity	-	-	-	-	-
Total comprehensive income/loss due to owner of parent company	293,131	330,899	66,959	(97,884)	160,165
Total comprehensive income/loss due to non-controlled equity	-	-	-	-	-
Profit per share	5.72	6.66	1.14	(1.84)	2.85

Note: 1. The financial information listed above has been certified by the CPA.

**(III) Name of the CPA and audit comments in recent 5 years**

Year	Name of the CPA	Audit Opinion
2018	PricewaterhouseCoopers Taiwan. CPA: SHUE, Shou-Hong and CHENG, Ya-Hui	No comments
2019	PricewaterhouseCoopers Taiwan. CPA: WU, Wei-Hao and SHUE, Shou-Hong	No comments
2020	PricewaterhouseCoopers Taiwan. CPA: WU, Wei-Hao and LI, Yen-Na	No comments
2021	PricewaterhouseCoopers Taiwan. CPA: WU, Wei-Hao and LI, Yen-Na	No comments
2022	PricewaterhouseCoopers Taiwan. CPA: WU, Wei-Hao and LI, Yen-Na	No comments

## II. Financial analysis in recent 5 years

### 1. Combined financial analysis – using International financial report criteria

Analysis item		Fiscal year (Note1)	Financial analysis in recent 5 years				
			2018	2019	2020	2021	2022
Financial structure (%)	Percentage taken by liabilities in assets		62.68	61.56	57.33	58.79	57.42
	Percentage taken by long-term capital in immovable asset, plant and equipment		110.34	111.67	114.26	114.36	117.34
Solvency (%)	Current Ratio		126.37	127.71	184.39	163.48	143.43
	Quick Ratio		64.80	66.41	84.14	71.23	67.18
	Interest Coverage Ratio		18.82	16.49	2.94	(3.37)	6.51
Operating ability	Account Receivable Turnover (time)		5.14	4.93	3.67	4.19	4.63
	Average cash collection days		71.01	74.04	99.46	87.11	78.83
	Inventory Turnover (time)		2.68	2.64	1.85	1.68	1.94
	Account Payable Turnover (time)		7.34	6.89	6.92	10.34	6.91
	Average sales days		136.19	138.26	197.30	217.26	188.14
	Immovable asset, Plant and Equipment Turnover (time)		0.74	0.86	0.51	0.44	0.72
	Total assets Turnover (time)		0.53	0.59	0.36	0.33	0.49
Profit-earning ability	Return On Asset (%)		7.47	7.82	1.73	(1.78)	3.85
	Return On Gains and losses (%)		18.58	19.33	3.16	(5.30)	8.06
	Percentage taken by Earnings-Before-Interest-and-Tax in paid-in capital (%)		73.72	86.96	9.70	(20.01)	27.55
	Profit rate (%)		13.21	12.46	3.51	(6.78)	6.84
	Earning per share (NT\$)		5.72	6.66	1.14	(1.84)	2.85
Cash flow	Cash flow percentage (%)		27.61	46.66	99.57	10.89	23.36
	Cash flow equivalent ratio		38.26	41.83	49.67	72.20	78.61
	Cash reinvestment ratio (%)		3.79	7.43	6.87	0.84	4.41
Leverage	Operating leverage		2.36	2.23	18.00	(3.62)	5.47
	Financial leverage		1.06	1.07	4.58	0.83	1.26
		<p>Please explain the reasons causing the change in the financial ratio in the previous 2 years. (Analysis not required if the fluctuation is less than 20%)</p> <ol style="list-style-type: none"> <li>Increase of Interest Coverage Rate: Due to the slowdown of the epidemic, increased customer demand and higher profit.</li> <li>Reduction of Account Payable Turnover (time): Due to the slowdown of the epidemic, increased customer demand, increased materials to be prepared and purchased and increased account payable.</li> <li>Increase of immovable assets, plant and equipment turnover (time): Due to the slowdown of the epidemic, increased customer demand and higher income.</li> <li>Increase of Total assets Turnover (time): Due to the slowdown of the epidemic, increased customer demand and higher profit.</li> <li>Increase of profit-earning ability: Due to the slowdown of the epidemic and higher profit.</li> <li>Increase of cash flow ratio: Due to the slowdown of the epidemic, increased customer demand and increased net operating cash.</li> <li>Increase of Cash Reinvestment Ratio: Due to the slowdown of the epidemic, increased customer demand and increased net operating cash.</li> <li>Increase of operating leverage: Due to the slowdown of the epidemic, increased customer demand and higher income and profit.</li> <li>Increase of financial leverage: Due to the slowdown of the epidemic, increased customer demand and profit.</li> </ol>					

Note 1: The aforesaid annual financial information has been certified by the CPA.

2. If the financial information prepared according to international financial report criteria is less than 5 years, then another financial information shall be prepared according to the accounting criteria enforced in Taiwan, as below

3. The aforesaid financial information has been certified by the CPA.

## 2. Individual financial analysis – using international financial report criteria

Analysis item		Fiscal year (Note 1)				
		Financial analysis in recent 5 years				
		2018	2019	2020	2021	2022
Financial structure (%)	Percentage taken by liabilities in assets	61.85	60.25	56.56	58.23	56.87
	Percentage taken by long-term capital in immovable asset, plant and equipment	121.73	125.09	129.41	127.85	127.64
Solvency (%)	Current Ratio	122.91	126.76	191.02	166.35	137.74
	Quick Ratio	68.90	73.66	102.53	85.08	73.07
	Interest Coverage Ratio	13.59	14.21	3.69	(3.37)	6.58
Operating ability	Account Receivable Turnover (time)	5.30	4.96	3.82	4.23	4.77
	Average cash collection days	68.87	73.59	95.55	86.29	76.52
	Inventory Turnover (time)	3.22	3.00	2.05	1.82	2.17
	Account Payable Turnover (time)	8.02	6.92	6.51	8.84	6.00
	Average sales days	113.35	121.67	178.05	200.55	168.20
	Immovable asset, Plant and Equipment Turnover (time)	0.73	0.82	0.52	0.45	0.71
	Total assets Turnover (time)	0.49	0.52	0.34	0.30	0.45
Profit-earning ability	Return On Asset (%)	7.64	8.01	1.76	(1.82)	3.90
	Return On Gains and losses (%)	18.58	19.33	3.16	(5.30)	8.06
	Percentage taken by Earnings-Before-Interest-and-Tax in paid-in capital (%)	71.62	82.21	12.99	(19.45)	27.55
	Profit rate (%)	14.75	14.42	3.88	(7.45)	7.62
	Earning per share (NT\$)	5.72	6.66	1.14	(1.84)	2.85
Cash flow	Cash flow percentage (%)	21.93	41.04	90.57	14.37	26.54
	Cash flow equivalent ratio	41.19	42.32	46.86	71.89	77.66
	Cash reinvestment ratio (%)	2.18	5.64	5.47	1.22	5.09
Leverage	Operating leverage	2.17	2.31	6.96	(8.21)	4.80
	Financial leverage	1.08	1.08	1.46	0.67	1.26

Please explain the reasons causing the change in the financial ratio in the previous 2 years. (Analysis not required if the volatility is less than 20%)

- Increase of Interest Coverage Rate: Due to the slowdown of the epidemic, increased customer demand and higher profit.
- Reduction of Account Payable Turnover (time): Due to the slowdown of the epidemic, increased customer demand, increased materials to be prepared and purchased and increased account payable.
- Increase of immovable assets, plant and equipment turnover (time): Due to the slowdown of the epidemic, increased customer demand and higher income.
- Increase of Total assets Turnover (time): Due to the slowdown of the epidemic, increased customer demand and higher profit.
- Increase of profit-earning ability: Due to the slowdown of the epidemic and higher profit.
- Increase of cash flow ratio: Due to the slowdown of the epidemic, increased customer demand and increased net operating cash.
- Increase of Cash Reinvestment Ratio: Due to the slowdown of the epidemic, increased customer demand and increased net operating cash.
- Increase of operating leverage: Due to the slowdown of the epidemic, increased customer demand and higher income and profit.
- Increase of financial leverage: Due to the slowdown of the epidemic, increased customer demand and profit.

Note: Calculation formula

### 1. Financial structure

(1) Ratio of liabilities in asset = Total liabilities / Total assets

(2) Ratio of long-term asset in immovable asset, plant and equipment = (Total equity + non-current liabilities) / Net amount of immovable asset, plant and equipment

### 2. Solvency

(1) Current ratio = Current asset / Current liabilities

(2) Quick ratio = (Current asset – Inventory – Pre-paid fee) / Current liabilities

(3) Interest Coverage Ratio = Net income before tax and interest / Current-term interest expense

3. Operating ability
  - (1) Account Receivable (including the notes receivable due from account receivables and business operation) Turnover = Net sales / Average account receivable of each term (including the notes receivable due from account receivables and business operation) Balance
  - (2) Average cash collection days = 365/Account Receivable Turnover
  - (3) Inventory Turnover = Sales cost / Average inventory
  - (4) Account Payable (including the notes payable due from account payables and business operation) Balance = Sales cost / Average account payment of each term (including the notes payable due from account payables and business operation)
  - (5) Average sales days = 365 / Inventory Turnover
  - (6) Immovable, plant and equipment turnover = Net sales / Average net immovable asset, plant and equipment
  - (7) Total assets Turnover = Net sales / Average asset total
4. Profit-earning ability
  - (1) Asset Turnover = (After-tax income + Interest x (1 – Tax rate) / Average total net asset
  - (2) Return-on-Equity = After-tax profit-loss / Average total equity
  - (3) Net profit ratio = After-tax profit-loss / Net sales
  - (4) Earning Per Share = (Profit-loss due to owner of parent company) – Preferred stock dividend) / Weighted average distributed shares
5. Cash Flow
  - (1) Cash Flow Ratio = Operating net cash flow / Current liabilities
  - (2) Net cash flow equivalent ratio = Operating net cash flow in recent 5 years / Recent 5 years (capital expenditures + Increased inventory + Cash dividend)
  - (3) Cash Reinvestment Ratio = (Net operating cash flow – Cash dividend) / (Gross immovable asset, plant and equipment + Long-term investment + Other non-immovable asset + operating capital)
6. Leverage:
  - (1) Operating leverage = (Net sales income – Operating cost change or expenses) / Operating income
  - (2) Financial leverage = Operating income / (Operating income – interest)

**III. Audit report prepared by Audit Committee for previous year financial report: Please refer to Page 106.**

**IV. Previous year financial report and CPA Audit Report: Please refer to Page 107 to Page 166.**

**V. Company individual financial report certified by the CPA for previous year: Please refer to Page 167 to Page 222.**

**VI. If the financial revolving issues occurs to the company and the affiliate in previous years and until the Annual Report printing date, please explain its impact to this Company: None**

## Seven. Review and analysis of financial status and financial performance and risks

### I. Financial status

Expressed in thousands of New Taiwan Dollars

Item	Fiscal year		Variation	
	2022	2021	Amount	%
Current Assets	1,540,977	1,103,929	437,048	39.59%
Property, plant and equipment	2,960,242	3,136,622	(176,380)	-5.62%
Intangible assets	9,631	14,089	(4,458)	-31.64%
Other assets	62,076	51,087	10,989	21.51%
Total assets	4,572,926	4,305,727	267,199	6.21%
Current Liabilities	1,074,349	675,277	399,072	59.10%
Non-current Liabilities	1,551,318	1,856,251	(304,933)	-16.43%
Total Liabilities	2,625,667	2,531,528	94,139	3.72%
Capital stock	526,472	526,472	-	-
Capital surplus	411,394	398,499	12,895	3.24%
Reserved surplus	1,045,458	891,118	154,340	17.32%
Total Equity	1,947,259	1,774,199	173,060	9.75%

Description of variation between the items that have significantly changed in terms of assets, liabilities and equity in recent 2 year: (The increase/decrease ratio is over 20% and the amount changed has reached NT\$10 million)

1. Increased current assets: Due to the increased customer demand, increased revenue and increased account receivables as well as the advanced material preparation for dealing with shortage and increased inventory.
2. Decrease of intangible assets: Due to the amortization of software.
3. Increase of other assets: Due to the increase of welfare assets identified through the pension actuarial process and the pre-paid down payment required for purchasing the equipment.
4. Increase of current liabilities: Due to the slowdown epidemic, increased customer demand, increase of account payable required for the operation-related material purchase, and the increase of long-term loan that will be due within one year.

## II. Financial performance

Expressed in thousands of New Taiwan Dollars

Item	Fiscal year		Variation	
	2022	2021	Amount	%
Net revenue amount	2,192,921	1,426,205	766,716	53.76%
Operating costs	(1,681,287)	(1,260,117)	421,170	33.42%
Gross profit	511,634	166,088	345,546	208.05%
Operating expenses	(384,786)	(283,261)	101,525	35.84%
Operating profit (loss)	126,848	(117,173)	244,021	208.26%
Non-operating revenue and expenses	18,206	11,804	6,402	54.24%
Income tax (expenses) profit	4,921	8,640	(3,719)	-43.04%
Net current-term profit (loss)	149,975	(96,729)	246,704	255.05%

(I) Description of increase/decrease ratio analysis in previous 2 years: (The increase/decrease ratio is over 20% and the amount changed has reached NT\$10 million)

1. Increase of net operating income: The operating income is increased due to the slowdown of epidemic, and increased customer demand.
2. Increase of operating cost: The operating cost is increased due to the slowdown of epidemic and increased customer demand.
3. Increased gross operating profit: The gross operating profit is increased due to the slowdown of epidemic and increased customer demand.
4. Increase of operating expenses: The expenses required for the business operation is increased due to the slowdown of epidemic and increased customer demand.
5. Increase of operating profit: The profit is increased due to the slowdown of epidemic and increased customer demand.
6. Increase of non-operating income: The non-operating income is increased due to the government subsidies in 2022.
7. Decrease of income tax profit: Less income tax profit is experience when compared o 2021 because the profit of 2022 is offset by the loss.
8. Increase of current-term net profit: The profit is increased due to the slowdown of epidemic and increased customer demand.

(II) Estimated sales amount and its basis. Potential impact to future financial operation and the response plan.

In 2023, the sales amount planned by this Company will be about 165,586,000 pieces. Based on the operating strategies developed by the company, the operation target and the budge of each unit will be estimated and planned reasonably according to the prospective development trend of the entire industry.

### III. Cash flow

Expressed in thousands of New Taiwan Dollars

Beginning Cash Balance	Net cash flow due from the total year operating activities	Total year cash flow	Remaining (shortage) cash amount	Remedies for cash shortage	
				Investment planning	Financial planning
\$110,111	\$250,916	\$28,822	\$138,933	-	-

(I) Analysis of cash flow fluctuation in current year:

1. Operating activities: The cash in-flow for the operating activities in current-term is mainly due to the reduced account receivables.
2. Investment activities: In current-term, the cash out-flow for the operating investment in current term is mainly spent on purchasing the equipment.
3. Fund-raising activities: In current-term, the cash out-flow for the fund-raising activities is mainly spent on the repayment of the loan.

(II) Remedies for cash shortage and liquidity analysis: None.

(III) Cash liquidity analysis for the coming year:

Expressed in thousands of New Taiwan Dollars

Beginning Cash Balance	By estimate, it will from the operating activities in the entire year (net cash flow)	Estimated total year cash in-flow	Estimated cash remaining (shortage) amount	Remedies for the estimated cash shortage	
				Investment planning	Financial planning
\$138,933	\$349,932	(\$6,129)	\$132,804	-	-

1. Analysis of cash flow fluctuation:

- (1) Operating activities: The operating fund estimated for the business operation of this Company.
- (2) Total year cash out-flow: The fund estimated for the capital investment and the distribution of cash dividend.

2. Remedies for cash shortage and liquidity analysis: Not existed

### IV. Impact of major capital expenditures to financial operation in previous year: None

### V. The main reasons causing the profit or the loss of the reinvestment policy in previous year together with the improvement plan and the investment plan of the coming year:

(I) Previous year reinvestment policy: Long-term strategies will be planned for reinvestment according to the future business requirements in order to achieve higher revenue and profit.

(II) Main reasons causing the profit or the loss of the reinvestment in current year:

Expressed in thousands of New Taiwan Dollars

Description Item	2022 end-term investment amount	Policy	Main reasons causing the profit or loss	Improvement plan
NAFCO Group Ltd.	311,317	Long-term holding	It is due to the decrease of customer demand as affected by the epidemic and the loss of plant disposition by the subsidiaries.	Continual order solicitation and expense control

(III) Investment plan of the coming year: In the future, our investment plan will be developed according to the company's operating strategies. Its purpose is to expand the investment that is connected with the company's business operation, to develop the original business and to achieve higher operating performance.

## VI. Risk aspect:

### (I) Impact of the interest and foreign exchange fluctuation as well as the inflation to the company's gains and losses, as encountered during 2022 and in first quarter of 2023; and the subsequent responding actions:

1. Impact of interest and foreign exchange change as well as inflation to the company's gains and losses, as encountered during 2022 and up to March 31, 2023.

Expressed in thousands of New Taiwan Dollars

Item	2022	
	Amount	Ratio in operating income (%)
Interest income (expenditure)	(26,065)	-1.19%
Foreign exchange income (loss)	21,490	0.98%
Financial instrument assessment income (loss)	374	0.02%

Note: 1. The inflation did not pose too much impact as far as the company's profit and loss are concerned.

2. Provided below are practical actions responding to the interest and foreign exchange fluctuation and the inflation:

- (1) We have signed the contract when dealing with the monetary sum that will be borrowed by this Company. Based on the interest rate specified in the contract, we will pay the interest expenses required for settling the bank loans.
- (2) We will evaluate the bank's loan interest periodically and will keep close contact with the bank in order to acquire more favorable loan interest so as to minimize the impact of interest fluctuation to the company's gains and losses.
- (3) The main revenue of this Company is calculated in US\$ currency. For this reason, we will engage in long-term foreign exchange transactions according to actual situation so as to evade the foreign exchange risks that may occur to the foreign currency net assets and the net liabilities. On a regular basis, we will also evaluate the gains and losses in order to minimize the impact of foreign exchange rate to the overall profit earning ability.
- (4) We will collect the foreign exchange fluctuation related information whenever required for controlling the fluctuation trends in order to take the required hedging actions.  
By doing so, we will add the fluctuation of foreign exchange rate in the price offered by Sales Department and will also adjust the selling price in order to reflect the cost.
- (5) On a monthly basis, the Financial Department will assess the hedging action that should be taken for the net foreign currency assets (liabilities) and then report the result to the Top Management.
- (6) Based on the regulations enforced by Securities and Futures Institute under Financial Supervisory Commission, we have developed the "Procedures Governing the Derivatives Transaction" in which, stringent rules are established to regulate the operating procedure for transaction of derivative financial instrument, risk management, supervision and audit. Its purpose is to execute stringent risk control when using the derivative financial instrument to evade the foreign exchange risks in the company.
- (7) There weren't significant inflation events from 2022 until the Annual Report printing date.

### (II) The policy relating to the high-risk and high leverage investment, the loaning to others, the guarantee endorsement and the transaction of derivatives, as well as the main reasons causing the profit or loss and subsequent responding actions:

1. In recent years, the company did not engage in the high risk and high leverage investment. The balance endorsed by the company in 2022 and until 03/31/2023 is NT\$170,441,000 and NT\$141,593,000 respectively.
2. When loaning the fund to others, it is executed according to "Operation Procedure for Loaning Fund to Others" established by the company. During 2022 and until March 31, 2023, the loaned fund and the total limit are NT\$389,452,000 and NT\$393,699,000 respectively. Until December 31, 2022 and March 31, 2023, the fund loaning balance is NT\$107,485,000 and NT\$106,575,000 respectively.
3. The transaction of derivatives is executed according to the "Procedure Governing the Derivatives Transaction" established by the company.

### (III) Future R&D plan and estimated R&D investment cost

It is the plan of this Company to intensify the ability in core engineering, the development of new product project and the integration of AI automation. In terms of the R&D, the expenses that will be invested is estimated at about NT\$85,260,000 in 2023.

**(IV) Impact of the change of local and foreign major policy and laws to the company's financial operation and the responding actions: None**

**(V) Impact of the technological change (including the cybersecurity risks) and the industrial change to company's financial operations and the responding actions: None**

**(VI) Impact of corporate image to company's enterprise risk management and the responding actions: None**

**(VII) Anticipated effect of merger, potential risks and the responding actions: None**

**(VIII) Anticipated effect of plant expansion, potential risks and the responding actions: None**

**(IX) Risks encountered by the concentrated purchase and sales and the responding actions:**

1. Purchase: Over the past years, this Company has maintained mutual long-term cooperation with our suppliers. Besides, we also signed the long-term contract with main suppliers to ensure that the required materials will be supplied continuously. Further, there hasn't been a supply shortage or interruption event over the past two years. Therefore, the supply is maintained as normal and is in satisfactory condition.
2. Sales: In previous years, the percentage of our sales for a single customer has been maintained at below 50%. Based on the techniques and production ability being accumulated over the past years, we are not only able to maintain long-term cooperation with the existing customers but also develop new customers in order to expand the fastener market. Further, we also adjusted the revenue weight with the customers so as to maintain stabilized growth.

**(X) Impact of the massive transfer or change of equity by director, supervisor or the shareholder owning over 10% of shares to the company and relevant risks and responding actions:**

Until the Annual Report printing date, there hasn't been a massive equity transfer event that will be executed by the director or the major shareholder owning over 10% of shares of this Company. Based on the schedule specified in the regulations of Securities & Futures Act, this Company also reported the share owning status of the directors and the major shareholder owning over 10% of shares.

**(XI) Impact of operation right change to the company as well as the risks and the responding actions: None**

**(XII) Law suit or non-litigation suit event:**

In recent years and until the Annual Report printing date, where a litigation suit, a non-litigation suit or an administrative dispute event was filed against the company, the company's director, supervisor, President, physical responsible person as well as the major shareholder and its subsidiary owning over 10% of shares has been adjudicated or is still under seizure process; and where its result may pose major impact to the shareholder's equity or the stock price, then it is required to disclose the fact of dispute, the amount of target, the starting/ending date of the suit, the primary parties involved in the dispute and present handling status.

1. In February 2019 (same as below), JINLONG Machinery Co., Ltd. filed a civil suit to Taoyuan District Court for which, this Company is asked to return followings to the Plaintiff, i.e. machinery equipment and the 3-story iron sheet factory that is located at "No. 38, Lane 99, Taiping W. Road, Pingcheng District, Taoyuan City" and that is not provided with the preservation registration. However, this Company has indeed signed the transaction contract with J-Three International Holding Co., Ltd. and on July 11, 2016 for the land and the building that is located at the disputed site for which, the handover has also been completed as registered in the official record. To deal with such case, we have authorized L&C Attorneys-at-Law to serve as the litigation agent of this case to handle the suit-related matters. On September 29, 2020, the suit filed by the Plaintiff was dismissed during the first trial held at the Civil Courtroom of Taoyuan District Court and the Plaintiff is therefore filed further appeal within the timeline by the law. On July 11, 2022, we received the verdict rendered by the Courtroom of High Court during the second trial by which, the appeal together with the rest of other suits filed by the Plaintiff were dismissed. Based on such verdict, the Appellant is obliged to pay a sum of NT\$4,727,100.00 and the legal interest that should be accrued starting from November 13, 2020. Further, it has also been determined that the Appellant shall also assume 39% of the litigation fees. Based on the above, it has been mutually agreed by both parties that no further suit will not be filed and the verdict is concluded and final. Based on the verdict rendered by the Civil Courtroom of High Court during

the second trial, the payment has been settled by both parties before August 05, 2022 and the case is therefore closed.

2. Regarding the disclosure of the information relating to NAFCO Holdings Ltd. and MiTac Technology Corporation, the directors of this Company, please refer to the description of litigation suit or non-litigation suit event specified in Chapter SEVEN contained in 2022 Annual Report prepared by NAFCO Holdings Ltd.

**(XIII) Other major risks and responding actions: None.**

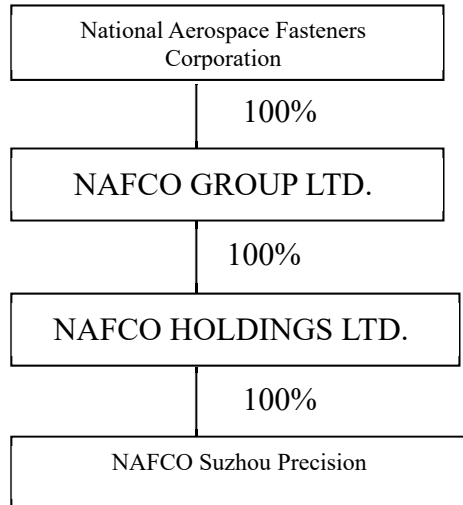
**VII. Other important items: None.**

## Eight. Special items

### I. Affiliate-related information:

(I) Affiliate organizational chart

1. Affiliate organizational chart



2. Basic information of the respective affiliate

Unit: NT

Company name	Incorporation date	Address	Paid-in capital	Main business or production items
Nafco Group Ltd.	Aug.15,2011	Intershore Chambers, P.O. Box 4342 Road Town, Tortola British Virgin Islands	US\$13,000	General investment business
Nafco Holdings Ltd.	Aug.17,2011	Intershore Chambers, P.O. Box 4342 Road Town, Tortola British Virgin Islands	US\$13,000	General investment business
NAFCO Suzhou Precision	December 13, 2011	No. 269, Ave. #2, Kungshan General Tax-bonded Park, Jiangsu Province	US\$13,000	Production of high-performance basic parts for aerospace and engine transportation tools.

3. Information of the same shareholders being concluded as that the controlled or the subordinating relationship is existed: None

4. The business covered by the operation of the affiliate and its connection:

Type of business	Name of affiliates	Correlatively with the business operated by other affiliates
Investment holdings company	Nafco Group Ltd.	Investment of overseas subsidiaries
	Nafco Holdings Ltd.	Investment of overseas subsidiaries
Production and sales of aviation parts and mold processing	NAFCO Suzhou Precision	Production of high-performance basic parts for aerospace and engine transportation tools.

5. Information of directors, supervisors and president of the respective affiliate

Company name	Position	Name or the representative	Shares owned	
			Shares	Share holding ratio
Nafco Group Ltd.	Director	TSAI, Feng-Tzu	0	0.00%
	Director	LIN, Wei-Tsun	0	0.00%
	Director	ZHU, Wen-Hui	0	0.00%
Nafco Holdings Ltd.	Director	TSAI, Feng-Tzu	0	0.00%
	Director	LIN, Wei-Tsun	0	0.00%
	Director	ZHU, Wen-Hui	0	0.00%
NAFCO Suzhou Precision	Chairman	Nafco Holdings Ltd. - Representative: TSAI, Feng-Tzu	N/A	100.00%
	Director	Nafco Holdings Ltd. - Representative: LIN, Wei-Tsun	N/A	100.00%
	Director	Nafco Holdings Ltd. - Representative: ZHU, Wen-Hui	N/A	100.00%
	Supervisor	Nafco Holdings Ltd. - Representative: LI, Wen-Cheng	N/A	100.00%
	President	LIN, Wei-Tsun	N/A	0.00%

6. Overview of operation of the affiliate

Expressed in thousands of New Taiwan Dollars

Company name	Capital	Total amount of assets	Total amount of liabilities	Net value	Operating revenue	Operating gains (and losses)	Current-term net profit (after-tax)	Earning Per Share (NT\$)
								(after-tax)
National Aerospace Fasteners Corporation	526,472	4,515,122	2,567,863	1,947,259	1,967,894	126,736	149,975	2.85
Nafco Group Ltd.	405,897	311,317	-	311,317	-	-	(24,532)	(0.60)
Nafco Holdings Ltd.	405,897	311,317	-	311,317	-	-	(24,532)	(0.60)
NAFCO Suzhou Precision	405,897	565,284	253,968	311,317	445,673	3,988	(24,532)	-

(II) Combined Financial Report of Affiliates

(III) Relationship Report: N/A

- II. Handling of private placement of marketable stocks in recent years and until the Annual Report printing date: None**
- III. Subsidiary's owning or processing the stocks of this company in recent years and until the Annual Report printing date: None**
- IV. Other supplementary description: None**
- V. Please describe the event that has posed a major impact to the shareholder equity or the stock price, as specified in Clause 2, Item 3 under Article 36 of Securities & Exchange Act in recent year and until the Annual Report printing date.**

# National Aerospace Fasteners Corporation Audit Committee Review Report

The Board of Directors has prepared the proposal for the distribution of earnings, Business Report and Financial Statements covering the period from January 1 to December 31, 2022. The Financial Statements as mentioned have been audited by PwC Taiwan with the issuance of Auditors' Report. We have reviewed the aforementioned proposal for the distribution of earnings, Business Report, and Financial Statements, which in our opinion were appropriately presented. We hereby issue this Review Report pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To  
Shareholders Meeting of National Aerospace Fasteners Corporation in regular session of 2023

National Aerospace Fasteners Corporation  
Convenor of Audit Committee: Hsin-Che Chao

2023.02.22

National Aerospace Fasteners Corporation and  
Subsidiaries  
Consolidated Financial Statements and  
Independent Auditors' Report  
For the years ended 2022 and 2021  
(Stock No: 3004)

Address: No. 1, Taiping E. Rd., Pingzhen Dist., Taoyuan  
City, 324026, Taiwan (R.O.C.)  
Tel: +886-3-450-8868

National Aerospace Fasteners Corporation and Subsidiaries  
Consolidated Financial Statements and Independent Auditors' Report For the years  
ended 2022 and 2021  
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National Aerospace Fasteners Corporation

Representation Letter

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

Hereby declared by

National Aerospace Fasteners Corporation

Responsible Person: Feng-Tzu Tsai

February 22, 2023

## Independent Auditor's Report

(112)Cai-Shen-Bao Letter Number22003119

To the Board of Directors and Stockholders of National Aerospace Fasteners Corporation:

### **Audit Opinion**

We have audited the accompanying consolidated balance sheets of National Aerospace Fasteners Corporation and Subsidiaries as of December 31, 2021 and 2022, and the related consolidated statements of comprehensive income, consolidated changes in equity, and consolidated cash flows, and notes to consolidated financial statements (including summary of significant accounting policies) for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Aerospace Fasteners Corporation and its subsidiaries (hereinafter referred to as "the Group") as of December 31, 2021 and 2022, and the results of the consolidated operations and the consolidated cash flows for the years then ended in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission (FSC).

### **Basis for Opinions**

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the "Responsibilities of Certified Public Accountants for the Audit of the Financial Statements" section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled other responsibilities as stipulated by the Code. 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 2022. These matters were addressed in the content 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 those matters.

Key audit matters for the consolidated financial statements for the year ended 2022 are stated as follows:

## **Recognition of revenue from export sales**

### Description of Key Audit Matters

For accounting policies regarding recognition of revenues, please refer to Note 4 (26) of the consolidated financial statements. For explanation of revenue accounts, please refer to Note 6 (18) of the consolidated financial statements. The operating revenue of National Aerospace Fasteners Corporation and Subsidiaries for the year 2022 totaled NT\$ 2,192,921 thousand.

The main products of National Aerospace Fasteners Corporation and Subsidiaries are aerospace and industrial fasteners. The Group mainly engages in export sales, and recognition of revenue varies from customers to customers, or depends on the trading terms of each individual orders. Thus, the recognition of revenue is relatively more complex, as the timing of revenue recognition has to be determined based on each order. Therefore, we believe that the recognition of revenue from export sales shall be included in Key Audit Matters.

### How the matter was addressed in our audit

Our audit main procedures regarding the recognition of revenue from export sales are as follows:

1. We conducted walk through testing on export sales revenues to understand, evaluate and verify the implementation and design effectiveness of internal controls regarding recognition of revenue from export sales.
2. We sampled the trading terms of the recognized revenue in the verification systems, and the sampled items are consistent with the original contracts or orders with the customers.
3. For different transaction terms, we verified the delivery times entered in the customs system and they are consistent with the customer receipts or the courier receipts. The time of customer clearance entered in the customs system are consistent with the retained export declaration receipts.
4. We conducted cut-off tests on the sales revenue of different trading terms during the period from before to after the balance sheet date based on the revenue details obtained. Documents including export clearance and receipts are consistent with the information entered in the system.

## **Allowance to reduce inventories to market**

### Description of Key Audit Matters

For accounting policies regarding inventory evaluation, please refer to Note 4(12) attached to the consolidated financial report. For accounting estimates and assumptions of inventory evaluation, please refer to Note 5(2) attached to the consolidated financial report. For the explanation of allowance to reduce inventories to market, please refer to Note 6(4)

attached to the consolidated financial report. On December 31, 2022, the balance of inventories and allowance to reduce inventories to market of National Aerospace Fasteners Corporation and Subsidiaries amounted to NT\$ 939,849 thousand and NT\$ 186,978 thousand, respectively.

The Group engages in the manufacturing and sales of and industrial fasteners. Due to the high level of customization to accommodate to each individual product specification and customer requirements, the Group has a higher risk of falling prices or obsolescence of inventories. The inventory of the Group is measured by the lower amount between the cost or net realizable value. For the inventory over a certain age and the individually identified obsolete inventory, the net realizable value is extrapolated based on the historical information of the destocking process and level of discounts. As net realizable value involves a high level of subjective assumptions, it thus has high assumption uncertainties. In addition, as inventories and the allowance to reduce inventories to market have significant impacts on the financial statements, we believe that the Group's allowance to reduce inventories to market shall be listed as one of the key audit matters.

#### How the matter was addressed in our audit

Our audit main procedures regarding loss on inventory price decline or falling price loss due to obsolescence of each individual inventory are as follows:

1. We assessed the reasonableness of policies and procedures for the recognition of allowance for inventory valuation losses, including the historical source information of the categorization of inventories, level of destocking, and level of discounts which are used to determine the net realizable value of inventories. We also judge the reasonableness of obsolete inventory items.
2. We investigated the Group's warehousing procedures, reviewed its annual inventory planning, and participated in the annual inventory taking, so as to evaluate the effectiveness of management's categorization of management of obsolete inventories.
3. We verified if inventories are listed in the correct inventory age ranges, so as to ensure that obsolete inventories are listed in their corresponding categories.
4. We verified if losses on valuation of inventory are recognized according to policies for obsolete inventory items over a certain age, and correctly recognized an allowance to reduce inventory to market.

#### **Other Matter - Parent-Only Financial Statements**

National Aerospace Fasteners Corporation has additionally prepared its parent-only financial statements for the years ended December 31, 2022 and 2021, on which we have issued an unqualified audit opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs, IASs, 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 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 report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect material misstatement when it exists. Misstatements can arise from fraud or error and are considered material, if, individually or aggregated, 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design, and perform audit procedures responsive to those risks, and obtain evidence that is sufficient and appropriate to provide a basis of 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 the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's 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 related disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair representation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's 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 specified in The Norm of Professional Ethics for Certified Public Accountant of the Republic of China 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 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.

Pricewaterhouse Coopers

Wei-Hao Wu

CPAs

Yen-Na Li

Financial Supervisory Commission  
Approval letter: Jin-Guan-Zheng-Shen Letter  
Number:1080323093  
Securities and Futures Bureau, Financial Supervisory  
Commission, Executive Yuan  
Approval letter: Jin-Guan-Zheng-Liu Letter  
Number:0950122728

February 22, 2023

National Aerospace Fasteners Corporation and Subsidiaries  
Consolidated Balance Sheets  
December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

Assets	Notes	Dec. 31, 2022		Dec. 31, 2021	
		Amount	%	Amount	%
<b>Current Assets</b>					
1100	Cash and cash equivalents	6 (1) \$ 138,933	3	\$ 110,111	3
1110	Financial assets measured at fair value through profit or loss - current	6 (2) 2,452	-	884	-
1150	Notes receivable, net	6 (3) 169	-	-	-
1170	Accounts receivable, net	6 (3) 572,503	13	364,703	8
1180	Accounts receivable - related parties, net	6 (3), 7 1,671	-	-	-
1200	Other receivables	5,948	-	5,242	-
1210	Other receivables - related parties	7 38	-	38	-
130X	Inventories	6 (4) 752,871	17	591,208	14
1410	Prepayments	66,392	1	31,743	1
11XX	<b>Total current assets</b>	<u>1,540,977</u>	<u>34</u>	<u>1,103,929</u>	<u>26</u>
<b>Non-current assets</b>					
1517	Financial assets measured at fair value through other comprehensive income - non-current	-	-	-	-
1600	Property, plant and equipment	6 (5), 7, 8 2,960,242	65	3,136,622	73
1755	Right-of-use assets	6 (6), 7 6,207	-	12,467	-
1760	Investment property, net	6 (7) 21,662	-	21,804	1
1780	Intangible assets	9,631	-	14,089	-
1840	Deferred income tax assets	9,332	-	5,484	-
1900	Other non-current assets	6 (8), (13), 8 <u>24,875</u>	<u>1</u>	<u>11,332</u>	<u>-</u>
15XX	<b>Total non-current assets</b>	<u>3,031,949</u>	<u>66</u>	<u>3,201,798</u>	<u>74</u>
1XXX	<b>Total Assets</b>	<u>\$ 4,572,926</u>	<u>100</u>	<u>\$ 4,305,727</u>	<u>100</u>

(Continued)

National Aerospace Fasteners Corporation and Subsidiaries  
Consolidated Balance Sheets  
December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

Liabilities and Equity	Notes	Dec. 31, 2022		Dec. 31, 2021	
		Amount	%	Amount	%
<b>Current Liabilities</b>					
2100	Short-term borrowings	6 (9) \$ 21,497	1	\$ 13,840	-
2120	Financial liabilities measured at fair value through profit or loss - current	6 (2) 1,194	-	-	-
2130	Contract liabilities - current	17,873	-	1,593	-
2170	Accounts payable	6 (10) 324,520	7	162,225	4
2180	Accounts payable - related parties	7 -	-	33	-
2200	Other payables	6 (11) 236,450	5	162,355	4
2220	Other payables - related parties	7 9,246	-	8,319	-
2230	Current tax liabilities	27,981	1	34,328	1
2280	Lease liabilities - current	6 (6), 7 6,353	-	6,285	-
2320	Long-term liabilities - current portion	6 (12) 429,235	9	286,299	7
21XX	<b>Total current liabilities</b>	1,074,349	23	675,277	16
<b>Non-current Liabilities</b>					
2540	Long-term borrowings	6 (12) 1,526,334	34	1,812,813	42
2570	Deferred tax liabilities	17,249	-	15,804	-
2580	Lease liabilities - non-current	6 (6), 7 -	-	6,136	-
2600	Other non-current liabilities	7,735	-	21,498	1
25XX	<b>Total non-current liabilities</b>	1,551,318	34	1,856,251	43
2XXX	<b>Total Liabilities</b>	2,625,667	57	2,531,528	59
<b>Equity Attributable to Owners of Parent</b>					
Issued capital					
3110	Common stock	526,472	12	526,472	12
Capital surplus					
3200	Capital surplus	411,394	9	398,499	9
Retained earnings					
3310	Legal reserve	171,581	4	171,581	4
3320	Special reserve	41,890	1	39,808	1
3350	Unappropriated retained earnings	831,987	18	679,729	16
Other equity					
3400	Other equity	( 36,065 ) ( 1 )	( 1 )	( 41,890 ) ( 1 )	( 1 )
3XXX	<b>Total Equity</b>	1,947,259	43	1,774,199	41
Significant commitments and contingencies					
3X2X	<b>Total Liabilities and Equity</b>	\$ 4,572,926	100	\$ 4,305,727	100

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer: Wen-Cheng Li

National Aerospace Fasteners Corporation and Subsidiaries  
Consolidated Balance Sheets

For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars  
(earnings (loss) per share expressed in New Taiwan Dollars)

Item	Notes	2022		2021	
		Amount	%	Amount	%
4000 Operating revenue	7	\$ 2,192,921	100	\$ 1,426,205	100
5000 Operating costs	6 (6), 7	( 1,681,287 )	( 77 )	( 1,260,117 )	( 89 )
5900 Gross profit		<u>511,634</u>	<u>23</u>	<u>166,088</u>	<u>11</u>
Operating expenses					
6100 Selling expenses		( 60,160 )	( 3 )	( 40,314 )	( 3 )
6200 General and administrative expenses		( 207,301 )	( 9 )	( 160,452 )	( 11 )
6300 Research and development expenses		( 118,191 )	( 5 )	( 83,053 )	( 6 )
6450 Profit from expected credit loss	12 (2)	866	-	558	-
6000 Total operating expenses		( <u>384,786</u> )	( <u>17</u> )	( <u>283,261</u> )	( <u>20</u> )
6900 Operating gains and losses		<u>126,848</u>	<u>6</u>	( <u>117,173</u> )	( <u>9</u> )
Non-operating revenue and expenses					
7100 Interest income		246	-	108	-
7010 Other income		1,036	-	1,042	-
7020 Other gains and losses		43,235	2	34,759	3
7050 Finance costs	7	( 26,311 )	( 1 )	( 24,105 )	( 2 )
7000 Total non-operating revenues and expenses		<u>18,206</u>	<u>1</u>	<u>11,804</u>	<u>1</u>
7900 <b>Profit (loss) before tax</b>		<u>145,054</u>	<u>7</u>	( <u>105,369</u> )	( <u>8</u> )
7950 Income tax benefit		4,921	-	8,640	1
8200 <b>Net income (loss)</b>		<u>\$ 149,975</u>	<u>7</u>	( <u>\$ 96,729</u> )	( <u>7</u> )
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to profit or loss</b>					
8311 Remeasurements of defined benefit plans	6 (13)	\$ 4,365	-	\$ 927	-
8310 Total items that will not be reclassified to profit or loss		<u>4,365</u>	<u>-</u>	<u>927</u>	<u>-</u>
<b>Items that may be subsequently reclassified to profit or loss</b>					
8361 Exchange differences from the translation of financial statements of foreign operations		5,825	-	( 2,082 )	-
8360 Total items that may be subsequently reclassified to profit or loss		<u>5,825</u>	<u>-</u>	( <u>2,082</u> )	<u>-</u>
8300 <b>Other comprehensive income, net</b>		<u>\$ 10,190</u>	<u>-</u>	( <u>\$ 1,155</u> )	<u>-</u>
8500 <b>Total comprehensive income</b>		<u>\$ 160,165</u>	<u>7</u>	( <u>\$ 97,884</u> )	( <u>7</u> )
Basic earnings (loss) per share					
9750 Basic earnings (loss) per share		<u>\$ 2.85</u>		( <u>\$ 1.84</u> )	
Diluted earnings (loss) per share					
9850 Diluted earnings (loss) per share		<u>\$ 2.85</u>		( <u>\$ 1.84</u> )	

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer: Wen-Cheng Li

National Aerospace Fasteners Corporation and Subsidiaries  
Consolidated Statement of Changes in Equity  
For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

	Equity attributable to owners of parent									
	Notes	Capital surplus				Retained earnings			Exchange differences from the translation of financial statements of foreign operations	Total Equity
		Common stock	Share premium	Employee share option	Others	Legal reserve	Special reserve	Unappropriated retained earnings		
<u>2021</u>										
Balance as of Jan. 1, 2021		\$ 526,472	\$ 340,105	\$ 33,136	\$ -	\$ 165,502	\$ 45,975	\$ 801,767	( \$ 39,808 )	\$ 1,873,149
2021 net loss		-	-	-	-	-	-	( 96,729 )	-	( 96,729 )
2021 other comprehensive income		-	-	-	-	-	-	927	( 2,082 )	( 1,155 )
Total comprehensive income		-	-	-	-	-	-	( 95,802 )	( 2,082 )	( 97,884 )
Appropriation and distribution of earnings										
Legal reserve		-	-	-	-	6,079	-	( 6,079 )	-	-
Special reserve		-	-	-	-	-	( 6,167 )	6,167	-	-
Cash dividends		-	-	-	-	-	-	( 26,324 )	-	( 26,324 )
Employee stock option costs	6 (14)	-	-	25,258	-	-	-	-	-	25,258
Balance as of Dec. 31, 2021		<u>\$ 526,472</u>	<u>\$ 340,105</u>	<u>\$ 58,394</u>	<u>\$ -</u>	<u>\$ 171,581</u>	<u>\$ 39,808</u>	<u>\$ 679,729</u>	<u>( \$ 41,890 )</u>	<u>\$ 1,774,199</u>
<u>2022</u>										
Balance as of Jan. 1, 2022		\$ 526,472	\$ 340,105	\$ 58,394	\$ -	\$ 171,581	\$ 39,808	\$ 679,729	( \$ 41,890 )	\$ 1,774,199
2022 net loss		-	-	-	-	-	-	149,975	-	149,975
2022 other comprehensive income		-	-	-	-	-	-	4,365	5,825	10,190
Total comprehensive income		-	-	-	-	-	-	154,340	5,825	160,165
Appropriation and distribution of earnings										
Special reserve		-	-	-	-	-	2,082	( 2,082 )	-	-
Expired employee share option	6 (14)	-	-	( 2,247 )	2,247	-	-	-	-	-
Employee stock option costs	6 (14)	-	-	12,895	-	-	-	-	-	12,895
Balance as of Dec. 31, 2022		<u>\$ 526,472</u>	<u>\$ 340,105</u>	<u>\$ 69,042</u>	<u>\$ 2,247</u>	<u>\$ 171,581</u>	<u>\$ 41,890</u>	<u>\$ 831,987</u>	<u>( \$ 36,065 )</u>	<u>\$ 1,947,259</u>

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer:  
Wen-Cheng Li

National Aerospace Fasteners Corporation and Subsidiaries  
Consolidated Statement of Cash Flows  
For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
<u>Cash flow from operating activities</u>			
Profit (loss) before tax		\$ 145,054	(\$ 105,369 )
Adjustments			
Adjustments to reconcile profit or loss			
Gains on financial assets/liabilities measured at fair value through profit or loss, net		( 374 )	( 884 )
Reversal of expected credit loss	12 (2)	( 866 )	( 558 )
Depreciation of property, plant and equipment and investment property		224,564	242,802
Depreciation of right-of-use assets		6,473	12,890
Amortizations		7,503	10,028
Interest income		( 246 )	( 108 )
Interest expenses		26,311	24,105
Gain (Loss) on disposal of property, plant and equipment		27,269	( 174 )
Cost of share-based payment as remuneration	6 (14)	12,895	25,258
Changes in operating assets/liabilities			
Changes in operating assets, net			
Notes receivable, net		( 169 )	1,116
Accounts receivable		( 206,940 )	( 60,786 )
Accounts receivable - related parties, net		( 1,671 )	628
Other receivables		( 706 )	( 1,015 )
Other receivables - related parties		-	( 38 )
Inventories		( 161,663 )	( 78,552 )
Prepayments		( 33,405 )	( 14,421 )
Changes in operating liabilities, net			
Contract liabilities - current		16,280	( 12,429 )
Notes payable		-	( 70 )
Accounts payable		162,295	80,764
Accounts payable - related parties		( 33 )	33
Other payables		71,008	( 19,040 )
Other payables - related parties		927	( 241 )
Other non-current liabilities		( 4,976 )	2,682
Cash inflow from operating activities		289,530	106,621
Interest received		246	108
Interest paid		( 26,025 )	( 24,153 )
Income tax paid in current period		( 12,835 )	( 9,030 )
Net cash inflow from operating activities		250,916	73,546

(Continued)

National Aerospace Fasteners Corporation and Subsidiaries  
Consolidated Statement of Cash Flows  
For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

	<u>Notes</u>	<u>For the year ended December 31, 2022</u>	<u>For the year ended December 31, 2021</u>
<u>Cash flow from investing activities</u>			
Acquisition of property, plant and equipment		( \$ 74,003 )	( \$ 60,375 )
Disposal of property, plant and equipment		6,922	211
Increase in intangible assets		( 3,027 )	( 2,797 )
Decrease in refundable deposits		419	136
(Increase) decrease in prepayments for equipment		( 9,264 )	398
(Increase) Decrease in other non-current assets		( 333 )	41
Net cash outflow from investing activities		<u>( 79,286 )</u>	<u>( 62,386 )</u>
<u>Cash flow from financing activities</u>			
Increase in short-term borrowings		294,191	242,209
Payments for short-term borrowings		( 286,534 )	( 228,369 )
Increase in long-term borrowings		151,317	91,381
Payments for long-term borrowings		( 294,860 )	( 104,452 )
Payments for lease liabilities		( 6,062 )	( 11,181 )
Decrease in deposits received		-	( 10 )
Payments of cash dividends		-	( 26,324 )
Net cash outflow from financing activities		<u>( 141,948 )</u>	<u>( 36,746 )</u>
Effects of changes in foreign exchange rates		( 860 )	188
Increase (Decrease) in cash and cash equivalents		28,822	( 25,398 )
Cash and cash equivalents at beginning of period		110,111	135,509
Cash and cash equivalents at end of period		<u>\$ 138,933</u>	<u>\$ 110,111</u>

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer: Wen-Cheng Li

National Aerospace Fasteners Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
For the years ended 2022 and 2021

Expressed in thousands of New Taiwan Dollars  
(Unless otherwise specified)

I. Company History

National Aerospace Fasteners Corporation (hereinafter referred to as the “Company”) was established on October 14, 1997 upon approval, and the Company’s share was listed on Taipei Exchange (TPEX) starting February 25, 2002. The Company and subsidiaries (hereinafter referred to as the “Group”) registered its businesses as the manufacture, processing, agency, trading of the fasteners and construction parts of aircraft, ships, and vehicles. Getac Holdings Corp. holds 39.08% of the shareholding in the Company, and is the ultimate parent company of the Group.

II. Approval Financial Statements

The consolidated financial statements were authorized for issuance by the Board of Directors on February 22, 2023.

III. Application of New and Amended Standards and Interpretations

- (I) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) that have been issued, entered into effect and endorsed by the Financial Supervisory Commission (“FSC”).

New standards, interpretations and amendments endorsed by the FSC effective from 2022 are as follows:

<u>New/Amended/Revised Standards and Interpretations</u>	<u>The effective date per IASB</u>
Amendment to IFRS 3 - “Reference to the Conceptual Framework”	Jan. 1, 2022
Amendment to IAS 16 - “Property, Plant and Equipment - Proceeds before intended use”	Jan. 1, 2022
Amendment to IAS 37 - “Onerous Contracts - Cost of Fulfilling a Contract”	Jan. 1, 2022
Annual Improvements 2018-2020 Cycle	Jan. 1, 2022

After evaluation, the aforementioned standards and interpretations have no significant impacts on the Group’s financial position and financial performance.

(II) The impact of new issuances of or amendments to IFRS as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2023 are as follows:

<u>New/Amended/Revised Standards and Interpretations</u>	<u>The effective date per IASB</u>
Amendment to IAS 1 - "Disclosure of Accounting Policies"	Jan. 1, 2023
Amendment to IAS 8 - "Definition of Accounting Estimates"	Jan. 1, 2023
Amendments to IAS 12 - "Deferred tax Related to Assets and Liabilities Arising from a Single Transaction"	Jan. 1, 2023

After evaluation, the aforementioned standards and interpretations have no significant impacts on the Group's financial position and financial performance.

(III) The impact of IFRS issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC

New standards, interpretations and amendments issued by the IASB but not yet endorsed by the FSC are as follows:

<u>New/Amended/Revised Standards and Interpretations</u>	<u>The effective date per IASB</u>
Amendment to IFRS 10 and IAS 28 - "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	The effective date per IASB
Amendment to IFRS 16 "Lease Liability in a Sale and Leaseback"	Jan. 1, 2024
IFRS 17 "Insurance Contracts"	Jan. 1, 2023
Amendment to IFRS 17 "Insurance Contracts"	Jan. 1, 2023
Amendment to IFRS 17 - " Initial Application of IFRS 17 and IFRS 9 - Comparative Information"	Jan. 1, 2023
Amendment to IAS 1 - "Classification of Liabilities as Current or Non-current"	Jan. 1, 2024
Amendment to IAS 1 "Non-current Liabilities with Covenants"	Jan. 1, 2024

After evaluation, the aforementioned standards and interpretations have no significant impacts on the Group's financial position and financial performance.

#### IV. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows. These policies have been consistently used throughout the periods presented, unless otherwise stated.

##### (I) Statement of compliance

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, and interpretations (collectively referred to as IFRSs) that have been issued, entered into effect and endorsed by the FSC.

##### (II) Basis of preparation

1. The consolidated financial statements are prepared based on historical data, except for the following:
  - (1) Financial assets and liabilities measured at fair value through profit or loss (including derivatives)
  - (2) Financial assets measured at fair value through other comprehensive income
  - (3) Defined benefit liabilities measured at present value of defined benefit obligation less the fair value of plan assets
2. The preparation of financial statements in conformity with IFRSs requires the use of certain significant accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

##### (III) Basis of consolidation

1. Principles for preparation of consolidated financial statements
  - (1) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries refer to entities (incl. structured entities) controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
  - (2) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
  - (3) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

2. Subsidiaries included in the consolidated financial statements:

<u>Investor</u>	<u>Investee</u>	<u>Main business and products</u>	<u>Percentage of ownership</u>		<u>Description</u>
			<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>	
The Company	NAFCO Group Ltd. (NGL)	Investment	100%	100%	
NGL	NAFCO Holdings Ltd. (NHL)	Investment	100%	100%	
NHL	NAFCO Suzhou Precision	Production and sales of aviation parts and mold processing	100%	100%	

3. Subsidiaries not included in the consolidated financial statements:

None.

4. Adjustment for subsidiaries with different balance sheet date:

None.

5. The nature and limit of significant restrictions on the transfer of funds from subsidiaries to the parent company:

None.

6. Subsidiaries with material non-controlling interest to the Group:

None.

(IV) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (that is, the functional currency). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

1. Foreign currency transactions and balances

- (1) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (2) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (3) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However,

non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (4) All exchange gains and losses are presented as "Other gains and losses" on the statement of comprehensive income

## 2. Exchange from foreign operations

- (1) The operating results and financial position of all the group entities, associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - A. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
  - B. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
  - C. All resulting exchange differences are recognized in other comprehensive income.
- (2) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

## (V) Classification of current and non-current asset and liability items

### 1. Assets that meet one of the following criteria are classified as current assets:

- (1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.
- (2) Assets arising mainly from trading activities.
- (3) Assets that are expected to be realized within twelve months from the balance sheet date.
- (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

All other assets that do not meet any of the above criteria are classified as non-current assets.

### 2. Liabilities that meet one of the following criteria are classified as current liabilities:

- (1) Liabilities that are expected to be paid off within the normal operating cycle.
- (2) Liabilities arising mainly from trading activities.
- (3) Liabilities that are to be paid off within twelve months from the balance sheet date.
- (4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities that do not meet any of the above criteria are classified as non-current liabilities.

(VI) Cash equivalents

Cash equivalents refer to short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

(VII) Financial assets measured at fair value through profit or loss

1. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
2. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized using trade date accounting.
3. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

(VIII) Financial assets measured at fair value through other comprehensive income

1. Refers to the irrevocable election made at initial recognition that allows the Company to present fair value changes of equity investment not held for trading in other comprehensive income:
  - (1) Financial assets held within a business model of which the objective of holding is to collect the contractual cash flows and to sell.
  - (2) The cash flows on specific dates that are generated from the contractual terms of the financial assets are solely payments of the principle and interest on the principle amount outstanding.
2. The Group's financial assets measured at fair value through other comprehensive income in accordance with the trading conventions are accounted for on the trade date.
3. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value.

The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the de-recognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(IX) Accounts and notes receivable

1. Accounts and notes receivable refer to the receivables with which the Company has an unconditional contractual right to consideration for goods or services that have been transferred.
2. As the Group's short-term accounts and notes receivables with no stated interest rate has no material discounting effect, they are measured at the original invoice amount.

(X) Impairments of financial assets

The Group measures the loss allowance for accounts receivable and contract assets containing significant financial components after taking into account all reasonable and proving information (including foreseeing information) at each balance sheet date; where the credit risk has not significantly increased since initial recognition, the loss allowance is measured at the 12-month expected credit losses; where the credit risk has increased

significantly since initial recognition, the loss allowance is measured at lifetime expected credit losses. Accounts receivables and contract assets that do not contain any significant financing components, the loss allowance is measured at lifetime expected credit losses.

(XI) The de-recognition of financial assets

The Group de-recognizes a financial asset when the contractual rights to receive cash flows from the financial asset expires.

(XII) Inventories

Inventories are measured by the lower amount between cost and net realizable value based on perpetual inventory system. Cost is determined using the weighted-average cost method. The cost of finished goods and goods in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal capacity). However, loan costs are excluded. The item by item approach is used in applying the lower of the cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

(XIII) Property, plant and equipment

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognized. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.
3. Land is not depreciated. Other property, plant and equipment are measured using cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
4. The Group reviews each assets' residual values, useful lives and depreciation methods at the end of each financial year. If expectations for the assets' residual values and useful lives differ from previous estimates or the expected pattern of consumption of the future economic benefits of an asset have changed significantly, any change is accounted for as a change in estimate under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Houses and buildings	5 - 50 yrs
Equipment	3 - 10 yrs
Office equipment	3 - 6 yrs
Other equipment	2 - 10 yrs

(XIV) Lease transaction in the capacity of a lessee - Right-of-use assets / lease liabilities

1. A right-of-use asset and a lease liability are recognized for a leased asset on the date when it becomes readily available for the Group's use. When a lease contract is a short-term lease or when it is a lease of which the underlying asset is of low value, lease payments are recognized as an expense on a straight-line basis over the lease term.
2. The Company recognizes the present value of unpaid lease liabilities discounted at the Company's incremental borrowing interest rate starting from the lease start date. Lease payments are fixed payments less any incentives for lease.

Subsequently, lease liabilities are measured at the amortized cost using the effective interest rate method, and interest expense is recognized over the lease term. When a change in the lease term or lease payments occurs due to reasons other than contractual lease modifications, lease liabilities are remeasured and the remeasurements are adjusted to right-of-use assets.

3. Right-of-use assets are recognized on the lease commencement date at cost that includes:
  - (1) Lease liabilities at initial measurement;
  - (2) Payments paid on or before the commencement date; and
  - (3) Direct costs incurred.

A right-of-use asset is subsequently measured using the cost model and depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. When a lease liability is remeasured, the right-of-use asset is adjusted for any remeasurements of the lease liability.

(XV) Investment property

An investment property is recognized initially at cost and measured subsequently using the cost model. Except for land, investment properties are depreciated on a straight-line basis over its estimated useful life of 50 years.

(XVI) Intangible assets

Computer software is recognized at cost at the acquisition date and depreciated on a straight-line method basis over its estimated useful life of 2~5 years.

(XVII) Impairments of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been without the prior impairment loss.

(XVIII) Borrowings

1. Borrowings refer to short-term and long-term loans from banks. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as interest expenses in profit or loss over the period of the borrowings using the effective interest method.

2. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(XIX) Accounts and notes receivable

1. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
2. As the Group's short-term accounts and notes payables with no stated interest rate has no material discounting effect, they are measured at the original invoice amount.

(XX) De-recognition of financial liabilities

The Group de-recognizes a financial liability when the obligation under the contract is performed, canceled, or expires.

(XXI) Employee benefit

1. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid and should be recognized as expense in the period when the employees render service.

2. Pension

- (1) Defined contribution pension plan

For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

- (2) Defined benefit plans

- A. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in the current period or the prior period. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using the market yield of high-quality corporate bonds that are denominated in the same currency as the benefit plan, and have terms to maturity approximating to the terms of the benefit obligation at balance sheet date. In the absence of deep market in high-quality corporate bonds, the Company uses market yield of government bonds (at the balance sheet date) instead.
- B. Remeasurements arising from defined benefit plans are recognized in other comprehensive income in the period in which they arise and are presented in retained earnings.
- C. Past service costs are recognized immediately in profit or loss.

### 3. Remuneration to employees, Directors and Supervisors

Remuneration to employees, Directors and Supervisors are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in accounting estimates. If employee remuneration is paid by shares, the Company calculates the number of shares based on the closing price the day prior to the board meeting resolution.

#### (XXII) Share-based payment to employees

For equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted on the grant date, and are recognized as the remuneration cost over a vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Recognized remuneration cost is subject to adjustments based on the service conditions and non-market vesting conditions that are expected to be satisfied until the amount of remuneration cost recognized is the number of equity instruments that are eventually vested on the vesting date.

#### (XXIII) Income tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted by the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recognized as income tax expense based on actual appropriation of earnings in the year the shareholders resolve to retain the earnings.
3. Deferred tax is recognized, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred income tax is not accounted for if it arises from initial recognition of goodwill, or of an asset or liability in a transaction, (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit (or loss). Deferred tax liabilities not recognized for taxable temporary differences associated with investments in subsidiaries if 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 is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
4. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.

5. Current income tax assets and liabilities can be offset only when the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and an intention to settle net or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities can be offset only when the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities are levied by the same taxation authority on the same taxable entity; or different taxable entities which intend either to settle net basis, or to realize the assets and settle the liabilities simultaneously.
6. A deferred tax asset shall be recognized for the carry-forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(XXIV) Issued capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(XXV) Dividends

Dividends are recorded as liabilities in the Company's financial statements in the period in which they are resolved by the Company's directors. Share dividends are recorded share dividends to be distributed at the date of shareholder's resolution and reclassified to common shares on the effective date of new shares issuance.

(XXVI) Recognition of revenue

Sales of goods

1. The Group engages in the manufacture and trading of the fasteners, construction parts and other products of aircraft, ships, and vehicles. The Group recognizes sales revenue when the control of products is transferred to customers, i.e. when products are delivered to customers, the customer has full discretion over the distribution channel and price of the products, and the Group has no unfulfilled performance obligation that might affect the customers' acceptance of products. Goods are deemed delivered when the risk of obsolescence and loss is transferred to customers and customers have accepted the goods in accordance with the contractual terms, or when there is objective evidence suggesting that all acceptance provisions have been satisfied.
2. Sales revenue is recognized at contract price less estimated sales tax, sales returns, quantity discount and sales allowance. The terms of the Company's sales contracts are consistent with market practice. Thus, it is determined that there exists no significant financing component in the contracts.
3. An account receivable is recognized at the time when the Group's right to consideration is unconditional except for the passage of time required before payment of that consideration is due.

(XXVII) Government grants

A government grant is recognized at fair value only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. If the government grants are intended to compensate the Group's expenses, the government grants are recognized in profit or loss on a systematic basis over the periods in which related expenses incur. Government grants related to property, plant, and equipment are recognized as non-current liabilities over the estimated useful life of the asset in profit or loss using straight-line method. Main Sources of Significant Accounting Judgment, Estimation and Assumption Uncertainties

(XXVIII) Operating segments

The Group's operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources to the operating segments and assessing their performance.

V. Main Sources of Significant Accounting Judgment, Estimation and Assumption Uncertainties

In the preparation of these consolidated financial statements, management made critical judgments in applying the Group's accounting policies and made accounting estimates and assumptions concerning the situation as of balance sheet date and future events that would reasonably be expected. Accounting assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such estimates and assumptions have a significant risk of causing a material adjustment of the carrying amounts of assets and liabilities in the following financial year. Related information about the significant accounting judgment, estimation and assumption uncertainties is addressed below:

(I) Critical judgments in the application of accounting policies

None.

(II) Critical accounting estimates and assumptions

Inventory valuation

As inventories are stated as the lower figure between the cost or net realizable value, the Group must determine the net realizable value of inventories on the balance sheet date using judgments and estimates. The Group estimates the net realizable value of inventory for obsolescence and unmarketable items at the balance sheet date, and writes down the cost of inventories to net realizable value. The inventory valuation is estimated based on assumptions of future demand within a specific time horizon. Thus it might be subject to significant changes.

Total book value of the Group's inventories on December 31, 2022 is NT\$ 752,871.

VI. Descriptions of Material Accounting Items

(I) Cash and cash equivalents

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Cash on hand and revolving funds	\$ 184	\$ 230
Checking deposits and demand deposits	<u>138,749</u>	<u>109,881</u>

Total	<u>\$</u>	<u>138,933</u>	<u>\$</u>	<u>110,111</u>
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1. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
2. For the Group's transfer of cash as pledge guarantees to other non-current assets, please refer to Note 8.

(II) Financial assets/liabilities measured at fair value through profit or loss

<u>Item</u>	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Current:		
Derivative financial assets mandatorily measured at fair value through profit or loss	<u>\$</u>	<u>\$</u>
	<u>2,452</u>	<u>884</u>
Derivative financial liabilities mandatorily measured at fair value through profit or loss	<u>(\$</u>	<u>\$</u>
	<u>1,194)</u>	<u>-</u>

1. Financial assets/liabilities measured at fair value through profit or loss that are recognized in profit or loss are detailed as follows:

	<u>2022</u>	<u>2021</u>
Derivative financial assets mandatorily measured at fair value through profit or loss	<u>\$</u>	<u>\$</u>
	<u>1,568</u>	<u>884</u>
Derivative financial liabilities mandatorily measured at fair value through profit or loss	<u>(\$</u>	<u>\$</u>
	<u>1,194)</u>	<u>-</u>

2. The Group's derivative financial asset transactions that are not subject to hedge accounting and the contract contents thereof are detailed as follows:

	<u>Dec. 31, 2022</u>		<u>Dec. 31, 2021</u>	
<u>Derivative financial assets</u>	<u>Contract amount</u>	<u>Contract period</u>	<u>Contract amount</u>	<u>Contract period</u>
Current:	<u>(Nominal</u>		<u>(Nominal</u>	
	<u>principal)</u>		<u>principal)</u>	
Forward exchange contract	<u>USD 7,500</u>	Jan. 2023 - Mar. 2023	<u>USD 6,000</u>	Jan. 2022 - Mar. 2022

3. The forward exchange contract signed by the Group is a forward advance sale of USD (selling USD for NTD). This contract is to avoid the exchange rate risk of the export sales, however, it is not subject to hedge accounting.
4. The Group has no financial assets measured at fair value through profit or loss pledged as collateral.
5. For information of the credit risk of financial assets measured at fair value through profit or loss please refer to Note 12 (2).

(III) Notes and accounts receivable

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Notes receivable	\$ <u>169</u>	\$ <u>-</u>
Accounts receivable	\$ 577,238	\$ 370,298
Less: Allowance for bad debt	( <u>4,735</u> )	( <u>5,595</u> )
	\$ 572,503	\$ 364,703
Accounts receivable - related parties	<u>1,671</u>	<u>-</u>
	<u>\$ 574,174</u>	<u>\$ 364,703</u>

1. Aging analysis of notes and accounts receivable:

	<u>Dec. 31, 2022</u>		<u>Dec. 31, 2021</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>
Current	\$ 536,451	\$ 169	\$ 334,173	\$ -
Within 30 days	33,079	-	21,650	-
31 - 60 days	8,794	-	9,597	-
61 - 90 days	279	-	2,892	-
More than 91 days	<u>306</u>	<u>-</u>	<u>1,986</u>	<u>-</u>
	<u>\$ 578,909</u>	<u>\$ 169</u>	<u>\$ 370,298</u>	<u>\$ -</u>

The aging analysis above is based on past due date.

- The balance of the Group's receivables from customer contracts (including accounts receivables) are NT\$579,078, NT\$370,928 and NT\$311,256, on December 31, 2022 and 2021, and January 1, 2021, respectively.
- Without regard to the security held or other credit enhancement, the maximum amounts of exposure at default best representing credit risk of the Group's notes receivable on December 31, 2022 and December 31, 2021 are NT\$169 and NT\$0, respectively; that of the accounts receivable on the same dates are NT\$574,174 and NT\$364,703, respectively.
- For related credit risk information on notes and accounts receivable, please refer to Note 12 (2).

(IV) Inventories

		<u>Dec. 31, 2022</u>	
	<u>Cost</u>	<u>Allowance to reduce inventories to market</u>	<u>Carrying amount</u>
Raw materials	\$ 340,888	(\$ 78,958)	\$ 261,930
Work in process	296,026	( 52,576)	243,450
Finished goods	250,690	( 55,444)	195,246
Inventory in transit	<u>52,245</u>	<u>-</u>	<u>52,245</u>
Total	<u>\$ 939,849</u>	<u>(\$ 186,978)</u>	<u>\$ 752,871</u>

		<u>Dec. 31, 2021</u>	
	<u>Cost</u>	<u>Allowance to reduce</u> <u>inventories to market</u>	<u>Carrying amount</u>
Raw materials	\$ 376,855	(\$ 95,159)	\$ 281,696
Work in process	144,945	( 34,595)	110,350
Finished goods	250,136	( 69,766)	180,370
Inventory in transit	<u>18,792</u>	<u>-</u>	<u>18,792</u>
Total	<u>\$ 790,728</u>	<u>(\$ 199,520)</u>	<u>\$ 591,208</u>

The cost of inventories recognized as expense for the period:

	<u>2022</u>	<u>2021</u>
Cost of inventories sold	\$ 1,701,545	\$ 1,265,678
Loss (reversed gain) on price decline of inventory (note)	( 12,542)	2,230
Others	<u>( 7,716)</u>	<u>( 7,791)</u>
	<u>\$ 1,681,287</u>	<u>\$ 1,260,117</u>

Note: The increase in net realizable value of inventories is due to the Group's continued destocking in 2022.

(V) Property, plant and equipment

	<u>Land</u>	<u>Houses and buildings</u>	<u>Equipment</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Uncompleted construction and equipment pending inspection</u>	<u>Total</u>
Jan. 1, 2022							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,832,987	\$ 12,758	\$ 466,196	\$ 62,612	\$ 5,177,384
Accumulated depreciation and impairment	( 60,803)	( 443,746)	( 1,195,508)	( 12,678)	( 328,027)	-	( 2,040,762)
	<u>\$ 1,202,901</u>	<u>\$ 1,095,381</u>	<u>\$ 637,479</u>	<u>\$ 80</u>	<u>\$ 138,169</u>	<u>\$ 62,612</u>	<u>\$ 3,136,622</u>
<u>2022</u>							
Jan. 1	\$ 1,202,901	\$ 1,095,381	\$ 637,479	\$ 80	\$ 138,169	\$ 62,612	\$ 3,136,622
Addition	-	-	43,578	480	10,571	22,175	76,804
Transferred (Note)	-	-	59,126	-	1,810	( 62,180)	( 1,244)
Disposal	-	-	( 897)	-	( 33,294)	-	( 34,191)
Depreciation expenses	-	( 37,486)	( 143,836)	( 71)	( 43,029)	-	( 224,422)
Net exchange differences	-	-	5,228	-	1,185	260	6,673
Dec. 31	<u>\$ 1,202,901</u>	<u>\$ 1,057,895</u>	<u>\$ 600,678</u>	<u>\$ 489</u>	<u>\$ 75,412</u>	<u>\$ 22,867</u>	<u>\$ 2,960,242</u>
Dec. 31, 2022							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,930,290	\$ 12,400	\$ 429,360	\$ 22,867	\$ 5,197,748
Accumulated depreciation and impairment	( 60,803)	( 481,232)	( 1,329,612)	( 11,911)	( 353,948)	-	( 2,237,506)
	<u>\$ 1,202,901</u>	<u>\$ 1,057,895</u>	<u>\$ 600,678</u>	<u>\$ 489</u>	<u>\$ 75,412</u>	<u>\$ 22,867</u>	<u>\$ 2,960,242</u>

Note: NT\$1,244 thousand was transferred to prepayments.

	<u>Land</u>	<u>Houses and buildings</u>	<u>Equipment</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Prepayments for equipment</u>	<u>Total</u>
Jan. 1, 2021							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,811,213	\$ 12,758	\$ 458,417	\$ 76,496	\$ 5,161,715
Accumulated depreciation and impairment	( 60,803)	( 406,236)	( 1,067,862)	( 12,647)	( 284,173)	-	( 1,831,721)
	<u>\$ 1,202,901</u>	<u>\$ 1,132,891</u>	<u>\$ 743,351</u>	<u>\$ 111</u>	<u>\$ 174,244</u>	<u>\$ 76,496</u>	<u>\$ 3,329,994</u>
<u>2021</u>							
Jan. 1	\$ 1,202,901	\$ 1,132,891	\$ 743,351	\$ 111	\$ 174,244	\$ 76,496	\$ 3,329,994

Addition	-	-	21,279	-	10,037	23,714	55,030
Transferred (Note)	-	-	24,404	-	9,496	( 37,509)	( 3,609)
Disposal	-	-	-	-	( 37)	-	( 37)
Depreciation expenses	-	( 37,510)	( 150,031)	( 31)	( 55,087)	-	( 242,659)
Net exchange differences	-	-	( 1,524)	-	( 484)	( 89)	( 2,097)
Dec. 31	<u>\$ 1,202,901</u>	<u>\$ 1,095,381</u>	<u>\$ 637,479</u>	<u>\$ 80</u>	<u>\$ 138,169</u>	<u>\$ 62,612</u>	<u>\$ 3,136,622</u>
Dec. 31, 2021							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,832,987	\$ 12,758	\$ 466,196	\$ 62,612	\$ 5,177,384
Accumulated depreciation and impairment	( 60,803)	( 443,746)	( 1,195,508)	( 12,678)	( 328,027)	-	( 2,040,762)
	<u>\$ 1,202,901</u>	<u>\$ 1,095,381</u>	<u>\$ 637,479</u>	<u>\$ 80</u>	<u>\$ 138,169</u>	<u>\$ 62,612</u>	<u>\$ 3,136,622</u>

Note: NT\$3,609 thousand was transferred to intangible assets.

1. The amounts of capitalized borrowing cost for property, plant and equipment were NT\$ 0 for the years 2022 and 2021.
2. The Group's houses and buildings are mainly composed of buildings and mechanical and electrical renovations, depreciated over 40-50 and 15-20 years, respectively.
3. For information of pledges for property, plant and equipment, please refer to Note 8.

(VI) Lease transaction - lessee

1. The Group's leased objects include land and buildings. The periods of lease contracts vary from 1 to 5 years. The lease contracts are negotiated individually and contain different terms and conditions. There is no restrictions to the contracts other than that the leased assets may not be used as collateral for borrowings.
2. The lease periods for the transport equipment are less than 12 months. The underlying low-value assets leased are recognized in other equipment.
3. The carrying amount and depreciation expense of right-of-use assets are as follows:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
	<u>Carrying amount</u>	<u>Carrying amount</u>
Houses	<u>\$ 6,207</u>	<u>\$ 12,467</u>

	<u>2022</u>	<u>2021</u>
	<u>Depreciation expenses</u>	<u>Depreciation expenses</u>
Houses	<u>\$ 6,473</u>	<u>\$ 12,890</u>

4. The additions to the Group's right-of-use assets for the years 2022 and 2021 are NT\$ 0.
5. The profit and loss items related to the lease contracts are as follows:

	<u>2022</u>	<u>2021</u>
<u>Items that affect profit or loss</u>		
Interest expense on lease liability	\$ 320	\$ 596
Short-term lease expenses	2,880	980
Low-value asset lease expense	11	13

6. The Group's cash outflow from leases are NT\$ 9,273 and NT\$12,770 for the years 2022 and 2021, respectively.

(VII) Investment property

	<u>Land</u>	<u>Houses and buildings</u>	<u>Total</u>
Jan. 1, 2022			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 3,994)	( 6,605)
	<u>\$ 17,255</u>	<u>\$ 4,549</u>	<u>\$ 21,804</u>
<u>2022</u>			
Jan. 1	\$ 17,255	\$ 4,549	\$ 21,804
Depreciation expenses	-	( 142)	( 142)
Dec. 31	<u>\$ 17,255</u>	<u>\$ 4,407</u>	<u>\$ 21,662</u>
Dec. 31, 2022			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 4,136)	( 6,747)
	<u>\$ 17,255</u>	<u>\$ 4,407</u>	<u>\$ 21,662</u>
	<u>Land</u>	<u>Houses and buildings</u>	<u>Total</u>
Jan. 1, 2021			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 3,851)	( 6,462)
	<u>\$ 17,255</u>	<u>\$ 4,692</u>	<u>\$ 21,947</u>
<u>2021</u>			
Jan. 1	\$ 17,255	\$ 4,692	\$ 21,947
Depreciation expenses	-	( 143)	( 143)
Dec. 31	<u>\$ 17,255</u>	<u>\$ 4,549</u>	<u>\$ 21,804</u>
Dec. 31, 2021			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 3,994)	( 6,605)
	<u>\$ 17,255</u>	<u>\$ 4,549</u>	<u>\$ 21,804</u>

1. Rent income from investment property and direct operating expenses arising therefrom:

	<u>2022</u>	<u>2021</u>
Rent income from investment property	\$ <u>577</u>	\$ <u>577</u>
Direct operating expenses arising from the investment property generating rent income	\$ <u>278</u>	\$ <u>278</u>
Direct operating expenses arising from the investment property not generating rent income	\$ <u>-</u>	\$ <u>-</u>

2. The fair value of the investment properties held by the Company on December 31, 2022 and 2021 are NT\$50,340 and NT\$48,103. The evaluation is conducted by independent appraisal experts based on market approach and income approach, and the results are level III fair value. The main assumptions are as follows:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Capitalization rate	1.15%	1.23%

(VIII) Other non-current assets

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Prepaid down payments for equipment	\$ 13,141	\$ 3,877
Prepaid pension	8,512	3,814
Others	3,222	3,641
Overdue receivables	19,849	19,849
Allowance for bad debt – overdue receivables	(19,849)	(19,849)
	<u>\$ 24,875</u>	<u>\$ 11,332</u>

(IX) Short-term borrowings

<u>Nature of loans</u>	<u>Dec. 31, 2022</u>	<u>Interest rate collars</u>	<u>Collateral</u>
Bank borrowings - credit loans	<u>\$ 21,497</u>	5.17%	N/A
<u>Nature of loans</u>	<u>Dec. 31, 2021</u>	<u>Interest rate collars</u>	<u>Collateral</u>
Bank borrowings - credit loans	<u>\$ 13,840</u>	0.70%	N/A

For the interest expenses recognized in profit and loss for the years 2022 and 2021, please refer to Note 6 (12).

(X) Accounts payable

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Accounts payable	\$ 222,376	\$ 142,491
Estimated accounts payable	<u>102,144</u>	<u>19,734</u>
	<u>\$ 324,520</u>	<u>\$ 162,225</u>

(XI) Other payables

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Salary and bonus payables	\$ 101,033	\$ 73,508
Consumable and supplies payables	14,181	7,136
Equipment payables	22,381	19,580
Others	<u>98,855</u>	<u>62,131</u>
	<u>\$ 236,450</u>	<u>\$ 162,355</u>

(XII) Long-term borrowings

<u>Nature of loans</u>	<u>Life of loan and repayments</u>	<u>Collateral</u>	<u>Dec. 31, 2022</u>
Long-term bank borrowings			
Secured loan	Repayment by monthly installments until Dec. 2036	Land and plant	\$ 729,205
Secured loan	Repayment by monthly installments until Sep. 2033	Land and plant	121,349
Secured loan	Repayment by monthly installments until Dec. 2029	Land and plant	231,640
Secured loan	Repayment by monthly installments until Jan. 2028	Land and plant	40,000
Secured loan	Repayment by monthly installments until May 2025	Land and plant	101,395
Secured loan	Repayment by monthly installments until Apr. 2025	Land and plant	189,954
Secured loan	Repayment by monthly installments until Sep. 2026	Equipment	150,482
Secured loan	Repayment by monthly installments until Nov. 2026	Equipment	127,959
Credit loan	Repayment by monthly installments until Oct. 2024	N/A	256,085
Credit loan	Repayment by tri-monthly installments until Sep. 2023 (note)	N/A	<u>7,500</u>
			1,955,569
Less: Long-term borrowings - current portion			<u>( 429,235)</u>
			<u>\$ 1,526,334</u>
Interest rate collars			<u>1.096%~1.65%</u>

<u>Nature of loans</u>	<u>Life of loan and repayments</u>	<u>Collateral</u>	<u>Dec. 31, 2021</u>
Long-term bank borrowings			
Secured loan	Repayment by monthly installments until Dec. 2036	Land and plant	\$ 776,334
Secured loan	Repayment by monthly installments until Sep. 2033	Land and plant	129,915
Secured loan	Repayment by monthly installments	Land and plant	218,640

	until Dec. 2029		
Secured loan	Repayment by monthly installments until Jan. 2028	Land and plant	40,000
Secured loan	Repayment by monthly installments until May 2025	Land and plant	134,418
Secured loan	Repayment by monthly installments until Apr. 2025	Land and plant	253,990
Secured loan	Repayment by monthly installments until Sep. 2026	Equipment	163,153
Secured loan	Repayment by monthly installments until Nov. 2026	Equipment	57,660
Credit loan	Repayment by monthly installments until Oct. 2024	N/A	310,002
Credit loan	Repayment by tri-monthly installments until Nov. 2022	N/A	5,000
Credit loan	Repayment by tri-monthly installments until Sep. 2023 (note)	N/A	<u>10,000</u>
			2,099,112
Less: Long-term borrowings - current portion			<u>(286,299)</u>
			<u>\$ 1,812,813</u>
Interest rate collars			<u>0.5%~1.20%</u>

The interest expenses (including short-term borrowings) recognized in profit or loss for the years 2022 and 2021 are NT\$25,991 and NT\$23,509.

Note: The key performance indicators for bank loans are subject to the credit line of medium-term loan contract, where the Company shall maintain a certain level of current ratio, debt ratio, and net tangible asset in the Company's annual or interim consolidated financial reports.

### (XIII) Pension

- (1) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes on a monthly basis 2% of the total salary (wages) as pension fund, which is deposited in a designated account with the Bank of Taiwan under the name of the Supervisory Committee of Labor Retirement Reserve. Also, the Company assesses the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make up for the deficit by the following March.
- (2) The amounts recognized in the balance sheet are as follows:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Present value of defined benefit obligation	(\$ 44,376)	(\$ 44,733)

Fair value of plan assets	52,888	48,547
Net defined benefit assets	<u>\$ 8,512</u>	<u>\$ 3,814</u>

(3) Changes in net defined benefit liabilities:

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit assets</u>
2022			
Balance as of Jan. 1	(\$ 44,733)	\$ 48,547	\$ 3,814
Service costs	( 350)	-	( 350)
Interest income (expense)	( 269)	291	22
	<u>( 619)</u>	<u>291</u>	<u>( 328)</u>
Remeasurements:			
Effect of changes in demographic assumptions	-	-	-
Effect of changes in financial assumptions	2,408	-	2,408
Experience adjustments	( 1,721)	3,678	1,957
	<u>687</u>	<u>3,678</u>	<u>4,365</u>
Appropriation of pension funds	-	661	661
Pension paid	289	( 289)	-
Balance as of Dec. 31	<u>(\$ 44,376)</u>	<u>\$ 52,888</u>	<u>\$ 8,512</u>

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit assets</u>
2021			
Balance as of Jan. 1	(\$ 44,099)	\$ 47,027	\$ 2,928
Service costs	( 717)	-	( 717)
Interest income (expense)	( 132)	141	9
	<u>( 849)</u>	<u>141</u>	<u>( 708)</u>
Remeasurements:			
Effect of changes in demographic assumptions	( 45)	-	( 45)
Effect of changes in financial assumptions	1,362	-	1,362
Experience adjustments	( 1,102)	712	( 390)
	<u>215</u>	<u>712</u>	<u>927</u>
Appropriation of pension funds	-	667	667
Balance as of Dec. 31	<u>(\$ 44,733)</u>	<u>\$ 48,547</u>	<u>\$ 3,814</u>

- (4) The fund asset of the Company's defined benefit pension plan ("the Fund") is entrusted to the Bank of Taiwan, which manages, or entrusts others to manage, the Fund in accordance with entrusted items enumerated in Article 6 of the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund (i.e., deposit in domestic or foreign institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, and investment in domestic or foreign real estate and its securitization products) to

the extent of limitations on investment percentage and amount as stipulated in the Fund's annual utilization plan. Relevant utilization of funds is supervised by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two year time deposits with the interest rates offered by local banks. If the earnings are less than aforementioned rates, the government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the fair value plan assets in accordance with paragraph 142 of IAS 19. The composition of fair value of the defined benefit plan assets as of December 31, 2022 and 2021 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

- (5) The principal actuarial assumptions used are as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	<u>1.20%</u>	<u>0.60%</u>
Future salary increase rate	<u>2.75%</u>	<u>2.75%</u>

The assumptions about the future mortality rate are based on the sixth experience life table for Taiwan.

The analysis of the present value of the defined benefit obligations affected by changes in the main actuarial assumptions used is as follows:

	<u>Discount rate</u>		<u>Future salary increase rate</u>	
	<u>Increase by</u>	<u>Decrease by</u>	<u>Increase by</u>	<u>Decrease by</u>
	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>
Dec. 31, 2022				
Effect on present value of defined benefit obligation	(\$ 946)	\$ 979	\$ 867	\$ 844
Dec. 31, 2021				
Effect on present value of defined benefit obligation	(\$ 1,054)	\$ 1,093	\$ 970	(\$ 943)

The aforementioned sensitivity analysis considers the change in one assumption at a time, while the other assumptions unchanged. In practice, more than one assumption may change all at once. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (6) The expected contribution to the Group's defined benefit pension plans for the year 2023 is NT\$ 651 thousand.
- (7) As of December 31, 2022, the weighted average duration of the pension plan is 9 years. The maturity analysis of the pension payments is as follows:

Within 1 year	\$	9,264
1 - 2 years		1,031
2 - 5 years		4,466

Over 5 years

	<u>12,822</u>
	<u>\$ 27,583</u>

2. (1) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. Nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (2) The Company and its subsidiary, NAFCO Suzhou Precision, have paid the monthly pension insurance according to a certain percentage of the total salary of local employees according to the pension insurance system stipulated by the People's Republic of China. The allocation ratio for the years 2022 and 2021 are both 16%. The pension of all employees are managed by the governments. Other than the monthly contributions, the Group has no further obligations.
- (3) For the years ended December 31, 2021 and 2022, the net pension costs recognized under the defined contribution plan were NT\$ 20,388 and NT\$ 17,540, respectively.

(XIV) Share-based payment

1. For the years 2022 and 2021, the Group's share-based payment agreements are provided as follows:

<u>Type of agreement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions</u>
5 <sup>th</sup> employee share option plan	2019.12.13	3,560 thousand shares	6 years	50% after 2 years 75% after 3 years 100% after 4 years
6 <sup>th</sup> employee share option plan	2022.10.21	2,412 thousand shares	6 years	50% after 2 years 75% after 3 years 100% after 4 years

The said share-based payment arrangements are settled in equity.

2. Detailed information of the 5th employee share option plan:

- (1) Detailed information of the 5th employee share option plan for the years 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	<u>Share option Quantity (thousand shares)</u>	<u>Weighted average Exercise price (NT\$)</u>	<u>Share option Quantity (thousand shares)</u>	<u>Weighted average Exercise price (NT\$)</u>
Outstanding stock options as at January 1	2,942	\$ 87.4	3,262	\$ 87.4
Forfeited	(190)	87.4	(320)	87.4
Outstanding stock options as at December 31	<u>2,752</u>	87.4	<u>2,942</u>	87.4
Exercisable stock options as at December 31	<u>2,064</u>	87.4	<u>1,471</u>	87.4

- (2) Expiry date and exercise price of the outstanding stock options as at balance sheet date:

<u>Dec. 31, 2022</u>			
<u>Issue date</u>	<u>Expiry date</u>	<u>Quantity (thousand shares)</u>	<u>Exercise price (NT\$)</u>
Dec. 13, 2019	Dec. 13, 2025	2,752	87.4

<u>Dec. 31, 2021</u>			
<u>Issue date</u>	<u>Expiry date</u>	<u>Quantity (thousand shares)</u>	<u>Exercise price (NT\$)</u>
Dec. 13, 2019	Dec. 13, 2025	2,942	\$ 87.4

- (3) The fair value of the Group's stock options in the share-based payment transactions on grant date is estimated based on the Black-Scholes option pricing model. Related information as follows:

<u>Type of agreement</u>	<u>Grant date</u>	<u>Share price</u>	<u>Exercise price</u>	<u>Expected volatility</u>	<u>Expected subscription period</u>	<u>Expected dividends</u>	<u>Risk-free interest rate</u>	<u>Fair value per unit</u>
Employee share option plan	2019.12.13	91.4	91.4	31.90%~ 34.04% (Note)	4 - 5 years	-	0.56%~ 0.59%	\$23.65~ \$28.04

Note: Expected volatility is the range of share prices expected within a period in the future. It is estimated by using the share prices of the most recent period with a similar length of the stock options' expected life.

- (4) In accordance with the Group's Regulations Governing the Exercising of Employee Stock Options, the Group adjusted, on Mar. 13, 2020, the exercise price of the options issued on December 31, 2019 from NT\$91.4 to NT\$87.4. This adjustment did not result in increase in fair value.

3. Detailed information of the 6th employee share option plan:

- (1) Detailed information of the 6<sup>th</sup> employee share option plan for the year 2022:

	<u>2022</u> <u>Share option</u> <u>Quantity</u>	<u>Weighted average</u> <u>Exercise price (NT\$)</u>
Outstanding stock options as at January 1	-	\$ -
Granted	2,412	58.3
Forfeited	( 38)	58.3
Outstanding stock options as at December 31	<u>2,374</u>	58.3
Exercisable stock options as at December 31	<u>-</u>	58.3

- (2) Expiry date and exercise price of the outstanding stock options as at balance sheet date:

<u>Issue date</u>	<u>Expiry date</u>	<u>Quantity (thousand shares)</u>	<u>Exercise price (NT\$)</u>
Oct. 21, 2022	Oct. 21, 2028	2,374	58.3

- (3) The fair value of the Group's stock options in the share-based payment transactions on grant date is estimated based on the Black-Scholes option pricing model. Related information as follows:

<u>Type of agreement</u>	<u>Grant date</u>	<u>Share price</u>	<u>Exercise price</u>	<u>Expected volatility</u>	<u>Expected subscription period</u>	<u>Expected dividends</u>	<u>Risk-free interest rate</u>	<u>Fair value per unit</u>
Employee share option plan	2022.10.21	58.3	58.3	36.39%~ 37.84% (Note)	4 - 5 years	-	1.58%~ 1.63%	\$18.50~ \$20.10

Note: Expected volatility is estimated by using the share prices of the most recent period with a similar length of the stock options' expected life and the standard deviation of return on the shares during this period.

4. Expenses generated from share-based payment transactions:

	<u>2022</u>	<u>2021</u>
Equity-settled	<u>\$ 12,895</u>	<u>\$ 25,258</u>

(XV) Issued capital

As of December 31, 2022; the Company's authorized capital was NT\$ 5,800,000, divided into 580,000 thousand shares (including 5,264 thousand employee stock option shares). The paid-up capital is NT\$ 526,472, with par value of \$10. All the proceeds from the Company's issued shares have been collected.

(XVI) Capital surplus

According to the Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to stockholders in proportion to their share ownership, provided that the Company has no accumulated deficit. In accordance with provisions in the Securities and Exchange Act, when the annual total capitalization of the aforementioned capital reserve shall not exceed 10% of the paid-in capital. Capital surplus shall not be used to set off accumulated deficit unless legal reserve is insufficient.

(XVII) Retained earnings

1. If the Company has profit, the profit shall first be used pay off tax, set off past deficits, and then 10% of the remaining profit shall be set aside as a legal reserve. However, this shall not apply when the legal reserve has amounted to the authorized capital. Then, the Company shall appropriate or reverse to the special reserve pursuant to regulations provided by the competent authority. If there is a surplus after the preceding appropriations, the balance and the accumulated undistributed surplus will be determined by the Board for distribution. When distributing in the form of new shares, such a matter shall be first submitted to the Shareholders' Meeting for resolution before distribution. When distributing in the form of cash, pursuant to Paragraph 5, Article 240 of the Company Act, the distribution shall be determined by a majority of the Directors at a meeting attended by two-thirds or more of the total number of Directors, and then reported to the Shareholders' Meeting.

2. Legal reserves may not be used except for offsetting deficits and for distribution by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.
3. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
4. The dividends for the years 2022 and 2021 distributed to owners are NT\$0 and NT\$26,324, respectively. (NT\$0.5 per share) The 2022 distribution of earnings proposed by the Board on Feb. 22, 2023 is at NT\$ 1.02 per common share, totaling NT\$53,700.

(XVIII) Operating revenue

	<u>2022</u>	<u>2021</u>
Revenue from contracts with customers	\$ <u>2,192,921</u>	\$ <u>1,426,205</u>

1. The Group derives revenue from the transfer of goods at a point in time. For breakdown of revenue, please refer to Note 14 (3).

2. Contract liabilities

The contract liabilities in relation to contract with customers recognized by the Group are as follows:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>	<u>Jan. 1, 2021</u>
Contract liabilities – advance from customers	\$ <u>17,873</u>	\$ <u>1,593</u>	\$ <u>14,022</u>

3. Due to the impact of COVID-19 in 2021, the Group's revenue declined due to some of its customers' compliance with relevant pandemic restrictions and regulations. However, there is no sign of default in the contracts with major customers. Thus, the decline is deemed to be only a temporary adverse effect.

(XIX) Other gains and losses

	<u>2022</u>	<u>2021</u>
Gains on financial assets measured at fair value through profit or loss, net	\$ 374	\$ 884
Gains (losses) on foreign exchange, net	21,490	( 6,924)
Gain (Loss) on disposal of property, plant and equipment	( 27,269)	174
Miscellaneous expenses	( 1,403)	-
Grant income (Note)	46,593	27,245
Miscellaneous income	<u>3,450</u>	<u>13,380</u>
Total	\$ <u>43,235</u>	\$ <u>34,759</u>

Note: Due to the application of relevant regulations governing government grants of the Ministry of Economic Affairs, the Group has obtained government grants for its operating expenses and working capital.

(XX) Finance costs

	<u>2022</u>	<u>2021</u>
Interest expenses		
Bank borrowings	\$ 25,991	\$ 23,509
Other finance costs	320	596
Finance costs	<u>\$ 26,311</u>	<u>\$ 24,105</u>

(XXI) Additional information of expenses by nature

	<u>2022</u>	<u>2021</u>
Employee benefits	<u>\$ 584,765</u>	<u>\$ 466,399</u>
Depreciation of property, plant and equipment and investment property	<u>\$ 224,564</u>	<u>\$ 242,802</u>
Depreciation of right-of-use assets	<u>\$ 6,473</u>	<u>\$ 12,890</u>
Amortization of intangible assets	<u>\$ 7,503</u>	<u>\$ 10,028</u>

(XXII) Employee benefits

	<u>2022</u>	<u>2021</u>
Salaries and wages	\$ 507,584	\$ 400,355
Labor insurance and national health insurance	40,805	38,559
Pension	20,716	18,248
Other personnel cost	15,660	9,237
	<u>\$ 584,765</u>	<u>\$ 466,399</u>

- Pursuant to the Company's Articles of Incorporation, the Company shall set aside no less than 1% and no more than 10% as remuneration to employees and no more than 2% as remuneration to Directors from the net profit before tax minus the amount of distributed as employee and director remuneration. However, profits must first be taken to offset against cumulative losses if any.
- For the years ended December 31, 2022, and 2021, the Company recognized remuneration to employees in the amounts equal to NT\$ 2,500 and NT\$ 0, respectively, and remuneration to directors in the amounts equal to NT\$ 2,500 and NT\$ 0, respectively.

The 2022 remuneration is calculated based on 1.67% of the earnings for the year. The resolved amount of remuneration to employees and actual distribution of remuneration to Directors are NT\$ 2,500 and NT\$ 1,610, respectively. Both are distributed in form of cash.

The 2021 remuneration to employees and Directors resolved at the Board Meeting are the same as that stated in the 2021 financial statements.

For the information regarding the Board of Directors' resolution on remuneration to employees and Directors, please refer to the Taiwan Stock Exchange Market Observation Post System.

(XXIII) Income tax

1. Income tax benefit

(1) Components of income tax benefit

	<u>2022</u>	<u>2021</u>
Income tax:		

Income tax incurred in current period	\$ 19,111	\$ -
Prior year income tax overestimation	( 21,629)	-
Total income tax in current period	<u>(\$ 2,518)</u>	<u>\$ -</u>
Deferred income tax:		
Initial recognition and reversal of temporary differences	( 2,403)	( 8,640)
Total deferred income tax	<u>( 2,403)</u>	<u>( 8,640)</u>
Income tax expense (income)	<u>(\$ 4,921)</u>	<u>(\$ 8,640)</u>

(2) Income tax amounts associated with other comprehensive income: None.

(3) Income tax amounts directly debited or credited to equity: None.

2. Reconciliation between income tax benefit and accounting profits:

	<u>2022</u>	<u>2021</u>
Income tax of net loss before tax based on the statutory tax rate (Note)	\$ 25,411	(\$ 30,683)
Tax exempted income by tax regulation	-	( 5,090)
Temporary differences not recognized in deferred tax assets	2,939	6,119
Taxable losses not recognized in deferred tax assets	3,600	22,872
Changes in realizability assessment about deferred income tax assets	( 15,242)	-
Beginning tax effect of temporary differences	-	( 1,858)
Prior year income tax (over) underestimation	<u>( 21,629)</u>	<u>-</u>
Income tax benefit	<u>(\$ 4,921)</u>	<u>(\$ 8,640)</u>

Note: The applicable tax rate is based on the tax rate applicable in the country concerned.

3. The amounts of deferred tax assets or liabilities as a result of temporary differences and taxable losses:

	<u>Jan. 1</u>	<u>Recognized in profit or loss</u>	<u>2022</u>		<u>Dec. 31</u>
			<u>Recognized in comprehensive income</u>	<u>Recognized in equity</u>	
Temporary differences:					
- Deferred income tax assets:					
Others	<u>\$ 5,484</u>	<u>\$ 3,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,332</u>
Subtotal	<u>\$ 5,484</u>	<u>\$ 3,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,332</u>
- Deferred income tax liabilities:					
Equipment	<u>(\$ 14,003)</u>	<u>(\$ 219)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 14,222)</u>
Pension	<u>( 496)</u>	<u>( 67)</u>	<u>-</u>	<u>-</u>	<u>( 563)</u>
Others	<u>( 1,305)</u>	<u>( 1,159)</u>	<u>-</u>	<u>-</u>	<u>( 2,464)</u>
Subtotal	<u>( 15,804)</u>	<u>( 1,445)</u>	<u>-</u>	<u>-</u>	<u>( 17,249)</u>
Total	<u>(\$ 10,320)</u>	<u>\$ 2,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 7,917)</u>
			<u>2021</u>		
			<u>Recognized in comprehensive income</u>	<u>Recognized in equity</u>	
Temporary differences:	<u>Jan. 1</u>	<u>Recognized in profit or loss</u>			<u>Dec. 31</u>
- Deferred income tax assets:					
Others	<u>8,802</u>	<u>( 3,318)</u>	<u>-</u>	<u>-</u>	<u>5,484</u>
Subtotal	<u>\$ 8,802</u>	<u>(\$ 3,318)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,484</u>
- Deferred income tax liabilities:					
Equipment	<u>(\$ 17,057)</u>	<u>\$ 3,054</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 14,003)</u>
Gains on investment under equity-method	<u>( 6,381)</u>	<u>6,381</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pension	<u>( 673)</u>	<u>177</u>	<u>-</u>	<u>-</u>	<u>( 496)</u>
Others	<u>( 3,754)</u>	<u>2,449</u>	<u>-</u>	<u>-</u>	<u>( 1,305)</u>
Subtotal	<u>( 27,865)</u>	<u>12,061</u>	<u>-</u>	<u>-</u>	<u>( 15,804)</u>
Total	<u>(\$ 19,063)</u>	<u>\$ 8,743</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 10,320)</u>

4. The expiry year of unused taxable losses and amounts not recognized in deferred tax assets:

<u>Dec. 31, 2022</u>				
<u>Year of occurrence</u>	<u>Amount filed/authorized</u>	<u>Unused taxable losses</u>	<u>Amounts not recognized in deferred tax assets</u>	<u>Expiry year</u>
NAFCO Suzhou Precision				
2020	\$ 38,552	\$ 38,552	\$ 38,552	2025
2021	79,663	79,663	79,663	2026
2022	<u>23,873</u>	<u>23,873</u>	<u>23,873</u>	2027
	<u>\$ 142,088</u>	<u>\$ 142,088</u>	<u>\$ 142,088</u>	

<u>Dec. 31, 2021</u>				
<u>Year of occurrence</u>	<u>Amount filed/authorized</u>	<u>Unused taxable losses</u>	<u>Amounts not recognized in deferred tax assets</u>	<u>Expiry year</u>
National Aerospace Fasteners Corporation				
2021	\$ 78,176	\$ 78,176	\$ 78,176	2031
NAFCO Suzhou Precision				
2020	\$ 37,945	\$ 37,945	\$ 37,945	2025
2021	<u>48,242</u>	<u>48,242</u>	<u>48,242</u>	2026
	<u>\$ 164,363</u>	<u>\$ 164,363</u>	<u>\$ 164,363</u>	

5. The profit-seeking enterprise income tax of the Company is approved by the taxation authority through 2020.

(XXIV) Earnings (loss) per share

	<u>2022</u>		<u>Earnings per share (NT\$)</u>
	<u>After tax amount</u>	<u>Weighted average number of shares outstanding (in thousand shares)</u>	
<u>Basic earnings per share</u>			
Net income of the Company	<u>\$ 149,975</u>	<u>52,647</u>	<u>\$ 2.85</u>
<u>Diluted earnings per share</u>			
Employee remuneration	-	<u>35</u>	
Net income attributable to common shareholders considering assumed conversion of dilutive potential common shares	<u>\$ 149,975</u>	<u>52,682</u>	<u>\$ 2.85</u>

		<u>2021</u>	
	<u>After tax amount</u>	<u>Weighted average number of shares outstanding (in thousand shares)</u>	<u>Loss per share (NT\$)</u>
<u>Basic loss per share</u>			
Net loss of the Company	(\$ 96,729)	52,647	(\$ 1.84)
<u>Diluted loss per share</u>			
Net loss attributable to common shareholders considering assumed conversion of dilutive potential common shares	(\$ 96,729)	52,647	(\$ 1.84)

(XXV) Supplemental information of cash flow

Investing activities with partial cash paid:

	<u>2022</u>	<u>2021</u>
Acquisition of property, plant and equipment	\$ 76,804	\$ 55,030
Add: Beginning equipment payables	19,580	24,925
Less: Ending equipment payables	( 22,381)	( 19,580)
Cash paid in the period	<u>\$ 74,003</u>	<u>\$ 60,375</u>

(XXVI) Changes in liabilities from financing activities

	<u>2022</u>			<u>Total liabilities from financing activities</u>
	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Lease liabilities</u>	
Jan. 1	\$ 13,840	\$ 2,099,112	\$ 12,421	\$ 2,125,373
Changes in cash flows from financing activities	7,657	( 143,543)	( 6,062)	( 141,948)
Effects of changes in foreign exchange rates	-	-	( 6)	( 6)
Dec. 31	<u>\$ 21,497</u>	<u>\$ 1,955,569</u>	<u>\$ 6,353</u>	<u>\$ 1,983,419</u>

	<u>2021</u>			<u>Total liabilities from financing activities</u>
	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Lease liabilities</u>	
Jan. 1	\$ -	\$ 2,112,183	\$ 23,927	\$ 2,136,110
Changes in cash flows from financing activities	13,840	( 13,071)	( 11,181)	( 10,412)
Effects of changes in foreign exchange rates	-	-	( 325)	( 325)
Dec. 31	<u>\$ 13,840</u>	<u>\$ 2,099,112</u>	<u>\$ 12,421</u>	<u>\$ 2,125,373</u>

## VII. Related-party transactions

### (I) The parent company and the ultimate controlling party

The Company is controlled by the Getac Group (registered and established in Taiwan R.O.C.), holding 39.08% of ownership in the Company. The remaining 60.92% of ownership is held by the public. Getac Holdings Corp. is the Company's parent company, ultimate parent company and the ultimate controlling party.

### (II) Names of related parties and relation

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Getac Holdings Corp.	Parent company
Getac (SuZhou) Mobile Ltd.	Affiliated company
Waffer Technology (Kunshan) Ltd.	Other related parties
Mitac Precision Technology (KunShan) Co., Ltd.	Other related parties
MiTAC Computer (Kunshan) Co., Ltd.	Other related parties
Waffer Technology Corp.	Other related parties
Suzhou Mitac Precision Technology Co., Ltd.	Other related parties
Getac Technology (Kunshan) Co., Ltd.	Other related parties
Mitac Information Technology Corp.	Other related parties
Waffer Technology (Maanshan) Ltd.	Other related parties
Atemitech Corp.	Other related parties

### (III) Significant transactions with related parties

#### 1. Sales

	<u>2022</u>	<u>2021</u>
Sales of goods		
- Other related parties	<u>\$ 1,688</u>	<u>\$ -</u>

## 2. Purchase

	<u>2022</u>	<u>2021</u>
Purchase of goods		
- Other related parties	\$ 238	\$ 31
- Ultimate parent company	<u>-</u>	<u>187</u>
Subtotal	<u>\$ 238</u>	<u>\$ 218</u>
Purchase of services		
- Other related parties	<u>25,589</u>	<u>15,174</u>
Total	<u>\$ 25,827</u>	<u>\$ 15,392</u>

The aforementioned transactions are under regular purchase terms, and payments are completed within 3 months after the purchases.

## 2. Receivables from related parties

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Accounts receivable		
- Other related parties	\$ 1,671	\$ -
Other receivables		
- Other related parties	<u>38</u>	<u>38</u>
Total	<u>\$ 1,709</u>	<u>\$ 38</u>

## 3. Payables to related parties

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Accounts payable		
- Other related parties	<u>\$ -</u>	<u>\$ 33</u>
Other payables		
- Other related parties	<u>9,246</u>	<u>8,319</u>
Total	<u>\$ 9,246</u>	<u>\$ 8,385</u>

Payables to related parties are mainly from the purchases of properties and payment of utilities expenses. The payables are due within 3 months after the transaction date. The payables do not bear interests.

#### 4. Property transactions

##### (1) Acquisition of equipment

	<u>2022</u>	<u>2021</u>
Getac (SuZhou) Mobile Ltd.	\$ -	\$ 370
Other related parties	<u>-</u>	<u>322</u>
Total	<u>\$ -</u>	<u>\$ 692</u>

##### (2) Disposal of property, plant and equipment

	<u>2022</u>		<u>2021</u>	
	<u>Proceeds from disposal</u>	<u>Gains (losses) on disposal</u>	<u>Proceeds from disposal</u>	<u>Gains (losses) on disposal</u>
Other related parties	<u>\$ 3,805</u>	<u>(\$ 3,258)</u>	<u>\$ -</u>	<u>\$ -</u>

#### 5. Lease transaction - lessee

(1) The Group leases buildings from MiTAC Computer (Kunshan) Co., Ltd. and other related parties with lease term from January 1 2019 to December 31, 2023, and payment due at the end of each year.

##### (2) Lease liabilities

###### A. Ending balance:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
- MiTAC Computer (Kunshan) Co., Ltd.	\$ 6,053	\$ 11,724
- Other related parties	<u>178</u>	<u>346</u>
Total	<u>\$ 6,231</u>	<u>\$ 12,070</u>

###### B. Interest expenses

	<u>2022</u>	<u>2021</u>
- MiTAC Computer (Kunshan) Co., Ltd.	\$ 311	\$ 494
- Other related parties	<u>9</u>	<u>14</u>
Total	<u>\$ 320</u>	<u>\$ 508</u>

(IV) Remuneration to key management

	<u>2022</u>	<u>2021</u>
Salary and other short-term employees' benefits	\$ 17,880	\$ 6,082
Share-based payment	962	630
	<u>\$ 18,842</u>	<u>\$ 6,712</u>

VIII. Pledged assets

Assets pledged as collateral by the Group are enumerated as follows:

<u>Assets</u>	<u>Book value</u>		<u>Purpose</u>
	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>	
Other non-current assets (time deposits)	\$ 1,000	\$ 1,000	Customs duty
Property, plant and equipment			
Land	\$ 1,202,901	\$ 1,202,901	Long-term borrowings
Houses and buildings	1,043,294	1,078,197	"
Equipment	246,185	194,862	"
Other equipment	29,559	42,601	"

IX. Significant commitments and contingencies

(I) Contingencies

None.

(II) Commitments

1. For the year 2022 and as of the end of 2021, the Company has entered a contract, which is not yet fulfilled, to purchase construction and equipment at NT\$ 88,618 and NT\$ 78,882, respectively. The amounts yet to be paid are NT\$ 68,919 and NT\$ 43,147, respectively.
2. As of the end of 2022, the letter of guarantee provided to the Taiwan Small & Medium Enterprise Counseling Foundation is NT\$44,732.

X. Significant disaster loss

None.

XI. Significant events after the end of the financial reporting period

None.

## XII. Others

### (I) Capital management

The goal of the Group's capital management is to ensure the continuation of operation, maintain optimal capital structure to decrease capital cost, and secure returns for shareholders. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, reduce capital, and lower debt amount by issuance of new shares or disposal of assets. The Group uses debt-to-capital ratio to monitor its capital. The ratio is calculated by dividing the total net debt by total capital. Net debt is total borrowings (including the amount of "current and non-current borrowings" stated in the consolidated balance sheet) minus cash and cash equivalents. Total capital is the amount of "equity" stated on the consolidated balance sheet plus net debt.

In the year 2022, the strategy of the Group remains the same as in 2021, which is to maintain the debt-to-capital ratio below 60%. The Group's debt-to-capital ratios as at December 31, 2022 and 2021 are stated as below:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Total borrowings	\$ 1,977,066	\$ 2,112,952
Less: Cash and cash equivalents	<u>138,933</u>	<u>110,111</u>
Net debt	1,838,133	2,002,841
Total equity	<u>1,947,259</u>	<u>1,774,199</u>
Total capital	<u>\$ 3,785,392</u>	<u>\$ 3,777,040</u>
Debt-to-capital ratio	<u>49%</u>	<u>53%</u>

## (II) Financial instruments

### 1. Categories of financial instruments

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
<u>Financial assets</u>		
Financial assets measured at fair value through profit or loss		
Financial assets mandatorily measured at fair value through profit or loss	\$ 2,452	\$ 884
Financial assets / lending and receivables measured at amortized cost		
Cash and cash equivalents	\$ 138,933	\$ 110,111
Notes receivable	169	-
Accounts receivable (incl. related parties)	574,174	364,703
Other receivables (incl. related parties)	5,986	5,280
Other non-current liabilities - deposits received	2,222	2,642
Other non-current assets	1,000	1,000
	<u>\$ 722,484</u>	<u>\$ 483,736</u>
	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
<u>Financial liabilities</u>		
Financial liabilities measured at fair value through profit or loss - current	\$ 1,194	\$ -
Financial liabilities measured at amortized cost		
Short-term borrowings	\$ 21,497	\$ 13,840
Accounts payable (incl. related parties)	324,520	162,258
Other payables (incl. related parties)	245,696	170,674
Long-term borrowings (incl. current portion)	1,955,569	2,099,112
Other non-current liabilities - deposits received	100	100
	<u>\$ 2,547,382</u>	<u>\$ 2,445,984</u>
Lease liabilities	<u>\$ 6,353</u>	<u>\$ 12,421</u>

### 2. Risk management policies

- (1) The routine operation of the Group is exposed to multiple financial risks including market risks (including exchange rate risk, interest rate risk, and price risk), credit risk and liquidity risk. The Group's overall risk management is focused on unpredictable events in the financial market, and mitigation of potential adverse impacts on the Group's financial position and performance. The Group uses specific derivatives to hedge certain risk exposures.
- (2) The risk management of the Group is carried out by the Finance Department of the Group in accordance with the policies approved by the Board of Directors. The Finance Department is responsible for the identification, valuation and hedging of financial risks through close cooperation with operating units of the Group.

### 3. Significant financial risks and degrees of financial risks

#### (1) Market risk

##### Foreign exchange risk

A. The Group operates internationally and is exposed to foreign exchange risk,

primarily with respect to USD. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investment in a foreign operation.

- B. Management has set up a policy to require the companies within the Group to manage their foreign exchange risk against their functional currency. The companies within the Group are required to hedge their overall foreign exchange risk exposure through the Group's Finance Department. The companies within the Group use forward foreign exchange contracts to manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in foreign currencies other than the company's functional currency.
- C. The Company uses forward foreign exchange transactions to avoid exchange rate risk, however, they are not subject to hedge accounting, and are recognized in financial assets or liabilities measured at fair value through profit or loss.
- D. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- E. The Group's businesses involve some non-functional currency operations (functional currency of the Company: NTD; certain subsidiaries: RMB) and is thus affected by the exchange rate fluctuation. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	<u>Dec. 31, 2022</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
(Foreign currency: functional currency)	<u>(thousands)</u>		<u>(NTD/RMB)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 20,358	30.71	\$ 625,194
EUR: NTD	274	32.72	8,965
USD: RMB	5,173	6.96	36,004
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	8,716	30.71	\$ 267,668
USD: RMB	5,171	6.96	35,990

	<u>Dec. 31, 2021</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
(Foreign currency : functional currency)	<u>(thousands)</u>		<u>(NTD/RMB)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 15,058	27.68	\$ 416,805
EUR: NTD	271	31.32	8,488
USD: RMB	3,430	6.38	21,883
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	\$ 4,570	27.68	\$ 126,498
USD: RMB	4,858	6.38	30,994

- F. Unrealized exchange gain or loss arising from significant exchange rate

fluctuations:

(Foreign currency : functional currency)	<u>2022</u>		
	<u>Exchange gain or loss</u>		
	<u>Foreign currency</u> <u>(thousands)</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	30.71	(\$ 3,965)
EUR : NTD	-	32.72	163
USD : RMB	( 491)	6.96	( 2,164)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	30.71	\$ 2,967
USD : RMB	224	6.96	986
(Foreign currency : functional currency)	<u>2021</u>		
	<u>Exchange gain or loss</u>		
	<u>Foreign currency</u> <u>(thousands)</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	27.68	(\$ 1,761)
USD : RMB	( 139)	6.38	( 603)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	\$ -	27.68	\$ 712
USD : RMB	71	6.38	310

G. The analysis of foreign currency market risks of the Group due to significant exchange rate fluctuations:

	<u>Range of change</u>	<u>2022</u>	
		<u>Profit or loss generated</u>	<u>Other comprehensive income generated</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	3%	\$ 18,756	\$ -
EUR : NTD	3%	269	-
USD : RMB	3%	1,080	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	3%	\$ 8,030	\$ -
USD : RMB	3%	1,080	-
(Foreign currency : functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	3%	\$ 12,504	\$ -
EUR : NTD	3%	255	-
USD : RMB	3%	656	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	3%	\$ 3,795	\$ -
USD : RMB	3%	930	-

Price risk

As the investments held by the Group as presented in the consolidated balance sheet do not include material financial assets such as equity instruments, the Group is not exposed to material price risk.

Cash flow and fair value interest rate risk

- A. The Group's interest rate risk mainly arises from long-term borrowings with floating interest rates, resulting in cash flow interest rate risk. In 2022 and 2021, the Group's borrowings with floating interest rates are mainly denominated in NTD and USD.
- B. The Group's borrowings are measured at cost after amortization, and re-measured annually based on the interest rate according to the contract. Thus, the Group is exposed to the risks of market interest rates in the future.
- C. When loan interest rate increases or decreases by 0.25% while other variables remain unchanged, the net income after tax for the years 2022 and 2021 will increase or decrease by NT\$3,954 and NT\$4,226, respectively. This is because interest expense changes with floating interest rate.

(2) Credit risk

- A. The Group's credit risk is the risk of financial loss to the Group due to the failure of the customer or counterparty of the financial instrument to perform its contractual obligations, which mainly result from the failure of the counterparty to pay off accounts receivable payable on the terms of collection.
- B. The Group manages its credit risk taking into consideration the entire group's concern. Only banks and financial institutions rated "A" by independent credit agencies are accepted as trade counterparties. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are based on internal or external ratings, and the use of credit limits is regularly monitored by the Board of Directors.
- C. The Group uses its credit risk management, and considers default to have occurred when the contract payments are past due over 90 days.
- D. The indicators used by the Group to determine credit impairment on debt instrument investments are as follows:
- (A) It becomes probable that the issuer will enter bankruptcy or other financial re-organization due to their financial difficulties;
- (B) The disappearance of an active market for that financial asset because of financial difficulties;
- E. The Group categorizes customers' accounts receivable according to their credit ratings, and uses a simplified approach to estimate expected credit losses based on the loss rate method.
- F. After recourse procedures, the Group reverses the amount of financial assets that cannot be reasonably expected to be recovered.
- G. The Group uses the forecastability report released by Taiwan Institute of Economic Research to adjust historical and timely information to assess the default possibility of notes and accounts receivable. On December 31, 2022 and 2021, the loss rate methodology is as follows:

Dec. 31, 2022	Current	Past due within	Past due 31 -	Past due 61 -	Past due over	Total
		30 days	60 days	90 days	90 days	
Expected loss rate	0%	0.03%-20%	0.56%-30%	4.17%-50%	25%-100%	
Total book value	\$ 536,620	\$ 33,079	\$ 8,794	\$ 279	\$ 306	\$ 579,078
Allowance for losses	\$ -	\$ 1,651	\$ 2,638	\$ 140	\$ 306	\$ 4,735

Dec. 31, 2021	Current	Past due within	Past due 31 -	Past due 61 -	Past due over	Total
		30 days	60 days	90 days	90 days	
Expected loss rate	0%	0.00%-20%	0.00%-30%	0.00%-50%	8.86%-100%	
Total book value	\$ 334,173	\$ 21,650	\$ 9,597	\$ 2,892	\$ 1,986	\$ 370,298
Allowance for losses	\$ -	\$ 619	\$ 1,687	\$ 1,303	\$ 1,986	\$ 5,595

E. Changes in loss allowance for accounts receivable using the simplified approach:

	2022	
	Accounts receivable	Notes receivable
Jan. 1	\$ 5,595	\$ -
Reversal of impairment losses	( 866)	-
Effects of changes in foreign exchange rates	6	-
Dec. 31	\$ 4,735	\$ -

	2021	
	Accounts receivable	Notes receivable
Jan. 1	\$ 6,156	\$ -

Reversal of impairment losses	(	558)	-
Effects of changes in foreign exchange rates	(	3)	-
Dec. 31	\$	5,595	\$

(3) Liquidity risk

- A. The Group has the need to monitor the cash forecasts to ensure that the Group's funds are adequate to finance its operations, and maintain sufficient unused loans at all times, so as to prevent violation of loan limit or terms. These forecasts take into account the Group's financing plans compliance with loan terms, and compliance with the financial ratio goals of the internal balance sheets. Thus, the Group is not exposed to significant liquidity risk.
- B. The Company's loans are borrowings with floating interest rates, and the effective interest rates of its borrowings changes with the market interest rate, resulting in fluctuation of future cash flow. When market interest rate increases by 1%, the Company's annual cash outflow increases by NT\$19,771.
- C. The table below analyzes the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Dec. 31, 2022	<u>Less than 3</u> <u>months</u>	<u>3 months to 1</u> <u>year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities:</u>					
Short-term borrowings	\$ 21,497	\$ -	\$ -	\$ -	\$ -
Accounts payable	306,010	18,510	-	-	-
Other payables	213,791	31,905	-	-	-
Lease liabilities	1,644	4,823	-	-	-
Long-term borrowings (incl. current portion)	106,698	346,322	672,524	393,193	555,270
<u>Derivative financial liabilities:</u>					
Forward exchange contract	1,194	-	-	-	-

Dec. 31, 2021	<u>Less than 3</u> <u>months</u>	<u>3 months to 1</u> <u>year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>
<u>Non-derivative financial liabilities:</u>					
Short-term borrowings	\$ 13,840	\$ -	\$ -	\$ -	\$ -
Accounts payable	151,857	10,401	-	-	-
Other payables	157,508	13,166	-	-	-
Lease liabilities	1,619	4,858	6,368	-	-
Long-term borrowings (incl. current portion)	56,200	245,972	398,212	751,305	754,899

(III) Fair value information

1. The fair value levels of financial instruments measured by valuation method. Are as follows:

Level I Level I inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded active when a market where transactions for the asset or liability

take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level II Level II inputs are inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly.

Level III Level III inputs are unobservable inputs for the asset or liability. The Group's investment properties are measured with Level III inputs.

2. The information relating to the fair value of investment property measured at cost is provided in Note 6 (7).

3. Financial instruments not measured at fair value

The book values of cash and cash equivalents, notes receivable, accounts receivable, other receivables, long- / short-term borrowings, notes receivable, accounts payable, and other payables are reasonable approximate of fair value.

4. The Group categorizes financial and non-financial instruments measured at fair value on the basis of their nature, characteristics, and risks of the assets and liabilities. The related information is as follows:

(1) The Group classifies assets and liabilities on the basis of their nature. Related information is provided below:

Dec. 31, 2022	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value</u>	\$ -	\$ 2,452	\$ -	\$ 2,452
<b>Liabilities</b>				
<u>Recurring fair value</u>	\$ -	\$ 1,194	\$ -	\$ 1,194
Dec. 31, 2021	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value</u>	\$ -	\$ 884	\$ -	\$ 884

(2) The methods and assumptions used by Group to measure the fair value are as follows:

A. Derivative financial instruments are measured based on valuation models generally accepted by market users, such as the discount method and option pricing model. Forward exchange contracts are measured based on the current forward exchange rate.

B. The Group includes credit valuation adjustment in the fair value valuation of financial Instruments and non-financial Instruments to reflect counterparties' credit risk and the Group's credit quality.

5. For the years 2022 and 2021, there were no transfers between Level I and Level II.

6. For the years 2022 and 2021, there were no transfers into or out of Level III.

#### (IV) Others

Due to the widespread of COVID-19 and protection measures imposed by the government, the Group has adopted necessary measures and continues to handle relevant matters. After evaluation, COVID-19 is deemed to have had no significant influence on the Group's continued operations, asset impairments and ability to raise capital.

### XIII. Supplementary disclosures

#### (I) Information about significant transactions:

Transactions with subsidiaries have been written off in the consolidated financial statements. The following information is for reference only.

1. Loans to others: Table 1.
2. Endorsement/guarantees for others: Table 2.
3. Ending marketable securities held (excluding investment in subsidiaries, associates and joint ventures): Table 3
4. Cumulative amount of the same marketable security purchased or sold reaching NT\$300 million or more than 20% of the paid-in capital: None.
5. Acquisition of individual real estate properties at costs of at least NT\$ 300 million or 20% of the paid-in capital: None.
6. Disposal of individual real estate properties at prices of at least NT\$ 300 million or 20% of the paid-in capital: None.
7. Total purchases from or sales to related parties amounting to at Least NT\$ 100 million or 20% of the paid-in capital: Table 4
8. Receivables from related parties amounting to at least NT\$ 100 million or 20% of the paid-in capital: None.
9. Derivatives tradings: Notes 6 (2), and 12 (3).
10. Business relationship and significant transactions between parent company and subsidiaries: Table 5

#### (II) Information on investees

Information of investee companies and location, and other relevant information (excluding investees in mainland China): Table 6

#### (III) Information of investments in mainland China

1. Basic information: Table 7.
2. Significant transactions with investee companies in mainland China, either directly or indirectly through a business at third location: Table 5

#### (IV) Information of major shareholders

Please refer to Table 8.

### XIV. Segment information

#### (I) General information

Management of the Group identifies reportable segments based on the information used by the chief operating decision makers when making operating decisions. The President of the Group manages the Group's businesses based on product types. The revenue of the segments disclosed are mainly from aerospace and industrial products.

(II) Evaluation of segments

The Board of the Group adopts the generally accepted accounting principles in R.O.C. In the preparation of financial statements, and evaluates the performance the operating segments based on the revenue, adjusted EBITDA, and income before tax of each operating unit.

(III) Segment information

The financial information of reportable segments provided to chief operating decision makers:

2022:

	<u>Industry</u>	<u>Aerospace</u>	<u>Total</u>
Segment revenue	\$ 363,352	\$ 1,829,569	\$ 2,192,921
Revenue from internal segments	-	-	-
Net income from external segments	363,352	1,829,569	2,192,921
Adjusted EBITDA	77,732	332,173	409,905
Depreciation and amortization	30,034	208,506	238,540

2021:

	<u>Industry</u>	<u>Aerospace</u>	<u>Total</u>
Segment revenue	\$ 304,260	\$ 1,121,945	\$ 1,426,205
Revenue from internal segments	-	-	-
Net income from external segments	304,260	1,121,945	1,426,205
Adjusted EBITDA	51,016	133,440	184,456
Depreciation and amortization	34,140	231,579	265,719

Note: segment assets and liabilities are not used as measurement indicators by the Company's chief operating decision makers, and are thus not disclosed.

(IV) Information of segment profit or loss reconciliation

The reconciliation of current adjusted EBITDA and income before tax of continuing operations:

	<u>2022</u>	<u>2021</u>
Adjusted EBITDA of operating segments	\$ 409,905	\$ 184,456
Depreciation expenses - fixed assets and investment property	( 224,564)	( 242,802)
Depreciation expenses - right-of-use assets	( 6,473)	( 12,890)
Amortizations	( 7,503)	( 10,028)
Interest expenses	( 26,311)	( 24,105)
Income before tax of continuing operations	<u>\$ 145,054</u>	<u>(\$ 105,369)</u>

(V) Information of products and services

Please refer to Note 14 (3).

(VI) Information by regions

Geographical information for the years 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>

USA	\$	921,603	\$	-	\$	611,277	\$	-
France		379,448		-		207,786		-
Taiwan		42,752		2,752,905		51,068		2,841,648
Others		849,118		244,837		556,074		343,334
Total	\$	<u>2,192,921</u>	\$	<u>2,997,742</u>	\$	<u>1,426,205</u>	\$	<u>3,184,982</u>

(VII) Information of key customers

Information of key customers for the years 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	<u>Revenue</u>	<u>Segment</u>	<u>Revenue</u>	<u>Segment</u>
Company A	\$ 509,511	Aerospace	\$ 349,352	Aerospace
Company B	307,294	Aerospace	197,216	Aerospace

National Aerospace Fasteners Corporation

Loans to Others

For the year ended December 31, 2022

Table 1

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Code</u>	<u>Lender</u>	<u>Borrower</u>	<u>Financial statement account</u>	<u>Related party</u>	<u>Highest balance for the period</u>	<u>Ending balance</u>	<u>Actual borrowed amount</u>	<u>Interest rate collars</u>	<u>Nature of loan</u>	<u>Business transaction amount</u>	<u>Reason for short-term financing</u>	<u>Allowance for bad debts</u>	<u>Collateral Item</u>	<u>Value</u>	<u>Ceiling for each borrower</u>	<u>Aggregate financing limit</u>	<u>Remarks</u>
0	National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Other receivables	Y	\$ 112,753	\$ 107,485	\$ 107,485	2.50%	Short-term borrowing	-	Fund for operation	-	N/A	-	\$ 389,452	\$ 389,452	(Note)

Note: The loan to a single entity shall not exceed 20% of the net worth stated on the Company's most recent financial statements reviewed or audited by CPAs. The loan ceiling is calculated based on 20% of net equity at Dec. 31, 2022.

National Aerospace Fasteners Corporation

Endorsements/Guarantees to Others

For the year ended December 31, 2022

Table 2

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Code</u>	<u>Name of endorser/guarantor</u>	<u>Subject of endorsement/guarantee</u>		<u>Ceiling amount of endorsement/guarantee to a single entity (Note 3)</u>	<u>Ceiling amount of endorsement/guarantee for the period</u>	<u>Balance of endorsement/guarantee</u>	<u>Actual borrowed amount</u>	<u>Amount of endorsement/guarantee backed by assets</u>	<u>Accumulated endorsed/guaranteed amount as a percentage of net worth</u>	<u>Ceiling amount of endorsement/guarantee (Note)</u>	<u>Endorsement/guarantee made by parent company to subsidiary</u>	<u>Endorsement/guarantee made by subsidiary to parent company</u>	<u>Endorsement/guarantee for companies in Mainland China</u>	<u>Remarks</u>
	<u>Name</u>	<u>Relation</u>												
0	National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Subsidiary	\$ 973,630	\$ 178,793	\$ 170,441	\$ -	\$ -	8.75%	\$ 973,630	Y	N	Y	—

Note: The requirement that endorsements/guarantees can only be made to a company in which the Company holds, directly or indirectly, more than 50% of the voting shares refers to 50% of the net worth stated in the most recent financial statements reviewed or audited by the CPAs.

Amount of endorsements/guarantees made shall be less than 50% of the net worth stated in the most recent financial statements reviewed or audited by the CPAs.

National Aerospace Fasteners Corporation

Ending Marketable Securities Held (excluding investment in subsidiaries, associates and joint ventures)  
December 31, 2022

Table 3

Expressed in thousands of New Taiwan Dollars  
(Unless otherwise specified)

<u>Holding company</u>	<u>Name and type of marketable securities</u>	<u>Relation with the issuer</u>	<u>Financial statement account</u>	<u>Shares</u>	<u>Ending balance</u>		<u>Fair value</u>	<u>Remarks</u>
					<u>Carrying amount</u>	<u>Percentage of ownership</u>		
National Aerospace Fasteners Corporation	Baicheng Co., Ltd.	N/A	Financial assets measured at fair value through other comprehensive income - non-current	700,000	\$ -	0.51%	\$ -	Registration nullified
"	Shintori Restaurant Co., Ltd.	N/A	"	20,307	-	2.75%	-	Discontinued

National Aerospace Fasteners Corporation

Total Purchases from or Sales to Related Parties Amounting to at Least NT\$ 100 Million or 20% of the Paid-in Capital

For the year ended December 31, 2022

Table 4

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Company name</u>	<u>Transaction counterparty</u>	<u>Relation</u>	<u>Transaction details</u>			<u>Payment term</u>	<u>Abnormal transaction</u>		<u>Notes and accounts receivable (payable)</u>		Remarks
			<u>Purchase/Sale</u>	<u>Amount</u>	<u>% of total</u>		<u>Unit price</u>	<u>Payment term</u>	<u>Ending balance</u>	<u>% of total</u>	
National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Subsidiary	Purchase	\$ 178,571	24%	Note	N/A	Note	(\$ 76,221)	( 23% )	

Note: The payment term is 90-day AMS. No significant difference from other purchase/sale terms.

National Aerospace Fasteners Corporation

Business Relationship and Major Transactions between the Parent Company and Subsidiaries and among Subsidiaries

For the year ended December 31, 2022

Table 5

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Code</u>	<u>Company name</u>	<u>Counterparty</u>	<u>Relation</u>	<u>Financial statement account</u>	<u>Amount</u>	<u>Transaction terms</u>	<u>% of total consolidated revenue or total asset</u>
The Company	National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Note 1	Sales	\$ 42,862	90 days AMS	2%
"	"	"	"	Purchase	178,571	90 days AMS	8%
"	"	"	"	Other expenses	10,281	90 days AMS	-
"	"	"	"	Accounts receivable	9,638	-	-
"	"	"	"	Accounts payable	76,221	-	2%
"	"	"	"	Other receivables	108,652	-	2%
"	"	"	"	Other payables	1,652	-	-

Note 1: Parent company to subsidiary

National Aerospace Fasteners Corporation

Information of Investee Companies and Location, and Other Relevant Information (excluding investees in Mainland China)

For the year ended December 31, 2022

Table 6

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Investor</u>	<u>Investee</u>	<u>Location</u>	<u>Principal business</u>	<u>Initial investment amount</u>		<u>Shares</u>	<u>Ending balance</u>		<u>Net income of investee</u>	<u>Recognized portion</u>	<u>Remarks</u>
				<u>Ending balance in 2022</u>	<u>Ending balance in 2021</u>		<u>Percentage of ownership</u>	<u>Carrying amount</u>			
National Aerospace Fasteners Corporation	NAFCO Group Ltd.	British Virgin Islands	Investment	\$ 405,897	\$ 405,897	13,000,000	100%	308,828	(\$ 24,532)	(\$ 28,784)	Subsidiary
NAFCO Group Ltd.	NAFCO Holdings Ltd.	British Virgin Islands	Investment	405,897	405,897	13,000,000	100%	311,317	( 24,532)	N/A	Second tier subsidiary

National Aerospace Fasteners Corporation  
Information on investments in mainland China  
For the year ended December 31, 2022

Table 7

Expressed in thousands of New Taiwan Dollars  
(Unless otherwise specified)

<u>Investee</u>	<u>Principal business</u>	<u>Paid-in capital</u>	<u>Method of investment</u>	<u>Accumulated amount of investment remitted outwards from Taiwan at beginning</u>	<u>Investment remitted outwards or recovered in current period</u>		<u>Accumulated amount of investment remitted outwards from Taiwan at ending</u>	<u>Net income of investee</u>	<u>% of ownership held directly or indirectly</u>	<u>Recognized portion (Note 2)</u>	<u>Ending carrying amount</u>	<u>Investment income received at ending</u>	<u>Remarks</u>
					<u>Outwards</u>	<u>Recovered</u>							
NAFCO Suzhou Precision	Production and sales of aviation parts and mold processing	\$405,897 (USD 13 million)	Note 1	\$ 405,897 (USD 13 million)	-	-	\$405,897 (USD 13 million)	(\$24,532)	100%	(\$24,532)	\$311,317	-	-

<u>Name</u>	<u>Accumulated investment from Taiwan to Mainland China at ending</u>	<u>Investment amount approved by Investment Commission of MOEA</u>	<u>Investment amount permitted by the Investment Commission of MOEA</u>
National Aerospace Fasteners Corporation	(USD 13 million) \$ 405,897	(USD 13 million) \$ 399,230	\$1,168,355

Note 1: Investment was made through NAFCO Holdings Ltd. established in a third area.

Note 2: Audited by parent company's CPAs.

National Aerospace Fasteners Corporation

Information of major shareholders

December 31, 2022

Table 8

	<u>Name of major shareholders</u>	<u>Shares held</u>	<u>Shares</u>	<u>Percentage of ownership</u>	
Getac Holdings Corp.		20,578,174			39.08
National Development Fund, Executive Yuan		3,773,188			7.16

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of common shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration due to differences in preparation basis.

Note 2: If a shareholder delivers the shareholdings to the trust, the above information will be disclosed by the individual trustor at which the trust account is opened. For shareholders who declare insider shareholdings with ownership greater than 10% in accordance with the Security and Exchange Act, the shareholdings include shares held by shareholders and those delivered to the trust over which shareholders have rights to determine the use of trust property. For information relating to insider shareholding declaration, please refer to Market Observation Post System.

National Aerospace Fasteners Corporation  
Parent-Only Financial Statements and  
Independent Auditors' Report  
For the years ended 2022 and 2021  
(Stock No: 3004)

Address: No. 1, Taiping E. Rd., Pingzhen Dist., Taoyuan  
City, 324026, Taiwan (R.O.C.)  
Tel: +886-3-450-8868

National Aerospace Fasteners Corporation  
Parent-Only Financial Statements and Independent Auditors' Report  
For the years ended 2022 and 2021  
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## Independent Auditor's Report

(112)Cai-Shen-Bao Letter Number 22003147

To the Board of Directors and Stockholders of National Aerospace Fasteners Corporation:

### **Audit Opinion**

We have audited the accompanying parent-only balance sheets of National Aerospace Fasteners Corporation as of December 31, 2021 and 2022, and the related parent-only statements of comprehensive income, parent-only changes in equity, and parent-only cash flows, and notes to parent-only financial statements (including summary of significant accounting policies) for the years then ended.

In our opinion, the parent-only financial statements referred to above present fairly, in all material respects, the parent-only financial position of National Aerospace Fasteners Corporation (hereinafter referred to as "the Company") as of December 31, 2021 and 2022, and the results of the parent-only operations and the parent-only cash flows for the years then ended in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

### **Basis for Opinions**

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the "Responsibilities of Certified Public Accountants for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled other responsibilities as stipulated by the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matter**

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

Key audit matters for the parent-only financial statements for the year ended December 31, 2022 are stated as follows:

### **Recognition of revenue from export sales**

#### Description of Key Audit Matter

For accounting policies regarding recognition of revenues, please refer to Note 4 (26) of the parent-only financial statements. For explanation of revenue accounts, please refer to Note 6 (18) of the parent-only financial statements. The operating revenue of National Aerospace Fasteners Corporation for the year 2022 totaled NT\$ 1,967,894 thousand.

The main products of National Aerospace Fasteners Corporation are aerospace and industrial fasteners. The Company mainly engages in export sales, and recognition of revenue varies from customers to customers, or depends on the trading terms of each individual orders. Thus, the recognition of revenue is relatively more complex, as the timing of revenue recognition has to be determined based on each order. Therefore, we believes that the recognition of revenue from export sales shall be included in Key Audit Matters.

#### How the matter was addressed in our audit

Our audit main procedures regarding the recognition of revenue from export sales are as follows:

1. We conducted walk through testing on export sales revenues to understand, evaluate and verify the implementation and design effectiveness of internal controls regarding recognition of revenue from export sales.
2. We sampled the trading terms of the recognized revenue in the verification systems, and the sampled items are consistent with the original contracts or orders with the customers.
3. For different transaction conditions, we verified that the delivery times entered into the custom's system are consistent with the customer receipts or the courier receipts. The time of customer clearance entered in the custom's system are consistent with the retained export declaration receipts.
4. We conducted cut-off tests on the sales revenue of different trading terms during the period from prior to after the balance sheet date based on the revenue details obtained. Documents including export clearance and receipts are consistent with the information entered in the system.

## **Allowance to reduce inventories to market**

### Description of Key Audit Matter

For accounting policies regarding inventory evaluation, please refer to Note 4(11) attached to the financial report. For accounting estimates and assumptions of inventory evaluation, please refer to Note 5(2) attached to the financial report. For the explanation of allowance to reduce inventories to market, please refer to Note 6(4) attached to the financial report. On December 31, 2022, the balance of inventories and allowance to reduce inventories to market of National Aerospace Fasteners Corporation amounted to NT\$ 744,285 thousand and NT\$ 140,577 thousand, respectively.

The Company engages in the manufacturing and sales of industrial fasteners. Due to high level of customization to accommodate each individual product specification and customer requirements, the Company has a higher risk of falling prices or the obsolescence of inventories. The inventory of the Company is measured by the lesser of the cost or net realizable value. For the inventory over a certain age and the individually identified obsolete inventory, the net realizable value is extrapolated based on the historical information of the destocking process and level of discounts. As net realizable value involves a high level of subjective assumptions, it thus has high assumption uncertainties. In addition, as inventories and the allowance to reduce inventories to market have significant impacts on the financial statements, we believe that the Company's allowance to reduce inventories to market shall be listed as one of the key audit matters.

### How the matter was addressed in our audit

Our audit main procedures regarding loss on inventory price decline or falling price loss due to obsolescence of each individual inventory are as follows:

1. We assessed the reasonableness of policies and procedures for the recognition of allowance for inventory valuation losses, including the historical source information of the categorization of inventories, level of destocking, and level of discounts which are used to determine the net realizable value of inventories. We also judge the reasonableness of obsolete inventory items.
2. We investigated the Company's warehousing procedures, reviewed its annual inventory planning, and participated in the annual inventory taking, so as to evaluate the effectiveness of management's categorization of management of obsolete inventories.

3. We verified if inventories are listed in the correct inventory age ranges, so as to ensure that obsolete inventories are listed in their corresponding categories.
4. We verified if losses on valuation of inventory are recognized according to policies for obsolete inventory items over a certain age, and correctly recognized in allowance to reduce inventory to market.

### **Responsibilities of Management and Those Charged with Governance for the Parent-Only Financial Statements**

Management is responsible for the preparation and fair presentation of the parent-only 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 parent-only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent-only 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 Audit Committee) are responsible for overseeing the Company's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Parent-Only Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent-only financial report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect material misstatement when it exists. Misstatements can arise from fraud or error and are considered material, if, individually or aggregated, 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent-only financial statements, whether due to fraud or error, design, and perform audit procedures responsive to those risks, and obtain evidence that is sufficient and appropriate to provide a basis of 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 the auditor's report to the related disclosures in the parent-only financial statements or, if such disclosures are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's 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 parent-only financial statements, including related disclosures, and whether the parent-only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent-only financial statements. We are responsible for the direction, supervision and performance of the Company's 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 specified in The Norm of Professional Ethics for Certified Public Accountant of the Republic of China 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 parent-only financial statements for the year 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.

Pricewaterhouse Coopers

Wei-Hao Wu

CPAs

Yen-Na Li

Financial Supervisory Commission

Approval letter: Jin-Guan-Zheng-Shen Letter

Number:1080323093

Securities and Futures Bureau, Financial Supervisory  
Commission, Executive Yuan

Approval letter: Jin-Guan-Zheng-Liu Letter

Number:0950122728

February 22, 2023

National Aerospace Fasteners Corporation  
Parent-Only Balance Sheets  
December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

Assets		Notes	Dec. 31, 2022		Dec. 31, 2021	
			Amount	%	Amount	%
<b>Current Assets</b>						
1100	Cash and cash equivalents	6 (1)	\$ 131,573	3	\$ 106,121	2
1110	Financial assets measured at fair value through profit or loss - current	6 (2)	2,452	-	884	-
1150	Notes receivable, net	6 (3)	169	-	-	-
1170	Accounts receivable, net	6 (3)	493,251	11	323,023	8
1180	Accounts receivable - related parties, net	6 (3), 7	11,309	-	4,518	-
1200	Other receivables		5,722	-	4,918	-
1210	Other receivables - related parties	7	108,690	3	102,355	2
130X	Inventories	6 (4)	603,708	13	496,188	12
1410	Prepayments		62,893	1	21,347	1
11XX	<b>Total current assets</b>		<u>1,419,767</u>	<u>31</u>	<u>1,059,354</u>	<u>25</u>
<b>Non-current assets</b>						
1517	Financial assets measured at fair value through other comprehensive income - non-current		-	-	-	-
1550	Investments under equity method	6 (5)	308,828	7	331,788	8
1600	Property, plant and equipment	6 (6), 7, 8	2,721,410	60	2,805,685	66
1755	Right-of-use assets		372	-	976	-
1760	Investment property, net	6 (7)	21,662	1	21,804	1
1780	Intangible assets		9,461	-	13,205	-
1840	Deferred income tax assets	6 (23)	9,332	-	5,483	-
1900	Other non-current assets	6 (8), (13), 8	24,290	1	8,831	-
15XX	<b>Total non-current assets</b>		<u>3,095,355</u>	<u>69</u>	<u>3,187,772</u>	<u>75</u>
1XXX	<b>Total Assets</b>		<u>\$ 4,515,122</u>	<u>100</u>	<u>\$ 4,247,126</u>	<u>100</u>
<b>Liabilities and Equity</b>						
<b>Current Liabilities</b>						
2100	Short-term borrowings	6 (9)	\$ 21,497	-	\$ 13,840	-
2120	Financial liabilities measured at fair value through profit or loss - current	6 (2)	1,194	-	-	-
2130	Contract liabilities - current	6 (18)	17,822	-	1,182	-
2170	Accounts payable	6 (10)	257,437	6	119,431	3
2180	Accounts payable - related parties	7	76,221	2	49,910	1
2200	Other payables	6 (11)	197,606	4	130,309	3
2220	Other payables - related parties	7	1,652	-	1,164	-
2230	Current tax liabilities		27,981	1	34,329	1
2280	Lease liabilities - current		122	-	351	-
2320	Long-term liabilities - current portion	6 (12)	429,235	10	286,299	7
21XX	<b>Total current liabilities</b>		<u>1,030,767</u>	<u>23</u>	<u>636,815</u>	<u>15</u>
<b>Non-current Liabilities</b>						
2540	Long-term borrowings	6 (12)	1,526,334	34	1,812,813	43
2570	Deferred tax liabilities	6 (23)	3,027	-	1,801	-
2600	Other non-current liabilities		7,735	-	21,498	-
25XX	<b>Total non-current liabilities</b>		<u>1,537,096</u>	<u>34</u>	<u>1,836,112</u>	<u>43</u>
2XXX	<b>Total Liabilities</b>		<u>2,567,863</u>	<u>57</u>	<u>2,472,927</u>	<u>58</u>
<b>Equity</b>						
Issued capital						
3110	Common stock	6 (15)	526,472	12	526,472	13
Capital surplus						
3200	Capital surplus	6 (16)	411,394	9	398,499	9
Retained earnings						
3310	Legal reserve	6 (17)	171,581	4	171,581	4

(Continued)

National Aerospace Fasteners Corporation  
Parent-Only Balance Sheets  
December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

	Notes	Dec. 31, 2022		Dec. 31, 2021	
		Amount	%	Amount	%
<u>Liabilities and Equity</u>					
3320	Special reserve	\$ 41,890	1	\$ 39,808	1
3350	Unappropriated retained earnings	831,987	18	679,729	16
	Other equity				
3400	Other equity	(36,065)	(1)	(41,890)	(1)
3XXX	<b>Total Equity</b>	<u>1,947,259</u>	<u>43</u>	<u>1,774,199</u>	<u>42</u>
	Significant commitments and contingencies				
3X2X	<b>Total Liabilities and Equity</b>	<u>\$ 4,515,122</u>	<u>100</u>	<u>\$ 4,247,126</u>	<u>100</u>

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer: Wen-Cheng Li

National Aerospace Fasteners Corporation  
Parent-Only Balance Sheets  
For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars  
(earnings (loss) per share expressed in New Taiwan Dollars)

Item	Notes	2022		2021	
		Amount	%	Amount	%
4000 Operating revenue	6 (18), 7	\$ 1,967,894	100	\$ 1,298,303	100
5000 Operating costs	6 (4), (21), (22), 7	( 1,508,750)	( 76)	( 1,105,167)	( 85)
5950 Gross profit		<u>459,144</u>	<u>24</u>	<u>193,136</u>	<u>15</u>
Operating expenses	6 (21), (22)				
6100 Selling expenses		( 43,306)	( 2)	( 31,313)	( 3)
6200 General and administrative expenses		( 203,981)	( 10)	( 157,311)	( 12)
6300 Research and development expenses		( 86,148)	( 5)	( 53,064)	( 4)
6450 Profit from expected credit loss	12 (2)	1,027	-	-	-
6000 Total operating expenses		<u>( 332,408)</u>	<u>( 17)</u>	<u>( 241,688)</u>	<u>( 19)</u>
6900 Operating gains and losses		<u>126,736</u>	<u>7</u>	<u>( 48,552)</u>	<u>( 4)</u>
Non-operating revenue and expenses					
7100 Interest income	7	1,967	-	989	-
7010 Other income		1,036	-	1,042	-
7020 Other gains and losses	6 (19)	70,091	4	31,684	3
7050 Finance costs	6 (20)	( 25,992)	( 1)	( 23,456)	( 2)
7070 Share of other gains or losses of subsidiaries, associates and joint ventures, accounted for using equity method		( 28,784)	( 2)	( 64,125)	( 5)
7000 Total non-operating revenues and expenses		<u>18,318</u>	<u>1</u>	<u>( 53,866)</u>	<u>( 4)</u>
7900 <b>Profit (loss) before tax</b>		<u>145,054</u>	<u>8</u>	<u>( 102,418)</u>	<u>( 8)</u>
7950 Income tax benefit	6 (23)	4,921	-	5,689	-
8200 <b>Net income (loss)</b>		<u>\$ 149,975</u>	<u>8</u>	<u>\$ 96,729</u>	<u>( 8)</u>
<b>Other comprehensive income, net</b>					
<b>Items that will not be reclassified to profit or loss</b>					
8311 Remeasurements of defined benefit plans	6 (13)	\$ 4,365	-	\$ 927	-
8310 Total items that will not be reclassified to profit or loss		<u>4,365</u>	<u>-</u>	<u>927</u>	<u>-</u>
<b>Items that may be subsequently reclassified to profit or loss</b>					
8361 Exchange differences from the translation of financial statements of foreign operations		5,825	-	( 2,082)	-
8360 Total items that may be subsequently reclassified to profit or loss		<u>5,825</u>	<u>-</u>	<u>( 2,082)</u>	<u>-</u>
8300 <b>Other comprehensive income, net</b>		<u>\$ 10,190</u>	<u>-</u>	<u>\$ 1,155</u>	<u>-</u>
8500 <b>Total comprehensive income</b>		<u>\$ 160,165</u>	<u>8</u>	<u>\$ 97,884</u>	<u>( 8)</u>
Basic earnings (loss) per share	6 (24)				
9750 Basic earnings (loss) per share		<u>\$ 2.85</u>	<u>( \$ 1.84)</u>		
Diluted earnings (loss) per share	6 (24)				
9850 Basic earnings (loss) per share		<u>\$ 2.85</u>	<u>( \$ 1.84)</u>		

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer: Wen-Cheng Li

National Aerospace Fasteners Corporation  
Parent-Only Statement of Changes in Equity  
For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

	Notes	Capital surplus			Retained earnings			Exchange differences from the translation of financial statements of foreign operations	Total	
		Common stock	Share premium	Employee share option	Capital surplus - other	Legal reserve	Special reserve			Unappropriated retained earnings
<u>2021</u>										
Balance as of Jan. 1, 2021		\$ 526,472	\$ 340,105	\$ 33,136	\$ -	\$ 165,502	\$ 45,975	\$ 801,767	(\$ 39,808 )	\$ 1,873,149
2021 net loss		-	-	-	-	-	-	( 96,729 )	-	( 96,729 )
2021 other comprehensive income		-	-	-	-	-	-	927	( 2,082 )	( 1,155 )
Total comprehensive income		-	-	-	-	-	-	( 95,802 )	( 2,082 )	( 97,884 )
Appropriation and distribution of earnings										
Legal reserve		-	-	-	-	6,079	-	( 6,079 )	-	-
Special reserve		-	-	-	-	-	( 6,167 )	6,167	-	-
Cash dividends	6 (17)	-	-	-	-	-	-	( 26,324 )	-	( 26,324 )
Employee stock option costs	6 (14)	-	-	25,258	-	-	-	-	-	25,258
Balance as of Dec. 31, 2021		\$ 526,472	\$ 340,105	\$ 58,394	\$ -	\$ 171,581	\$ 39,808	\$ 679,729	(\$ 41,890 )	\$ 1,774,199
<u>2022</u>										
Balance as of Jan. 1, 2022		\$ 526,472	\$ 340,105	\$ 58,394	\$ -	\$ 171,581	\$ 39,808	\$ 679,729	(\$ 41,890 )	\$ 1,774,199
2022 net profit		-	-	-	-	-	-	149,975	-	149,975
2022 other comprehensive income		-	-	-	-	-	-	4,365	5,825	10,190
Total comprehensive income		-	-	-	-	-	-	154,340	5,825	160,165
Appropriation and distribution of earnings										
Special reserve		-	-	-	-	-	2,082	( 2,082 )	-	-
Expired employee share option	6 (14)	-	-	( 2,247 )	2,247	-	-	-	-	-
Employee stock option costs	6 (14)	-	-	12,895	-	-	-	-	-	12,895
Balance as of Dec. 31, 2022		\$ 526,472	\$ 340,105	\$ 69,042	\$ 2,247	\$ 171,581	\$ 41,890	\$ 831,987	(\$ 36,065 )	\$ 1,947,259

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer: Wen-Cheng Li

National Aerospace Fasteners Corporation  
Parent-Only Statement of Cash Flows  
For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
<u>Cash flow from operating activities</u>			
Profit (loss) before tax		\$ 145,054	(\$ 102,418 )
Adjustments			
Adjustments to reconcile profit or loss			
Gains on financial assets measured at fair value through profit or loss, net	6 (19)	( 374 )	( 884 )
Gains on expected credit loss	12 (2)	( 1,027 )	-
Share of other gains or losses of subsidiaries, associates and joint ventures, accounted for using equity method		28,784	64,125
Depreciation of property, plant and equipment and investment property	6 (21),	173,595	184,608
Depreciation of right-of-use assets	6 (21),	604	551
Amortizations	6 (21),	6,771	8,755
Interest income		( 1,967 )	( 989 )
Interest expenses	6 (20)	25,992	23,456
Gains on disposal of property, plant and equipment, net	6 (19)	-	( 150 )
Cost of share-based payment as remuneration	6 (14)	12,895	25,258
Changes in operating assets/liabilities			
Changes in operating assets, net			
Notes receivable, net		( 169 )	1,116
Accounts receivable		( 169,201 )	( 43,780 )
Accounts receivable - related parties, net		( 6,791 )	( 2,891 )
Other receivables		( 804 )	( 861 )
Other receivables - related parties		4,270	3,457
Inventories		( 107,520 )	( 87,594 )
Prepayments		( 40,612 )	( 5,392 )
Changes in operating liabilities, net			
Contract liabilities - current		16,640	( 9,905 )
Notes payable		-	( 70 )
Accounts payable		138,006	50,674
Accounts payable - related parties		26,311	37,968
Other payables		64,210	( 25,782 )
Other payables - related parties		488	1,106
Other non-current liabilities		( 4,977 )	2,683
Cash inflow from operating activities		310,178	123,041
Interest paid		( 25,706 )	( 23,504 )
Interest received		1,967	989
Income tax paid in current period		( 12,835 )	( 9,030 )
Net cash inflow from operating activities		273,604	91,496

(Continued)

National Aerospace Fasteners Corporation  
Parent-Only Statement of Cash Flows  
For the years ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
<u>Cash flow from investing activities</u>			
(Increase) Decrease in other receivables - related parties		(\$ 10,605 )	\$ 2,800
Acquisition of property, plant and equipment	6 (25)	( 87,311 )	( 58,341 )
Disposal of property, plant and equipment		-	150
Increase in intangible assets		( 3,027 )	( 2,219 )
(Increase) Decrease in refundable deposits		( 1,447 )	127
(Increase) decrease in prepayments for equipment		( 9,314 )	417
(Increase) Decrease in other non-current assets		( 333 )	41
Net cash outflow from investing activities		( 112,037 )	( 57,025 )
<u>Cash flow from financing activities</u>			
Increase in short-term borrowings		294,191	242,209
Payments for short-term borrowings		( 286,534 )	( 228,369 )
Increase in long-term borrowings		151,317	91,381
Payments for long-term borrowings		( 294,860 )	( 104,452 )
Decrease in deposits received		-	( 10 )
Payments for lease liabilities	6 (26)	( 229 )	( 176 )
Payments of cash dividends	6 (17)	-	( 26,324 )
Net cash outflow from financing activities		( 136,115 )	( 25,741 )
Increase in cash and cash equivalents		25,452	8,730
Cash and cash equivalents at beginning of period		106,121	97,391
Cash and cash equivalents at end of period		<u>\$ 131,573</u>	<u>\$ 106,121</u>

The notes attached shall constitute an integral part of the financial statements.

Chairman: Feng-Tzu Tsai

Managerial Officer: Wei-Tsun Lin

Chief Accounting Officer: Wen-Cheng Li

National Aerospace Fasteners Corporation  
Notes to Parent-Only Financial Statements  
For the years ended 2022 and 2021

Expressed in thousands of New Taiwan Dollars  
(Unless otherwise specified)

I. Company History

National Aerospace Fasteners Corporation (hereinafter referred to as the “Company”) was established on October 14, 1997 upon approval, and the Company’s share was listed on Taipei Exchange (TPEX) starting February 25, 2002. The Company registered its businesses as the manufacture, processing, agency, trading of the fasteners and construction parts of aircraft, ships, and vehicles. Getac Holdings Corp. holds 39.08% of the shareholding in the Company, and is the ultimate parent company of the Company.

II. Approval Financial Statements

The parent-only financial statements were authorized for issuance by the Board of Directors on February 22, 2023.

III. Application of New and Amended Standards and Interpretations

Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) that have been issued, entered into effect and endorsed by the Financial Supervisory Commission (“FSC”).

New standards, interpretations and amendments endorsed by the FSC effective from 2022 are as follows:

<u>New/Amended/Revised Standards and Interpretations</u>	<u>The effective date per IASB</u>
Amendment to IFRS 3 – “Reference to the Conceptual Framework”	Jan. 1, 2022
Amendments to IAS 16 - “Property, Plant and Equipment - Proceeds before intended use”	Jan. 1, 2022
Amendment to IAS 37- “Onerous Contracts - Cost of Fulfilling a Contract”	Jan. 1, 2022
Annual Improvements 2018-2020 Cycle	Jan. 1, 2022

After evaluation, the aforementioned standards and interpretations have no significant impacts on the Company’s financial position and financial performance.

The impact of new issuances of or amendments to IFRS as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2023 are as follows:

<u>New/Amended/Revised Standards and Interpretations</u>	<u>The effective date per IASB</u>
Amendment to IAS 1 - “Disclosure of Accounting Policies”	Jan. 1, 2023

Amendment to IAS 8 - “Definition of Accounting Estimates”	Jan. 1, 2023
Amendments to IAS 12 - “Deferred tax Related to Assets and Liabilities Arising from a Single Transaction”	Jan. 1, 2023

After evaluation, the aforementioned standards and interpretations have no significant impacts on the Company's financial position and financial performance.

The impact of IFRS issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC

New standards, interpretations and amendments issued by the IASB but not yet endorsed by the FSC are as follows:

<u>New/Amended/Revised Standards and Interpretations</u>	<u>The effective date per IASB</u>
Amendment to IFRS 10 and IAS 28 - "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	The effective date per IASB
Amendment to IFRS 16 "Lease Liability in a Sale and Leaseback"	Jan. 1, 2024
IFRS 17 "Insurance Contracts"	Jan. 1, 2023
Amendment to IFRS 17 "Insurance Contracts"	Jan. 1, 2023
Amendment to IFRS 17 - "Initial Application of IFRS 17 and IFRS 9 - Comparative Information"	Jan. 1, 2023
Amendment to IAS 1 - "Classification of Liabilities as Current or Non-current"	Jan. 1, 2024
Amendment to IAS 1 "Non-current Liabilities with Covenants"	Jan. 1, 2024

After evaluation, the aforementioned standards and interpretations have no significant impacts on the Company's financial position and financial performance.

IV. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these parent-only financial statements are as follows. These policies have been consistently used throughout the periods presented, unless otherwise stated.

(I) Statement of compliance

The parent-only financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, and interpretations (collectively referred to as IFRSs) that have been issued, entered into effect and endorsed by the FSC.

(II) Basis of preparation

1. The parent-only financial statements are prepared based on historical data, except for the followings:
  - (1) Financial assets and liabilities measured at fair value through profit or loss (including derivatives)
  - (2) Financial assets measured at fair value through other comprehensive income
  - (3) Defined benefit liabilities measured at present value of defined benefit obligation less the fair value of plan assets
2. The preparation of financial statements in conformity with IFRSs requires the use of certain significant accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(III) Foreign currency translation

Items included in the financial statements the Company are measured using the currency of the primary economic environment in which the Company operates (that is, the functional

currency). The parent-only financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

#### 1. Foreign currency transactions and balances

- (1) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (2) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (3) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (4) All exchange gains and losses are presented as "Other gains and losses" on the statement of comprehensive income

#### 2. Exchange from foreign operations

- (1) The operating results and financial position of all the group entities, associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
  - A. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
  - B. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
  - C. All resulting exchange differences are recognized in other comprehensive income.
- (2) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Company retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

#### (IV) Classification of current and non-current asset and liability items

##### 1. Assets that meet one of the following criteria are classified as current assets:

- (1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.
- (2) Assets arising mainly from trading activities.
- (3) Assets that are expected to be realized within twelve months from the balance sheet date.
- (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after

the balance sheet date.

All other assets that do not meet any of the above criteria are classified as non-current assets.

2. Liabilities that meet one of the following criteria are classified as current liabilities:

- (1) Liabilities that are expected to be paid off within the normal operating cycle.
- (2) Liabilities arising mainly from trading activities.
- (3) Liabilities that are to be paid off within twelve months from the balance sheet date.
- (4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities that do not meet any of the above criteria are classified as non-current liabilities.

(V) Cash equivalents

Cash equivalents refer to short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

(VI) Financial assets measured at fair value through profit or loss

1. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
2. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized using trade date accounting.
3. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.

(VII) Financial assets measured at fair value through other comprehensive income

1. Refers to the irrevocable election made at initial recognition that allows the Company to present fair value changes of equity investment not held for trading in other comprehensive income:

- (1) Financial assets held within a business model of which the objective of holding is to collect the contractual cash flows and to sell.
- (2) The cash flows on specific dates that are generated from the contractual terms of the financial assets are solely payments of the principle and interest on the principle amount outstanding.

2. The Company's financial assets measured at fair value through other comprehensive income in accordance with the trading conventions are accounted for on the trade date.

3. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value.

The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the de-recognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(VIII) Accounts and notes receivable

1. Accounts and notes receivable refer to the receivables with which the Company has an

unconditional contractual right to consideration for goods or services that have been transferred.

2. As the Company's short-term accounts and notes receivables with no stated interest rate has no material discounting effect, they are measured at the original invoice amount.

(IX) Impairments of financial assets

The Company measures the loss allowance for accounts receivable and contract assets containing significant financial components after taking into account all reasonable and proving information (including foreseeing information) at each balance sheet date; where the credit risk has not significantly increased since initial recognition, the loss allowance is measured at the 12-month expected credit losses; where the credit risk has increased significantly since initial recognition, the loss allowance is measured at lifetime expected credit losses. Accounts receivables and contract assets that do not contain any significant financing components, the loss allowance is measured at lifetime expected credit losses.

(X) The de-recognition of financial assets

The Group de-recognizes a financial asset when the contractual rights to receive cash flows from the financial asset expire.

(XI) Inventories

Inventories are measured at the lower of cost and net realizable value based on perpetual inventory system. Cost is determined using the weighted-average cost method. The cost of finished goods and goods in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal capacity). However, loan costs are excluded. Item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the applicable variable selling expenses.

(XII) Investments/Subsidiaries under equity method

1. Subsidiaries refer to entities (incl. structured entities) controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
2. Transactions, balances and unrealized gains or losses on transactions between the Company and its subsidiaries are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
3. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its ownership interest in the subsidiary, the Company continues to recognize losses in proportion to its ownership.
4. In accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," the profit or loss during the period and other comprehensive income presented in the parent-only financial statements shall be the same as the allocations of profit or loss during the period and of other comprehensive income attributable to owners of the parent presented in the financial statements prepared on a consolidated basis, and the owners' equity presented in the parent-only financial statements shall be the same as the equity attributable to owners of the parent presented in the financial statements prepared on a consolidated basis.

(XIII) Property, plant and equipment

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognized. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.
3. Land is not depreciated. Other property, plant and equipment are measured using cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
4. The Company reviews each assets' residual values, useful lives and depreciation methods at the end of each financial year. If expectations for the assets' residual values and useful lives differ from previous estimates or the expected pattern of consumption of the future economic benefits of an asset have changed significantly, any change is accounted for as a change in estimate under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Houses and buildings	5 - 50 yrs
Equipment	5 - 9 yrs
Office equipment	3 - 6 yrs
Other equipment	2 - 10 yrs

(XIV) Lease transaction in the capacity of a lessee - Right-of-use assets / lease liabilities

1. A right-of-use asset and a lease liability are recognized for a leased asset on the date when it becomes readily available for the Group's use. When a lease contract is a short-term lease or when it is a lease of which the underlying asset is of low value, lease payments are recognized as an expense on a straight-line basis over the lease term.
2. The Company recognizes the present value of unpaid lease liabilities discounted at the Company's incremental borrowing interest rate starting from the lease start date. Lease payments are fixed payments less any incentives for lease.

Subsequently, lease liabilities are measured at the amortized cost using the effective interest rate method, and interest expense is recognized over the lease term. When a change in the lease term or lease payments occurs due to reasons other than contractual lease modifications, lease liabilities are remeasured and the remeasurements are adjusted to right-of-use assets.

3. Right-of-use assets are recognized on the lease commencement date at cost that includes:
  - (1) Lease liabilities at initial measurement;
  - (2) Payments paid on or before the commencement date; and
  - (3) Direct costs incurred.

A right-of-use asset is subsequently measured using the cost model and depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. When a lease liability is remeasured, the right-of-use

asset is adjusted for any remeasurements of the lease liability.

(XV) Investment property

An investment property is recognized initially at cost and measured subsequently using cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 50 years.

(XVI) Intangible assets

Computer software is recognized at cost at the acquisition date and depreciated on a straight-line method basis over its estimated useful life of 2~5 years.

(XVII) Impairments of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been without the prior impairment loss.

(XVIII) Borrowings

1. Borrowings refer to short-term and long-term loans from banks. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as interest expenses in profit or loss over the period of the borrowings using the effective interest method.
2. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(XIX) Accounts and notes receivable

1. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
2. As the Company's short-term accounts and notes payables with no stated interest rate has no material discounting effect, they are measured at the original invoice amount.

(XX) De-recognition of financial liabilities

The Company de-recognizes a financial liability when the obligation under the contract is performed, canceled, or expires.

(XXI) Employee benefit

1. Short-term employee benefits  
Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid and should be recognized as expense in the period when the employees render service.
2. Pension
  - (1) Defined contribution pension plan

For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(2) Defined benefit plans

- A. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior period. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using the market yield of high-quality corporate bonds that are denominated in the same currency as the benefit plan, and have terms to maturity approximating to the terms of the benefit obligation at balance sheet date. In the absence of deep market in high-quality corporate bonds, the Company uses market yield of government bonds (at the balance sheet date) instead.
- B. Remeasurements arising from defined benefit plans are recognized in other comprehensive income in the period in which they arise and are presented in retained earnings.
- C. Past service costs are recognized immediately in profit or loss.

3. Remuneration to employees, Directors and Supervisors

Remuneration to employees, Directors and Supervisors are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in accounting estimates. If employee remuneration is paid by shares, the Company calculates the number of shares based on the closing price at date one day prior to the board meeting resolution.

(XXII) Share-based payment to employees

For equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted on the grant date, and are recognized as the remuneration cost over a vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Recognized remuneration cost is subject to adjustments based on the service conditions and non-market vesting conditions that are expected to be satisfied until the amount of remuneration cost recognized is the number of equity instruments that are eventually vested on the vesting date.

(XXIII) Income tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions

taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recognized as income tax expense based on actual appropriation of earnings in the year the shareholders resolve to retain the earnings.

3. Deferred tax is recognized, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent-only balance sheet. Deferred income tax is not accounted for if it arises from initial recognition of goodwill, or of an asset or liability in a transaction, (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit (or loss). Deferred tax liabilities not recognized for taxable temporary differences associated with investments in subsidiaries if 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 is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
4. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
5. Current income tax assets and liabilities can be offset only when the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and an intention to settle net or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities can be offset only when the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities are levied by the same taxation authority on the same taxable entity; or different taxable entities which intend either to settle net basis, or to realize the assets and settle the liabilities simultaneously.
6. A deferred tax asset shall be recognized for the carry-forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(XXIV) Issued capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(XXV) Dividends

Dividends are recorded as liabilities in the Company's financial statements in the period in which they are resolved by the Company's directors. Share dividends are recorded share dividends to be distributed at the date of shareholder's resolution and reclassified to common shares on the effective date of new shares issuance.

(XXVI) Recognition of revenue

Sales of goods

1. The Company engages in the manufacture and trading of the fasteners, construction

parts and other products of aircraft, ships, and vehicles. The Company recognizes sales revenue when the control of products is transferred to customers, i.e. when products are delivered to customers, the customer has full discretion over the distribution channel and price of the products, and the Company has no unfulfilled performance obligation that might affect the customers' acceptance of products. Goods are deemed delivered when the risk of obsolescence and loss is transferred to customers and customers have accepted the goods in accordance with the contractual terms, or when there is objective evidence suggesting that all acceptance provisions have been satisfied.

2. Sales revenue is recognized at contract price less estimated sales tax, sales returns, quantity discount and sales allowance. The terms of the Company's sales contracts are consistent with market practice. Thus, it is determined that there exists no significant financing component in the contracts.
3. An account receivable is recognized at the time when the Company's right to consideration is unconditional except for the passage of time required before payment of that consideration is due.

(XXVII) Government grants

A government grant is recognized at fair value only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. If the government grants are intended to compensate the Company's expenses, the government grants are recognized in profit or loss on a systematic basis over the periods related expenses incur. Government grants related to property, plant, and equipment are recognized as non-current liabilities over the estimated useful life of the asset in profit or loss using straight-line method. Main Sources of Significant Accounting Judgment, Estimation and Assumption Uncertainties

V. Main Sources of Significant Accounting Judgment, Estimation and Assumption Uncertainties

In the preparation of these parent-only financial statements, management made critical judgments in applying the Company's accounting policies and made accounting estimates and assumptions concerning the situation as of balance sheet date and future events that would reasonably be expected. Accounting assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such estimates and assumptions have a significant risk of causing a material adjustment of the carrying amounts of assets and liabilities in the following financial year. Related information about the significant accounting judgment, estimation and assumption uncertainties is addressed below:

(I) Critical judgments in the application of accounting policies

None.

(II) Critical accounting estimates and assumptions

Inventory valuation

As inventories are stated at the lower of cost or net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgments and estimates. The Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the balance sheet date, and writes down the cost of inventories to net realizable value. The inventory valuation is estimated based on assumptions of future demand within a specific time horizon. Thus it might be subject to significant changes.

Total book value of the Company's inventories on December 31, 2022 is NT\$ 603,708.

VI. Descriptions of Material Accounting Items

(I) Cash and cash equivalents

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Cash on hand and revolving funds	\$ 184	\$ 230
Checking deposits and demand deposits	<u>131,389</u>	<u>105,891</u>
Total	<u>\$ 131,573</u>	<u>\$ 106,121</u>

1. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
2. For the Company's transfer of cash as pledge guarantees to other non-current assets, please refer to Note 8.

(II) Financial assets/liabilities measured at fair value through profit or loss

<u>Item</u>	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Current:		
Derivatives financial assets mandatorily measured at fair value through profit or loss	<u>\$ 2,452</u>	<u>\$ 884</u>
Derivative financial liabilities mandatorily measured at fair value through profit or loss	<u>(\$ 1,194)</u>	<u>\$ -</u>

1. Financial assets/liabilities measured at fair value through profit or loss that are recognized in profit or loss are detailed as follows:

	<u>2022</u>	<u>2021</u>
Derivative financial assets mandatorily measured at fair value through profit or loss	\$ <u>1,568</u>	\$ <u>884</u>
Derivative financial liabilities mandatorily measured at fair value through profit or loss	(\$ <u>1,194</u> )	\$ <u>-</u>

2. The Company's derivative financial asset transactions that are not subject to hedge accounting and the contract contents thereof are detailed as follows:

<u>Derivative financial assets</u>	<u>Dec. 31, 2022</u>		<u>Dec. 31, 2021</u>	
	<u>(Nominal principal)</u>	<u>Contract period</u>	<u>(Nominal principal)</u>	<u>Contract period</u>
Current:				
Forward exchange contract	<u>USD 7,500</u>	Jan 2023 - Mar. 2023	<u>USD 6,000</u>	Jan 2022 - Mar. 2022

3. The forward exchange contract signed by the Company is a forward advance sale of USD (selling USD for NTD). This contract is to avoid the exchange rate risk of the export sales, however, not subject to hedging accounting.
4. The Company has no financial assets measured at fair value through profit or loss pledged as collateral.
5. For information of the credit risk of financial assets measured at fair value through profit or loss please refer to Note 12 (2).

(III) Notes and accounts receivable

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Notes receivable	\$ <u>169</u>	\$ <u>-</u>
Accounts receivable	\$ 497,430	\$ 328,229
Less: Allowance for bad debt	( <u>4,179</u> )	( <u>5,206</u> )
	493,251	323,023
Accounts receivable - related parties	<u>11,309</u>	<u>4,518</u>
	<u>\$ 504,560</u>	<u>\$ 327,541</u>

1. Aging analysis of accounts receivable:

	<u>Dec. 31, 2022</u>		<u>Dec. 31, 2021</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>
Current	\$ 475,554	\$ 169	\$ 299,047	\$ -
Within 30 days	26,408	-	20,512	-
31 - 60 days	6,192	-	8,454	-
61 - 90 days	279	-	2,892	-
More than 91 days	306	-	1,842	-
	<u>\$ 508,739</u>	<u>\$ 169</u>	<u>\$ 332,747</u>	<u>\$ -</u>

The aging analysis above is based on past due date.

- The balance of the Group's receivables from customer contracts (including accounts receivables) are NT\$508,908, NT\$332,747 and NT\$287,192, on December 31, 2022 and 2021, and January 1, 2021, respectively.
- Without regard to the security held or other credit enhancement, the maximum amounts of exposure at default best representing credit risk of the Company's notes receivable on December 31, 2022 and December 31, 2021 are NT\$169 and NT\$0, respectively; that of the accounts receivable on the same dates are NT\$504,560 and NT\$327,541, respectively.
- For related credit risk information on notes and accounts receivable, please refer to Note 12 (2).

(IV) Inventories

	<u>Dec. 31, 2022</u>		
	<u>Cost</u>	<u>Allowance to reduce inventories to market</u>	<u>Carrying amount</u>
Raw materials	\$ 268,329	(\$ 63,013)	\$ 205,316
Work in process	226,191	( 38,254)	187,937
Finished goods	197,520	( 39,310)	158,210
Inventory in transit	<u>52,245</u>	<u>-</u>	<u>52,245</u>
Total	<u>\$ 744,285</u>	<u>(\$ 140,577)</u>	<u>\$ 603,708</u>

	<u>Dec. 31, 2021</u>		
	<u>Cost</u>	<u>Allowance to reduce inventories to market</u>	<u>Carrying amount</u>
Raw materials	\$ 315,404	(\$ 77,265)	\$ 238,139
Work in process	104,391	( 23,789)	80,602
Finished goods	210,724	( 52,069)	158,655
Inventory in transit	<u>18,792</u>	<u>-</u>	<u>18,792</u>
Total	<u>\$ 649,311</u>	<u>(\$ 153,123)</u>	<u>\$ 496,188</u>

The cost of inventories recognized as expense for the period:

	<u>2022</u>	<u>2021</u>
Cost of inventories sold	\$ 1,529,012	\$ 1,115,988
Reversed gain on price decline of inventory	( 12,546)	( 3,030)
Others	<u>( 7,716)</u>	<u>( 7,791)</u>
	<u>\$ 1,508,750</u>	<u>\$ 1,105,167</u>

The increase in net realizable value of inventories is due to the Company's continued destocking in 2021 and 2022.

(V) Investments under equity method

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Subsidiary		
NAFCO Group Ltd.	<u>\$ 308,828</u>	<u>\$ 331,788</u>

1. For information regarding the Company's subsidiaries, please refer to Note 4 (3) of the Company's 2022 consolidated financial statements.
2. For disclosure regarding investment in mainland China, please refer to Note 13.

(VI) Property, plant and equipment

	<u>Land</u>	<u>Houses and buildings</u>	<u>Equipment</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Uncompleted construction and prepayments for equipment</u>	<u>Total</u>
Jan. 1, 2022							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,386,407	\$ 12,758	\$ 312,785	\$ 46,000	\$ 4,560,781
Accumulated depreciation and impairment	( 60,803)	( 443,746)	( 992,239)	( 12,678)	( 245,630)	-	( 1,755,096)
	<u>\$ 1,202,901</u>	<u>\$ 1,095,381</u>	<u>\$ 394,168</u>	<u>\$ 80</u>	<u>\$ 67,155</u>	<u>\$ 46,000</u>	<u>\$ 2,805,685</u>
<u>2022</u>							
Jan. 1	\$ 1,202,901	\$ 1,095,381	\$ 394,168	\$ 80	\$ 67,155	\$ 46,000	\$ 2,805,685
Addition	-	-	54,976	480	8,791	25,865	90,112
Transferred (Note)	-	-	47,038	-	1,026	( 48,998)	( 934)
Disposal	-	-	-	-	-	-	-
Depreciation expenses	-	( 37,487)	( 106,532)	( 71)	( 29,363)	-	( 173,453)
Dec. 31	<u>\$ 1,202,901</u>	<u>\$ 1,057,894</u>	<u>\$ 389,650</u>	<u>\$ 489</u>	<u>\$ 47,609</u>	<u>\$ 22,867</u>	<u>\$ 2,721,410</u>
Dec. 31, 2022							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,488,910	\$ 12,400	\$ 322,539	\$ 22,867	\$ 4,649,547
Accumulated depreciation and impairment	( 60,803)	( 481,233)	( 1,099,260)	( 11,911)	( 274,930)	-	( 1,928,137)
	<u>\$ 1,202,901</u>	<u>\$ 1,057,894</u>	<u>\$ 389,650</u>	<u>\$ 489</u>	<u>\$ 47,609</u>	<u>\$ 22,867</u>	<u>\$ 2,721,410</u>

Note: NT\$934 thousand was mainly transferred to prepayments.

	<u>Land</u>	<u>Houses and buildings</u>	<u>Equipment</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Uncompleted construction and prepayments for equipment</u>	<u>Total</u>
Jan. 1, 2021							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,362,259	\$ 12,758	\$ 295,092	\$ 59,889	\$ 4,532,829
Accumulated depreciation and impairment	( 60,803)	( 406,236)	( 902,290)	( 12,647)	( 210,481)	-	( 1,592,457)
	<u>\$ 1,202,901</u>	<u>\$ 1,132,891</u>	<u>\$ 459,969</u>	<u>\$ 111</u>	<u>\$ 84,611</u>	<u>\$ 59,889</u>	<u>\$ 2,940,372</u>
2021							
Jan. 1	\$ 1,202,901	\$ 1,132,891	\$ 459,969	\$ 111	\$ 84,611	\$ 59,889	\$ 2,940,372
Addition	-	-	21,255	-	8,512	23,229	52,996
Transferred (Note)	-	-	24,404	-	9,496	( 37,118)	( 3,218)
Disposal	-	-	-	-	-	-	-
Depreciation expenses	-	( 37,510)	( 111,460)	( 31)	( 35,464)	-	( 184,465)
Dec. 31	<u>\$ 1,202,901</u>	<u>\$ 1,095,381</u>	<u>\$ 394,168</u>	<u>\$ 80</u>	<u>\$ 67,155</u>	<u>\$ 46,000</u>	<u>\$ 2,805,685</u>
Dec. 31, 2021							
Cost	\$ 1,263,704	\$ 1,539,127	\$ 1,386,407	\$ 12,758	\$ 312,785	\$ 46,000	\$ 4,560,781
Accumulated depreciation and impairment	( 60,803)	( 443,746)	( 992,239)	( 12,678)	( 245,630)	-	( 1,755,096)
	<u>\$ 1,202,901</u>	<u>\$ 1,095,381</u>	<u>\$ 394,168</u>	<u>\$ 80</u>	<u>\$ 67,155</u>	<u>\$ 46,000</u>	<u>\$ 2,805,685</u>

Note: NT\$3,218 thousand was mainly transferred to intangible assets.

1. The amounts of capitalized borrowing cost for property, plant and equipment were NT\$ 0 for the years 2022 and 2021.
2. The Company's houses and buildings mainly compose of buildings and utility renovations, depreciated over 40-50 and 15-20 years, respectively.
3. For information of pledges for property, plant and equipment, please refer to Note 8.

(VII) Investment property

	<u>Land</u>	<u>Houses and buildings</u>	<u>Total</u>
Jan. 1, 2022			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 3,994)	( 6,605)
	<u>\$ 17,255</u>	<u>\$ 4,549</u>	<u>\$ 21,804</u>
<u>2022</u>			
Jan. 1	\$ 17,255	\$ 4,549	\$ 21,804
Depreciation expenses	-	( 142)	( 142)
Dec. 31	<u>\$ 17,255</u>	<u>\$ 4,407</u>	<u>\$ 21,662</u>
Dec. 31, 2022			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 4,136)	( 6,747)
	<u>\$ 17,255</u>	<u>\$ 4,407</u>	<u>\$ 21,662</u>
	<u>Land</u>	<u>Houses and buildings</u>	<u>Total</u>
Jan. 1, 2021			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 3,851)	( 6,462)
	<u>\$ 17,255</u>	<u>\$ 4,692</u>	<u>\$ 21,947</u>
<u>2021</u>			
Jan. 1	\$ 17,255	\$ 4,692	\$ 21,947
Depreciation expenses	-	( 143)	( 143)
Dec. 31	<u>\$ 17,255</u>	<u>\$ 4,549</u>	<u>\$ 21,804</u>
Dec. 31, 2021			
Cost	\$ 19,866	\$ 8,543	\$ 28,409
Accumulated depreciation and impairment	( 2,611)	( 3,994)	( 6,605)
	<u>\$ 17,255</u>	<u>\$ 4,549</u>	<u>\$ 21,804</u>

1. Rent income from investment property and direct operating expenses arising therefrom:

	<u>2022</u>	<u>2021</u>
Rent income from investment property	\$ <u>577</u>	\$ <u>577</u>
Direct operating expenses arising from the investment property generating rent income	\$ <u>278</u>	\$ <u>278</u>
Direct operating expenses arising from the investment property not generating rent income	\$ <u>-</u>	\$ <u>-</u>

2. The fair value of the investment properties held by the Company on December 31, 2022 and 2021 are NT\$50,340 and NT\$48,103. The evaluation is conducted by independent appraisal experts based on market approach and income approach, and the results are level III fair value. The main assumptions are as follows:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Capitalization rate	1.15%	1.23%

(VIII) Other non-current assets

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Prepaid down payments for equipment	\$ 12,557	\$ 3,243
Prepaid pension	8,512	3,814
Others	3,221	1,774
Overdue receivables	19,849	19,849
Allowance for bad debt – overdue receivables	( <u>19,849</u> )	( <u>19,849</u> )
	<u>\$ 24,290</u>	<u>\$ 8,831</u>

(IX) Short-term borrowings

<u>Nature of loans</u>	<u>Dec. 31, 2022</u>	<u>Interest rate collars</u>	<u>Collateral</u>
Bank borrowings - credit loans	\$ <u>21,497</u>	5.17%	N/A
<u>Nature of loans</u>	<u>Dec. 31, 2021</u>	<u>Interest rate collars</u>	<u>Collateral</u>
Bank borrowings - credit loans	\$ <u>13,840</u>	0.70%	N/A

For the interest expenses recognized in profit and loss for the years 2022 and 2021, please refer to Note 6 (12).

(X) Accounts payable

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Accounts payable	\$ 155,293	\$ 99,697
Estimated accounts payable	<u>102,144</u>	<u>19,734</u>
	<u>\$ 257,437</u>	<u>\$ 119,431</u>

(XI) Other payables

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Salary and bonus payables	\$ 84,594	\$ 61,112
Consumable and supplies payables	11,890	5,675
Equipment payables	22,381	19,580
Others	<u>78,741</u>	<u>43,942</u>
	<u>\$ 197,606</u>	<u>\$ 130,309</u>

(XII) Long-term borrowings

<u>Nature of loans</u>	<u>Life of loan and repayments</u>	<u>Collateral</u>	<u>Dec. 31, 2022</u>
Long-term bank borrowings			
Secured loan	Repayment by monthly installments until Dec. 2036	Land and plant	\$ 729,205
Secured loan	Repayment by monthly installments until Sep. 2033	Land and plant	121,349
Secured loan	Repayment by monthly installments until Dec. 2029	Land and plant	231,640
Secured loan	Repayment by monthly installments until Jan. 2028	Land and plant	40,000
Secured loan	Repayment by monthly installments until May 2025	Land and plant	101,395
Secured loan	Repayment by monthly installments until Apr. 2025	Land and plant	189,954
Secured loan	Repayment by monthly installments until Sep. 2026	Equipment	150,482
Secured loan	Repayment by monthly installments until Nov. 2026	Equipment	127,959
Credit loan	Repayment by monthly installments until Oct. 2024	N/A	256,085
Credit loan	Repayment by tri-monthly installments until Sep. 2023 (note)	N/A	<u>7,500</u>
			1,955,569
Less: Long-term borrowings - current portion			( <u>429,235</u> )
			<u>\$ 1,526,334</u>
Interest rate collars			<u>1.096%~1.65%</u>

<u>Nature of loans</u>	<u>Life of loan and repayments</u>	<u>Collateral</u>	<u>Dec. 31, 2021</u>
Long-term bank borrowings			

Secured loan	Repayment by monthly installments until Dec. 2036	Land and plant	\$	776,334
Secured loan	Repayment by monthly installments until Sep. 2033	Land and plant		129,915
Secured loan	Repayment by monthly installments until Dec. 2029	Land and plant		218,640
Secured loan	Repayment by monthly installments until Jan. 2028	Land and plant		40,000
Secured loan	Repayment by monthly installments until May 2025	Land and plant		134,418
Secured loan	Repayment by monthly installments until Apr. 2025	Land and plant		253,990
Secured loan	Repayment by monthly installments until Sep. 2026	Equipment		163,153
Secured loan	Repayment by monthly installments until Nov. 2026	Equipment		57,660
Credit loan	Repayment by monthly installments until Oct. 2024	N/A		310,002
Credit loan	Repayment by tri-monthly installments until Nov. 2022	N/A		5,000
Credit loan	Repayment by tri-monthly installments until Sep. 2023 (note)	N/A		<u>10,000</u>
				2,099,112
Less: Long-term borrowings - current portion				<u>( 286,299)</u>
				<u>\$ 1,812,813</u>
Interest rate collars				<u>0.5%~1.20%</u>

The interest expenses (including short-term borrowings) recognized in profit or loss for the years 2022 and 2021 are NT\$25,992 and NT\$23,456.

Note: The key performance indicators for bank loans are subject to the credit line of medium-term loan contract, where the Company shall maintain a certain level of current ratio, debt ratio, and net tangible asset in the Company's annual or interim consolidated financial reports.

### (XIII) Pension

- (1) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes on a monthly basis 2% of the total salary (wages) as pension fund, which is deposited in a designated account with the Bank of Taiwan under the name of the Supervisory Committee of Labor Retirement Reserve. Also, the Company assesses the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

(2) The amounts recognized in the balance sheet are as follows:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Present value of defined benefit obligation	(\$ 44,376)	(\$ 44,733)
Fair value of plan assets	<u>52,888</u>	<u>48,547</u>
Net defined benefit assets	<u>\$ 8,512</u>	<u>\$ 3,814</u>

(3) Changes in net defined benefit liabilities:

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit assets</u>
2022			
Balance as of Jan. 1	(\$ 44,733)	\$ 48,547	\$ 3,814
Service costs	( 350)	-	( 350)
Interest income (expense)	( 269)	291	22
	<u>( 619)</u>	<u>291</u>	<u>( 328)</u>
Remeasurements:			
Effect of changes in demographic assumptions	-	-	-
Effect of changes in financial assumptions	2,408	-	2,408
Experience adjustments	( 1,721)	3,678	1,957
	<u>687</u>	<u>3,678</u>	<u>4,365</u>
Appropriation of pension funds	-	661	661
Pension paid	289	( 289)	-
Balance as of Dec. 31	<u>(\$ 44,376)</u>	<u>\$ 52,888</u>	<u>\$ 8,512</u>

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit assets</u>
2021			
Balance as of Jan. 1	(\$ 44,099)	\$ 47,027	\$ 2,928
Service costs	( 717)	-	( 717)
Interest income (expense)	( 132)	141	9
	( 849)	141	( 708)
Remeasurements:			
Effect of changes in demographic assumptions	( 45)	-	( 45)
Effect of changes in financial assumptions	1,362	-	1,362
Experience adjustments	( 1,102)	712	( 390)
	215	712	927
Appropriation of pension funds	-	667	667
Balance as of Dec. 31	<u>(\$ 44,733)</u>	<u>\$ 48,547</u>	<u>\$ 3,814</u>

- (4) The fund asset of the Company's defined benefit pension plan ("the Fund") is entrusted to the Bank of Taiwan, which manages, or entrusts others to manage, the Fund in accordance with entrusted items enumerated in Article 6 of the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund (i.e., deposit in domestic or foreign institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, and investment in domestic or foreign real estate and its securitization products) to the extent of limitations on investment percentage and amount as stipulated in the Fund's annual utilization plan. Relevant utilization of funds is supervised by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two year time deposits with the interest rates offered by local banks. If the earnings are less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with paragraph 142 of IAS 19. The composition of fair value of the defined benefit plan assets as of December 31, 2022 and 2021 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(5) The principal actuarial assumptions used are as follows:

	<u>2022</u>	<u>2021</u>
Discount rate	<u>1.20%</u>	<u>0.60%</u>
Future salary increase rate	<u>2.75%</u>	<u>2.75%</u>

The assumptions about the future mortality rate are based on the sixth experience life table for Taiwan.

The analysis of the present value of the defined benefit obligations affected by changes in the main actuarial assumptions used is as follows:

	<u>Discount rate</u>		<u>Future salary increase rate</u>	
	<u>Increase by</u>	<u>Decrease by</u>	<u>Increase by</u>	<u>Decrease by</u>
	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>	<u>0.25%</u>
Dec. 31, 2022				
Effect on present value of defined benefit obligation	<u>(\$ 946)</u>	<u>\$ 979</u>	<u>\$ 867</u>	<u>\$ 844</u>

	<u>Discount rate</u>		<u>Future salary increase rate</u>	
	<u>Increase by</u> <u>0.25%</u>	<u>Decrease by</u> <u>0.25%</u>	<u>Increase by</u> <u>0.25%</u>	<u>Decrease by</u> <u>0.25%</u>
Dec. 31, 2021				
Effect on present value of defined benefit obligation	<u>(\$ 1,054)</u>	<u>\$ 1,093</u>	<u>\$ 970</u>	<u>(\$ 943)</u>

The aforementioned sensitivity analysis considers the change in one assumption at a time, while the other assumptions unchanged. In practice, more than one assumption may change all at once. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(6) The expected contribution to the Company's defined benefit pension plans for the year 2023 is NT\$ 651.

(7) As of December 31, 2022, the weighted average duration of the pension plan is 9 years. The maturity analysis of the pension payments is as follows:

Within 1 year	\$	9,264
1 - 2 years		1,031
2 - 5 years		4,466
Over 5 years		<u>12,822</u>
	<u>\$</u>	<u>27,583</u>

2. (1) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. Nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(2) For the years ended December 31, 2021 and 2022, the net pension costs recognized under the defined contribution plan were NT\$ 12,955 and NT\$ 12,764, respectively.

(XIV) Share-based payment

1. For the years 2022 and 2021, the Company's share-based payment agreements are provided as follows:

<u>Type of agreement</u>	<u>Grant date</u>	<u>Quantity</u> <u>granted</u>	<u>Contract</u> <u>period</u>	<u>Vesting conditions</u>
5 <sup>th</sup> employee share option plan	2019.12.13	3,560 thousand shares	6 years	50% after 2 years 75% after 3 years 100% after 4 years
6 <sup>th</sup> employee share option plan	2022.10.21	2,412 thousand shares	6 years	50% after 2 years 75% after 3 years 100% after 4 years

The said share-based payment arrangements are settled in equity.

2. Detailed information of the 5th employee share option plan:

(1) Detailed information of the 5th employee share option plan for the years 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	Share option <u>Quantity</u>	Weighted average <u>Exercise price</u> <u>(NT\$)</u>	Share option <u>Quantity</u>	Weighted average <u>Exercise price</u> <u>(NT\$)</u>
Outstanding stock options as at January 1	2,942	\$ 87.4	3,262	\$ 87.4
Forfeited	(190)	87.4	(320)	87.4
Outstanding stock options as at December 31	<u>2,752</u>	87.4	<u>2,942</u>	87.4
Exercisable stock options as at December 31	<u>2,064</u>	87.4	<u>1,471</u>	87.4

(2) Expiry date and exercise price of the outstanding stock options as at balance sheet date:

<u>Issue date</u>	<u>Expiry date</u>	<u>Quantity</u> <u>(thousand shares)</u>	<u>Exercise price (NT\$)</u>
Dec. 13, 2019	Dec. 13, 2025	<u>2,752</u>	<u>\$ 87.4</u>

<u>Issue date</u>	<u>Expiry date</u>	<u>Quantity</u> <u>(thousand shares)</u>	<u>Exercise price (NT\$)</u>
Dec. 13, 2019	Dec. 13, 2025	<u>2,942</u>	<u>\$ 87.4</u>

(3) The fair value of the Company's stock options in the share-based payment transactions on grant date is estimated based on option pricing model. Related information as follows:

<u>Type of agreement</u>	<u>Grant date</u>	<u>Share price</u>	<u>Exercise price</u>	<u>Expected volatility</u>	<u>Expected subscription period</u>	<u>Expected dividends</u>	<u>Risk-free interest rate</u>	<u>Fair value per unit</u>
Employee share option plan	2019.12.13	91.4	91.4	31.90%~34.04% (Note)	4 - 5 years	-	0.56%~0.59%	\$23.65~\$28.04

Note: Expected volatility is the range of share prices expected within a period in the future. It is estimated by using the share prices of the most recent period with length of this period approximate to the length of the stock options' expected life.

(4) In accordance with the Company's Regulations Governing the Exercising of

Employee Stock Options, the Group adjusted, on Mar. 13, 2020, the exercise price of the options issued on December 13, 2019 from NT\$91.4 to NT\$87.4. This adjustment did not result in increase in fair value.

3. Detailed information of the 6th employee share option plan:

(1) Detailed information of the 6<sup>th</sup> employee share option plan for the year 2022:

	<u>2022</u>	
	Share option	Weighted average
	<u>Quantity</u>	<u>Exercise price (NT\$)</u>
Outstanding stock options as at January 1	-	\$ -
Granted	2,412	58.3
Forfeited	( 38)	58.3
Outstanding stock options as at December 31	<u>2,374</u>	58.3
Exercisable stock options as at December 31	<u>-</u>	58.3

(2) Expiry date and exercise price of the outstanding stock options as at balance sheet date:

<u>Dec. 31, 2022</u>			
<u>Issue date</u>	<u>Expiry date</u>	<u>Quantity (thousand shares)</u>	<u>Exercise price (NT\$)</u>
Oct. 21, 2022	Oct. 21, 2028	2,374	\$ 58.3

(3) The fair value of the Company's stock options in the share-based payment transactions on grant date is estimated based on option pricing model. Related information as follows:

<u>Type of agreement</u>	<u>Grant date</u>	<u>Share price</u>	<u>Exercise price</u>	<u>Expected volatility</u>	<u>Expected subscription period</u>	<u>Expected dividends</u>	<u>Risk-free interest rate</u>	<u>Fair value per unit</u>
Employee share option plan	2022.10.21	58.3	58.3	36.39%~37.84% (Note)	4 - 5 years	-	1.58%~1.63%	\$18.50~\$21.10

Note: Expected volatility is the range of share prices expected within a period in the future. It is estimated by using the share prices of the most recent period with length of this period approximate to the length of the stock options' expected life.

4. Expenses generated from share-based payment transactions:

	<u>2022</u>	<u>2021</u>
Equity-settled	\$ <u>12,895</u>	\$ <u>25,258</u>

(XV) Issued capital

As of December 31, 2022; the Company's authorized capital was NT\$ 5,800,000, divided into 580,000 thousand shares (including 3,560 thousand employee stock option shares). The paid-up capital is NT\$ 526,472, with par value of \$10. All the proceeds from the Company's issued shares have been collected.

(XVI) Capital surplus

According to the Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to stockholders in proportion to their share ownership, provided that the Company has no accumulated deficit. In accordance with provisions in the Securities and Exchange Act, when the annual total capitalization of the aforementioned capital reserve shall not exceed 10% of the paid-in capital. Capital surplus shall not be used to set off accumulated deficit unless legal reserve is insufficient.

(XVII) Retained earnings

1. If the Company has profit, the profit shall first be used pay off tax, set off past deficits, and then set aside 10% of the remaining profit as a legal reserve. However, this shall not apply when the legal reserve has amounted to authorized capital. Then, the Company shall appropriate or reverse to the special reserve pursuant to regulations provided by the competent authority. If there is a surplus after the preceding appropriations, the balance and the accumulated undistributed surplus will be determined by the Board for distribution. When distributing in form of new shares, such matter shall be first submitted to the Shareholders' Meeting for resolution before distribution. When distributing in form of cash, pursuant to Paragraph 5, Article 240 of the Company Act, the distribution shall be determined by a majority of the Directors at a meeting attended by two-thirds or more of the total number of Directors, and then reported to the Shareholders' Meeting.
2. Legal reserves may not be used except for offsetting deficits and for distribution by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.
3. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
4. The dividends for the years 2022 and 2021 distributed to owners are NT\$0 and NT\$26,324, respectively. (NT\$0.5 per share) The 2022 distribution of earnings proposed by the Board on Feb. 22, 2023 is at NT\$ 1.02 per common share, totaling NT\$53,700.

(XVIII) Operating revenue

	<u>2022</u>	<u>2021</u>
Revenue from contracts with customers	\$ <u>1,967,894</u>	\$ <u>1,298,303</u>

1. The Company derives revenue from the transfer of goods at a point in time.
2. Contract liabilities

The contract liabilities in relation to contract with customers recognized by the Company are as follows:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>	<u>Jan. 1, 2021</u>
Contract liabilities			
Contract liabilities – advance from customers	\$ <u>17,822</u>	\$ <u>1,182</u>	\$ <u>11,087</u>

3. Due to the impact of COVID-19 in 2021, the Company's revenue declined due to some of its customers' compliance with relevant pandemic restrictions and regulations. However, there is no sign of default in the contracts with major customers. Thus, the decline is deemed a temporary adverse effect.

(XIX) Other gains and losses

	<u>2022</u>	<u>2021</u>
Gains on financial assets measured at fair value through profit or loss, net	\$ 374	\$ 884
Gains (losses) on foreign exchange, net	22,346	( 7,844)
Gains on disposal of property, plant and equipment	-	150
Miscellaneous expenses	( 1,192)	-
Grant income (Note)	46,593	27,245
Miscellaneous income	<u>1,970</u>	<u>11,249</u>
Total	\$ <u>70,091</u>	\$ <u>31,684</u>

Note: Due to the application of relevant regulations governing government grants of the Ministry of Economic Affairs, the Company has obtained government grants for its operating expenses and working capital.

(XX) Finance costs

	<u>2022</u>	<u>2021</u>
Interest expenses		
Bank borrowings	\$ <u>25,992</u>	\$ <u>23,456</u>

(XXI) Additional information of expenses by nature

	<u>2022</u>	<u>2021</u>
Employee benefits	\$ 457,758	\$ 375,254
Depreciation of property, plant and equipment and investment property	\$ 173,595	\$ 184,608
Depreciation of right-of-use assets	\$ 604	\$ 551
Amortization of intangible assets	\$ 6,771	\$ 8,755

(XXII) Employee benefits

	2022	2021
Salaries and wages	\$ 397,961	\$ 320,572
Labor insurance and national health insurance	32,551	32,705
Pension	13,283	13,472
Other personnel cost	13,963	8,505
	<u>\$ 457,758</u>	<u>\$ 375,254</u>

1. Pursuant to the Company's Articles of Incorporation, the Company shall set aside no less than 1% and no more than 10% as remuneration to employees and no more than 2% as remuneration to Directors from the net profit before tax minus the amount of distributed employee and director remuneration. However, profits must first be taken to offset against cumulative losses if any.
2. For the years ended December 31, 2022, and 2021, the Company recognized remuneration to employees in the amounts equal to NT\$ 2,500 and NT\$ 0, respectively, and remuneration to directors in the amounts equal to NT\$ 2,500 and NT\$ 0, respectively. The aforementioned amounts are booked in salary and wage expenses.

The 2022 remuneration is calculated based on 1.67% of the earnings for the year. The resolved amount of remuneration to employees and actual distribution of remuneration to Directors are NT\$ 2,500 and NT\$ 1,610, respectively. Both are distributed in form of cash.

The 2021 remuneration to employees and Directors resolved at the Board Meeting are the same as that stated in the 2021 financial statements.

For the information regarding the Board of Directors' resolution on remuneration to employees and Directors, please refer to the Taiwan Stock Exchange Market Observation Post System.

(XXIII) Income tax

1. Income tax benefit

(1) Components of income tax benefit

	<u>2022</u>	<u>2021</u>
Income tax:		
Income tax incurred in current period	\$ 19,331	\$ -
Prior year income tax overestimation	( 21,629)	-
Total income tax in current period	(\$ 2,298)	\$ -
Deferred income tax:		
Initial recognition and reversal of temporary differences	( 2,623)	( 5,689)
Total deferred income tax	( 2,623)	( 5,689)
Income tax benefit	(\$ 4,921)	(\$ 5,689)

(2) Income tax amounts associated with other comprehensive income: None.

(3) Income tax amounts directly debited or credited to equity: None.

2. Reconciliation between income tax benefit and accounting profits:

	<u>2022</u>	<u>2021</u>
Income tax of net gain (loss) before tax based on the statutory tax rate	\$ 29,011	(\$ 20,484)
Tax effects due to statutory adjustments	-	( 5,090)
Temporary differences not recognized in deferred tax assets	2,939	6,108
Taxable losses not recognized in deferred tax assets	-	15,635
Changes in realizability assessment about deferred income tax assets	( 15,242)	
Beginning tax effect of temporary differences	-	( 1,858)
Prior year income tax overestimation	( 21,629)	-
Income tax benefit	(\$ 4,921)	(\$ 5,689)

3. The amounts of deferred tax assets or liabilities as a result of temporary differences and taxable losses:

	<u>Jan. 1</u>	<u>Recognized in profit or loss</u>	<u>2022 Recognized in other comprehensive income</u>	<u>Recognized in equity</u>	<u>Dec. 31</u>
Temporary differences:					
- Deferred income tax assets:					
Others	\$ 5,483	\$ 3,849	\$ -	\$ -	\$ 9,332
Subtotal	\$ 5,483	\$ 3,849	\$ -	\$ -	\$ 9,332
- Deferred income tax liabilities:					
Pension	( 496)	( 67)	-	-	( 563)
Others	( 1,305)	( 1,159)	-	-	( 2,464)
Subtotal	(\$ 1,801)	(\$ 1,226)	\$ -	\$ -	(\$ 3,027)
Total	\$ 3,682	\$ 2,623	\$ -	\$ -	\$ 6,305

	<u>Jan. 1</u>	<u>Recognized in profit or loss</u>	<u>2021 Recognized in other comprehensive income</u>	<u>Recognized in equity</u>	<u>Dec. 31</u>
Temporary differences:					
- Deferred income tax assets:					
Others	\$ 8,802	(\$ 3,319)	\$ -	\$ -	\$ 5,483
Subtotal	\$ 8,802	(\$ 3,319)	\$ -	\$ -	\$ 5,483
- Deferred income tax liabilities:					
Gains on investment under equity-method	(\$ 6,381)	\$ 6,381	\$ -	\$ -	\$ -
Pension	( 673)	177	-	-	( 496)
Others	( 3,755)	2,450	-	-	( 1,305)
Subtotal	(\$ 10,809)	\$ 9,008	\$ -	\$ -	(\$ 1,801)
Total	(\$ 2,007)	\$ 5,689	\$ -	\$ -	\$ 3,682

4. The expiry year of unused taxable losses and amounts not recognized in deferred tax assets:

Dec. 31, 2022: N/A

Dec. 31, 2021

<u>Year of occurrence</u>	<u>Amount filed/ authorized</u>	<u>Unused taxable losses</u>	<u>Amounts not recognized in deferred tax assets</u>	<u>Expiry year</u>
2021	\$ <u>78,176</u>	\$ <u>78,176</u>	\$ <u>78,176</u>	2031

5. The profit-seeking enterprise income tax of the Company is approved by the taxation authority through 2020.

(XXIV) Earnings (loss) per share

2022

	<u>After tax amount</u>	<u>Weighted average number of shares outstanding (in thousand shares)</u>	<u>Loss per share (NT\$)</u>
<u>Basic earnings per share</u>			
Net income of the Company	\$ <u>149,975</u>	<u>52,647</u>	\$ <u>2.85</u>
<u>Diluted earnings per share</u>			
Employee remuneration	-	<u>35</u>	
Net loss attributable to common shareholders considering assumed conversion of dilutive potential common shares	\$ <u>149,975</u>	<u>52,682</u>	\$ <u>2.85</u>

2021

	<u>After tax amount</u>	<u>Weighted average number of shares outstanding (in thousand shares)</u>	<u>Loss per share (NT\$)</u>
<u>Basic loss per share</u>			
Net loss of the Company	(\$ <u>96,729</u> )	<u>52,647</u>	(\$ <u>1.84</u> )
<u>Diluted loss per share</u>			
Net loss attributable to common shareholders considering assumed conversion of dilutive potential common shares	(\$ <u>96,729</u> )	<u>52,647</u>	(\$ <u>1.84</u> )

(XXV) Supplemental information of cash flow

Investing activities with partial cash paid:

	<u>2022</u>		<u>2021</u>	
Acquisition of property, plant and equipment	\$	90,112	\$	52,996
Add: Beginning equipment payables		19,580		24,925
Less: Ending equipment payables	(	<u>22,381</u> )	(	<u>19,580</u> )
Cash paid in the period	\$	<u>87,311</u>	\$	<u>58,341</u>

(XXVI) Changes in liabilities from financing activities

	<u>2022</u>			<u>Total liabilities</u>
	<u>Short-term</u>	<u>Long-term</u>	<u>Lease liabilities</u>	<u>from financing</u>
	<u>borrowings</u>	<u>borrowings</u>		<u>activities</u>
Jan. 1	\$ 13,840	\$ 2,099,112	\$ 351	\$ 2,113,303
Changes in cash flows from financing activities	<u>7,657</u>	<u>(143,543)</u>	<u>(229)</u>	<u>(136,115)</u>
Dec. 31	<u>\$ 21,497</u>	<u>\$ 1,955,569</u>	<u>\$ 122</u>	<u>\$ 1,977,188</u>

	<u>2021</u>			<u>Total liabilities</u>
	<u>Short-term</u>	<u>Long-term</u>	<u>Lease liabilities</u>	<u>from financing</u>
	<u>borrowings</u>	<u>borrowings</u>		<u>activities</u>
Jan. 1	\$ -	\$ 2,112,183	\$ 527	\$ 2,112,710
Changes in cash flows from financing activities	<u>13,840</u>	<u>(13,071)</u>	<u>(176)</u>	<u>593</u>
Dec. 31	<u>\$ 13,840</u>	<u>\$ 2,099,112</u>	<u>\$ 351</u>	<u>\$ 2,113,303</u>

## VII. Related-party transactions

### (I) The parent company and the ultimate controlling party

The Company is controlled by the Getac Group (registered and established in Taiwan R.O.C.), holding 39.08% of ownership in the Company. The remaining 60.92% of ownership is held by the public. Getac Holdings Corp. is the Company's parent company, ultimate parent company and the ultimate controlling party.

### Names of related parties and relation

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Getac Holdings Corp.	Parent company
NAFCO Suzhou Precision	Subsidiary
Waffer Technology Corp.	Other related parties
Waffer Technology (Maanshan) Ltd.	Other related parties
Mitac Information Technology Corp.	Other related parties
Waffer Technology (Kunshan) Ltd.	Other related parties
Atemitech Corp.	Other related parties

### Significant transactions with related parties

#### 1. Sales of goods and services

	<u>2022</u>	<u>2021</u>
Sales of goods		
- Subsidiary	\$ 42,862	\$ 17,804
- Other related parties	<u>1,688</u>	<u>-</u>
Total	<u>\$ 44,550</u>	<u>\$ 17,804</u>

The aforementioned transactions are under regular sales terms, and payments are completed within 3 months after the sales.

## 2. Purchases of goods and services

	<u>2022</u>	<u>2021</u>
Purchase of goods		
- Subsidiary	\$ 178,571	\$ 133,690
- Other related parties	238	31
- Ultimate parent company	<u>-</u>	<u>187</u>
Total	<u>\$ 178,809</u>	<u>\$ 133,908</u>
Purchase of services		
- Subsidiary	\$ 10,281	\$ 4,842
- Other related parties	<u>546</u>	<u>434</u>
Total	<u>\$ 10,827</u>	<u>\$ 5,276</u>

The aforementioned transactions are under regular purchase terms, and payments are completed within 3 months after the purchases.

## 3. Ending balance of sales of goods and services

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Receivables from related parties		
- Subsidiary	\$ 9,638	\$ 4,518
- Other related parties	<u>1,671</u>	<u>-</u>
Subtotal	<u>11,309</u>	<u>4,518</u>
Other receivables from related parties		
- Subsidiary	1,167	5,437
- Other related parties	<u>38</u>	<u>38</u>
Subtotal	<u>1,205</u>	<u>5,475</u>
Total	<u>\$ 12,514</u>	<u>\$ 9,993</u>

Receivables from related parties are mainly from the sales. The receivables are due within 3 months after the transaction date. The receivables do not have collateral nor bear interest. No allowance for bad debts is recognized for the receivables from related parties

4. Ending balance of purchase of goods and services

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Payables to related parties		
- Subsidiary	\$ 76,221	\$ 49,877
- Other related parties	<u>                  -</u>	<u>                  33</u>
Subtotal	<u>76,221</u>	<u>49,910</u>
Other payables to related parties		
- Subsidiary	1,652	1,131
- Other related parties	<u>                  -</u>	<u>                  33</u>
Subtotal	<u>1,652</u>	<u>1,164</u>
Total	<u>\$ 77,873</u>	<u>\$ 51,074</u>

Payables to related parties are mainly from the purchases of goods and properties. The payables are due within 3 months of the transaction date. The payables do not bear interests.

5. Property transactions

	<u>2022</u>	<u>2021</u>
Acquisition of equipment		
- Subsidiary	\$ 16,086	\$ -
- Other related parties	<u>                  -</u>	<u>                  322</u>
Total	<u>\$ 16,086</u>	<u>\$ 322</u>

6. Loans to related parties

(1) Receivables from related parties

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Subsidiary	<u>\$ 107,485</u>	<u>\$ 96,880</u>

(2) Interest income

	<u>2022</u>	<u>2021</u>
Subsidiary	<u>\$ 1,728</u>	<u>\$ 924</u>

According to the terms of loans, the subsidiaries shall repay the loans within 1 year. The interest rate is 2.5% for the years 2022 and 2021.

7. Endorsements/guarantees from related parties

Subsidiary	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
	\$ <u>170,441</u>	\$ <u>128,712</u>

Remuneration to key management

	<u>2022</u>	<u>2021</u>
Salary and other short-term employees' benefits	\$ 17,880	\$ 6,082
Share-based payment	<u>962</u>	<u>630</u>
	<u>\$ 18,842</u>	<u>\$ 6,712</u>

VIII. Pledged assets

Assets pledged as collateral by the Company are enumerated as follows:

<u>Assets</u>	<u>Book value</u>		<u>Purpose</u>
	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>	
Other non-current assets	\$ 1,000	\$ 1,000	Customs duty
Property, plant and equipment			
Land	1,202,901	1,202,901	Long-term borrowings
Houses and buildings	1,043,294	1,078,197	"
Equipment	246,185	194,862	"
Other equipment	29,559	42,601	"

IX. Significant commitments and contingencies

(I) Contingencies

None.

(II) Commitments

1. For the year 2022 and as of the end of 2021, the Company has entered a contract, which is not yet fulfilled, to purchase construction and equipment at NT\$ 83,288 and NT\$ 76,717, respectively. The amounts yet to be paid are NT\$ 66,053 and NT\$ 42,372, respectively.
2. As of the end of 2022, the letter of guarantee provided to the Taiwan Small & Medium Enterprise Counseling Foundation is NT\$44,732.

X. Significant disaster loss

None.

XI. Significant events after the end of the financial reporting period

None.

## XII. Others

### (I) Capital management

The goal of the Company's capital management is to ensure the continuation of operation, maintain optimal capital structure to decrease capital cost, and secure returns for shareholders. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, reduce capital, and lower debt amount by issuance of new shares or disposal of assets. The Company uses debt-to-capital ratio to monitor its capital. The ratio is calculated by dividing the total net debt by total capital. Net debt is total borrowings (including the amount of "current and non-current borrowings" stated in the parent-only balance sheet) minus cash and cash equivalents. Total capital is the amount of "equity" stated on the non-current balance sheet plus net debt.

In the year 2022, the strategy of the Company remains the same as in 2021, which is to maintain the debt-to-capital ratio below 60%. The Company's debt-to-capital ratios as at December 31, 2022 and 2021 are stated as below:

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
Total borrowings	\$ 1,977,066	\$ 2,112,952
Less: Cash and cash equivalents	<u>131,573</u>	<u>106,121</u>
Net debt	1,845,493	2,006,831
Total equity	<u>1,947,259</u>	<u>1,774,199</u>
Total capital	<u>\$ 3,792,752</u>	<u>\$ 3,781,030</u>
Debt-to-capital ratio	<u>49%</u>	<u>53%</u>

(II) Financial instruments

1. Categories of financial instruments

	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
<u>Financial assets</u>		
Financial assets measured at fair value through other comprehensive income		
Designated equity instrument investment	\$ 2,452	\$ 884
Financial assets / lending and receivables measured at amortized cost		
Cash and cash equivalents	\$ 131,573	\$ 106,121
Notes receivable	169	-
Accounts receivable (incl. related parties)	504,560	327,541
Other receivables (incl. related parties)	114,412	107,273
Other non-current assets - refundable deposits	2,221	774
Other non-current assets	1,000	1,000
	<u>\$ 753,935</u>	<u>\$ 542,709</u>
	<u>Dec. 31, 2022</u>	<u>Dec. 31, 2021</u>
<u>Financial liabilities</u>		
Financial liabilities measured at fair value through profit or loss	\$ 1,194	\$ -
Financial liabilities measured at amortized cost		
Short-term borrowings	\$ 21,497	\$ 13,840
Accounts payable (incl. related parties)	333,658	169,341
Other payables (incl. related parties)	199,258	131,473
Long-term borrowings (incl. current portion)	1,955,569	2,099,112
Other non-current liabilities - deposits received	100	100
	<u>\$ 2,510,082</u>	<u>\$ 2,413,866</u>
Lease liabilities	<u>\$ 122</u>	<u>\$ 351</u>

2. Risk management policies

- (1) The routine operation of the Company is exposed to multiple financial risks including market risks (including exchange rate risk, interest rate risk, and price risk), credit risk and liquidity risk. In order to mitigate adverse impacts on the Company's financial performance, the Company uses forward foreign exchange transactions to avoid exchange rate risk. The derivatives used by the Company are intended for hedging purposes, not for trading or speculation.
- (2) The risk management of the Company is carried out by the Finance Department of the Company in accordance with the policies approved by the Board of Directors. The Finance Department is responsible for the identification, valuation and hedging of financial risks through close cooperation with operating units of the Company.

3. Significant financial risks and degrees of financial risks

(1) Market risk

Foreign exchange risk

- A. The Company operates internationally and is exposed to foreign exchange risk arising from various functional currency exposures, primarily with respect to USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets, and recognized liabilities.
- B. Management has set up a policy to require the Company to manage the foreign exchange risk against the functional currency. The Company is required to hedge the overall foreign exchange risk exposure through the Company's Finance Department. The assessment of exchange rate risk is based on highly possible future transactions denominated in USD and RMB. The Company uses forward foreign exchange contracts to mitigate the effects of exchange rate fluctuation on expected inventory purchase costs.
- C. The Company uses forward foreign exchange transactions to avoid exchange rate risk, however, these are not subject to hedging accounting, and are recognized in financial assets or liabilities measured at fair value through profit or loss.
- C. The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- E. The Company's businesses involve some non-functional currency operations (functional currency of the Company: NTD) and is thus affected by the exchange rate fluctuation. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	<u>Dec. 31, 2022</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
(Foreign currency: functional currency)	<u>(thousands)</u>		<u>(NTD)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 20,358	30.71	\$ 625,194
EUR: NTD	274	32.72	8,965
<u>Non-monetary items</u>			
RMB: NTD	\$ 70,602	4.41	\$ 311,317
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	\$ 8,716	30.71	\$ 267,668

	<u>Dec. 31, 2021</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
(Foreign currency: functional currency)	<u>(thousands)</u>		<u>(NTD)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			

USD: NTD	\$	15,058	27.68	\$	416,805
EUR: NTD		271	31.32		8,488
<u>Non-monetary items</u>					
RMB: NTD	\$	76,016	4.34	\$	330,024
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD: NTD	\$	4,570	27.68	\$	126,498

F. Unrealized exchange gain or loss arising from significant exchange rate fluctuations:

		<u>2022</u>		
		<u>Exchange gain or loss</u>		
		<u>Foreign currency</u>		
		<u>(thousands)</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD: NTD	\$	-	30.71	(\$ 3,965)
EUR: NTD		-	32.72	163
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	\$	-	30.71	\$ 2,967

		<u>2021</u>		
		<u>Exchange gain or loss</u>		
		<u>Foreign currency</u>		
		<u>(thousands)</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD: NTD	\$	-	27.68	(\$ 1,761)
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD: NTD	\$	-	27.68	\$ 712

G. The analysis of foreign currency market risks of the Company due to significant exchange rate fluctuations:

	<u>2022</u>		
	<u>Sensitivity analysis</u>		
		<u>Profit or loss</u>	<u>Other</u>
	<u>Range of change</u>	<u>generated</u>	<u>comprehensive</u>
			<u>income generated</u>

(Foreign currency: functional currency)

Financial assets

Monetary items

USD: NTD	3%	18,756	-
EUR: NTD	3%	269	-

Non-monetary items

RMB: NTD	3%	-	\$ 9,340
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Financial liabilities

Monetary items

USD: NTD	3%	8,030	\$ -
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2021

Sensitivity analysis

	<u>Range of change</u>	<u>Profit or loss generated</u>	<u>Other comprehensive income generated</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	3%	12,504	\$ -
EUR: NTD	3%	255	-
<u>Non-monetary items</u>			
RMB: NTD	3%	-	9,901
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	3%	3,795	\$ -

Price risk

As the investments held by the Company as presented in the consolidated balance sheet do not include material financial assets such as equity instruments, the Company is not exposed to material price risks.

Cash flow and fair value interest rate risk

- The Company's interest rate risk mainly arises from long-term borrowings with floating interest rates, resulting in cash flow interest rate risk. In 2022 and 2021, the Company's borrowings with floating interest rates are mainly denominated in NTD and USD.
- The Company's borrowings are measured at cost after amortization, and re-measured annually based on the interest rate according to the contract. Thus, the Company is exposed to the risk of market interest rate in the future.
- When loan interest rate increases or decreases by 0.25% while other variables remain unchanged, the net income after tax for the years ended 2022 and 2021 will increase or decrease by NT\$3,954 and NT\$4,226, respectively. This is because interest expense changes with floating interest rates.

(2) Credit risk

- A. The Company's credit risk is the risk of financial loss to the Company due to the failure of the customer or counterparty of the financial instrument to perform its contractual obligations, which mainly result from the failure of the counterparty to pay off accounts receivable payable on the terms of collection.
- B. The Company manages its credit risk taking into consideration the entire company's concern. Only banks and financial institutions rated "A" by independent credit agencies are accepted as trade counterparties. According to the Company's credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are based on internal or external ratings, and the use of credit limits is regularly monitored by the Board of Directors.
- C. The Company uses its credit risk management, and considers default to have occurred when the contract payments are past due over 90 days. The Company considers default to have occurred when investment in debt instrument that have dealings with banks and financial institutions fail to pay according to the agreed terms.
- D. The indicators used by the Company to determine credit impairment on debt instrument investments are as follows:
- (A) It becomes probable that the issuer will enter bankruptcy or other financial re-organization due to their financial difficulties;
- (B) The disappearance of an active market for that financial asset because of financial difficulties;
- E. The Company categorizes customers' accounts receivable according to their credit ratings, and uses a simplified approach to estimate expected credit losses based on the loss rate method.
- F. After recourse procedures, the Company reverses the amount of financial assets that cannot be reasonably expected to be recovered.
- G. The Company uses the forecastability report released by Taiwan Institute of Economic Research to adjust historical and timely information to assess the default possibility of notes and accounts receivable. On December 21, 2022 and 2021, the loss rate methodology is as follows:

<u>Dec. 31, 2022</u>	<u>Current</u>	<u>Past due within 30 days</u>	<u>Past due 31 - 60 days</u>	<u>Past due 61 - 90 days</u>	<u>Past due over 90 days</u>	<u>Total</u>
Expected loss rate	0%	2%-20%	11%~30%	34%-50%	77%-100%	
Total book value	\$ 475,723	\$ 26,408	\$ 6,192	\$ 279	\$ 306	\$ 508,908
Allowance for losses	\$ -	\$ 1,875	\$ 1,858	\$ 140	\$ 306	\$ 4,179
<u>Dec. 31, 2021</u>	<u>Current</u>	<u>Past due within 30 days</u>	<u>Past due 31 - 60 days</u>	<u>Past due 61 - 90 days</u>	<u>Past due over 90 days</u>	<u>Total</u>
Expected loss rate	0%	2%-20%	19%~30%	45%-50%	79%-100%	
Total book value	\$ 299,047	\$ 20,512	\$ 8,454	\$ 2,892	\$ 1,842	\$ 332,747
Allowance for losses	\$ -	\$ 417	\$ 1,644	\$ 1,303	\$ 1,842	\$ 5,206

- E. Changes in loss allowance for accounts receivable using the simplified approach:

	<u>2022</u>
	<u>Accounts receivable</u> <u>Notes receivable</u>

Jan. 1	\$	5,206	\$	-
Reversal of impairment losses		(1,027)		-
Dec. 31	\$	<u>4,179</u>	\$	<u>-</u>

		<u>2021</u>		
		<u>Accounts receivable</u>	<u>Notes receivable</u>	
Jan. 1	\$	5,206	\$	-
Impairment losses recognized		-		-
Dec. 31	\$	<u>5,206</u>	\$	<u>-</u>

(3) Liquidity risk

- A. The Company has the need to monitor the cash forecasts to ensure that the Company's funds are adequate to finance its operations, and maintain sufficient unused loans at all times, so as to prevent violation of loan limit or terms. These forecasts that take into account the Company's financing plans are compliant with loan terms, and compliant with the financial ratio goals of the internal balance sheets. Thus, the Company is not exposed to significant liquidity risk.
- B. The Company's loans are borrowings with floating interest rates, and the effective interest rates of its borrowings changes with the market interest rate, resulting in fluctuation of future cash flow. When market interest rate increases by 1%, the Company's annual cash outflow increases by NT\$19,771.
- C. The table below analyzes the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Dec. 31, 2022		<u>Less than 3</u>	<u>3 months to</u>					
		<u>months</u>	<u>1 year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>		
<u>Non-derivative financial liabilities:</u>								
Short-term borrowings	\$	21,497	\$	-	\$	-	\$	-
Accounts payable		320,803		12,855		-		-
Other payables		169,348		29,910		-		-
Lease liabilities		58		64		-		-
Long-term borrowings (incl. current portion)		106,698		346,322		672,524		393,193
								555,270
<u>Derivative financial liabilities:</u>								
Forward exchange contract		1,194		-		-		-

Dec. 31, 2021		<u>Less than 3</u>	<u>3 months to</u>					
		<u>months</u>	<u>1 year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>	<u>Over 5 years</u>		
<u>Non-derivative financial liabilities:</u>								
Short-term borrowings	\$	13,840	\$	-	\$	-	\$	-
Accounts payable		162,957		6,384		-		-

Other payables	120,324	11,149	-	-	-
Lease liabilities	351	-	-	-	-
Long-term borrowings (incl. current portion)	56,200	245,972	398,212	751,305	754,899

(III) Fair value information

1. The fair value levels of financial instruments measured by valuation method. Are as follows:

Level I inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded active when a market where transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level II inputs are inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly.

Level III inputs are unobservable inputs for the asset or liability. The Company's investment properties are measured with Level III inputs.

2. The information relating to the fair value of investment property measured at cost is provided in Note 6 (7).

3. Financial instruments not measured at fair value

The book values of cash and cash equivalents, notes receivable, accounts receivable, other receivables, long- / short-term borrowings, notes receivable, accounts payable, and other payables are reasonable approximate of fair value.

4. The Company categorizes financial and non-financial instruments measured at fair value on the basis of their nature, characteristics, and risks of the assets and liabilities. The related information is as follows:

- (1) The Company classifies assets and liabilities on the basis of their nature. Related information is provided below:

Dec. 31, 2022	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value</u>	\$ -	\$ 2,452	\$ -	\$ 2,452
<b>Liabilities</b>				
<u>Recurring fair value</u>	\$ -	\$ 1,194	\$ -	\$ 1,194
Dec. 31, 2021	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value</u>	\$ -	\$ 884	\$ -	\$ 884

- (2) The methods and assumptions used by Company to measure the fair value are as follows:

A. Derivative financial instruments are measured based on valuation models generally accepted by market users, such as discount method and option pricing model.

Forward exchange contracts are measured based on current forward exchange rate.

B. The Company includes credit valuation adjustment in the fair value valuation of

financial Instruments and non-financial Instruments to reflect counterparties' credit risk and the Company's credit quality.

5. For the years 2022 and 2021, there were no transfers between Level I and Level II.

6. For the years 2022 and 2021, there were no transfers into or out of Level III.

### XIII. Supplementary disclosures

#### (I) Information about significant transactions:

1. Loans to others: Table 1.
2. Endorsement/guarantees for others: Table 2.
3. Ending marketable securities held (excluding investment in subsidiaries, associates and joint ventures): Table 3
4. Cumulative amount of the same marketable security purchased or sold reaching NT\$300 million or more than 20% of the paid-in capital: None.
5. Acquisition of individual real estate properties at costs of at least NT\$ 300 million or 20% of the paid-in capital: None.
6. Disposal of individual real estate properties at prices of at least NT\$ 300 million or 20% of the paid-in capital: None.
7. Total purchases from or sales to related parties amounting to at Least NT\$ 100 million or 20% of the paid-in capital: Table 4
8. Receivables from related parties amounting to at least NT\$ 100 million or 20% of the paid-in capital: None.
9. Derivatives tradings: Notes 6 (2), and 12 (3).
10. Business relationship and significant transactions between parent company and subsidiaries: Table 5

#### (II) Information on investees

Information of investee companies and location, and other relevant information (excluding investees in mainland China): Table 6

#### (III) Information of investments in mainland China

1. Basic information: Table 7.
2. Significant transactions with investee companies in mainland China, either directly or indirectly through a business at a third location: Table 5

#### (IV) Information of major shareholders

Please refer to Table 8.

### XIV. Segment information

N/A

National Aerospace Fasteners Corporation  
Cash and Cash Equivalents  
December 31, 2022

Detail 1

Expressed in thousands of New  
Taiwan Dollars

<u>Item</u>	<u>Summary</u>	<u>Amount</u>	<u>Remark</u>
Cash:			
Cash on hand and revolving funds		\$ 184	
Bank deposits:			
Check deposits - NTD		5	
Demand deposits - foreign currencies	USD 942 thousand	28,917	Exchange rate: 30.71
	EUR 179 thousand	5,851	Exchange rate: 32.72
	Others	1,595	
Demand deposits - NTD		<u>95,021</u>	
		<u>\$ 131,573</u>	

National Aerospace Fasteners Corporation  
Accounts Receivable  
December 31, 2022

Detail 2

Expressed in thousands of New  
Taiwan Dollars

<u>Name of customers</u>	<u>Summary</u>	<u>Amount</u>	<u>Remark</u>
Accounts receivable			
GEAE		\$ 145,498	
SAE		52,848	
AVIO		33,155	
BDI		28,248	
Others		<u>237,681</u>	Each individual customer accounts for less than 5% of the total amount.
		497,430	
Less: Allowance for bad debt		( <u>4,179</u> )	
		<u>\$ 493,251</u>	
Accounts receivable - related parties			
NAFCO Suzhou Precision		\$ 9,638	
Waffer Technology (Maanshan) Ltd.		<u>1,671</u>	
		<u>\$ 11,309</u>	

National Aerospace Fasteners Corporation  
Inventories  
December 31, 2022

Detail 3

Expressed in thousands of New  
Taiwan Dollars

<u>Item</u>	<u>Amount</u>		<u>Remark</u>
	<u>Cost</u>	<u>Net realizable value</u>	
Raw materials	\$ 268,329	\$ 263,899	Individually measured at the lower of cost or net realizable value.
Work in process	226,191	201,313	
Finished goods	197,520	191,258	
Inventory in transit	<u>52,245</u>	<u>52,245</u>	
	744,285	<u>\$ 708,715</u>	
Less: Allowance to reduce inventories to market	<u>(140,577)</u>		
	<u>\$ 603,708</u>		

National Aerospace Fasteners Corporation  
Long-term borrowings  
December 31, 2022

Detail 4

Expressed in thousands of New Taiwan Dollars

<u>Lender</u>	<u>Summary</u>	<u>Amount of loan</u>	<u>Contract term</u>	<u>Interest rate</u>	<u>Pledges or collaterals</u>	<u>Remarks</u>
Land Bank of Taiwan Hsinchu Branch	Secured loan	\$ 729,205	2016/12/29 - 2036/12/29	1.50%	Land and plant	
Taiwan Cooperative Bank Lishin Branch	Secured loan	121,349	2013/09/11 - 2033/09/11	1.651%	"	
Land Bank of Taiwan Hsinchu Branch	Secured loan	231,640	2010/04/09 - 2029/12/30	1.15%	"	
Taiwan Cooperative Bank Lishin Branch	Secured loan	40,000	2021/11/29 - 2028/01/08	1.601%	"	
Taiwan Cooperative Bank Lishin Branch	Secured loan	101,395	2018/09/27 - 2025/05/29	1.526%	"	
Taiwan Cooperative Bank Lishin Branch	Secured loan	189,954	2018/04/11 - 2025/04/11	1.526%	"	
Taipei Fubon Bank Hsinchu Branch	Secured loan	150,482	2019/09/26 - 2026/09/26	1.096%	Equipment	
Bank of Taiwan Jianguo Branch	Secured loan	127,959	2019/11/15 - 2026/11/15	1.125%	"	
Taipei Fubon Bank Hsinchu Branch	Credit loan	256,085	2019/10/29 - 2024/10/15	1.096%	N/A	
Yuanta Bank	Credit loan	<u>7,500</u>	2021/09/15 - 2023/09/15	1.45%	"	
		1,955,569				
	Less: Current portion	<u>( 429,235)</u>				
		<u>\$ 1,526,334</u>				

National Aerospace Fasteners Corporation  
Operating revenue  
For the year ended December 31, 2022

Detail 5

Expressed in thousands of New  
Taiwan Dollars

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>	<u>Remark</u>
Aerospace industrial products	17,812 thousand pieces	\$ 1,616,761	
Cars and electronics products	156,733 thousand pieces	337,134	
Special fasteners and others	9,565 thousand pieces	<u>39,434</u>	
Subtotal		1,993,329	
Less: Sales returns and allowances		<u>( 25,435)</u>	
Net operating income		<u>\$ 1,967,894</u>	

National Aerospace Fasteners Corporation  
Operating costs  
For the year ended December 31, 2022

Detail 6

Expressed in thousands of New  
Taiwan Dollars

<u>Item</u>	<u>Amount</u>
Beginning raw materials	\$ 315,404
Beginning raw materials in transit	15,111
Add: Raw material purchased	578,509
Gain on physical inventory of raw materials	82
Work in process transferred in	29,137
Finished goods transferred in	2,852
Less: Ending raw materials	( 268,329)
Ending raw materials in transit	( 50,891)
Transferred to R&D expenses	( 20,034)
Transferred to testing expenses	( 58)
Sales of raw materials	<u>( 20,356)</u>
Raw materials used in current period	\$ 581,427
Direct labor cost	153,593
Manufacturing expenses	<u>582,718</u>
Manufacturing costs	1,317,738
Beginning work in process	104,391
Add: Gain on physical inventory of work in process	15
Finished goods transferred in	141,580
Less: Ending work in process	( 226,191)
Transferred to R&D expenses	( 1)
Transferred to raw materials	<u>( 29,137)</u>
Finished goods cost	1,308,395
Beginning finished goods, products and inventory in transit	214,405
Purchases	349,366
Add: Gain on physical inventory of finished goods	316
Less: Ending finished goods and inventory in transit	( 198,874)
Transferred to raw materials	( 2,852)
Transferred to work in process	( 141,580)
Transferred to sample expenses	( 79)
Transferred to R&D expenses	<u>( 85)</u>
Manufacture and sales costs	1,529,012
Reversed gain on price decline of inventory	( 12,546)
Cost raw materials sold	20,356
Other adjustments	<u>( 28,072)</u>
Operating costs	<u>\$ 1,508,750</u>

National Aerospace Fasteners Corporation  
Operating expenses  
For the year ended December 31, 2022

Detail 7

Expressed in thousands of New  
Taiwan Dollars

<u>Item</u>	<u>Summary</u>	<u>Amount</u>	<u>Remark</u>
Selling expenses			
Salary and wages		\$ 9,467	
Export expenses		22,633	
Employee benefit		5,768	
Other expenses		5,438	Each individual item accounts for less than 5% of the total amount.
		<hr/>	
Subtotal		43,306	
General and administrative expenses			
Salary and wages		\$ 123,936	
Depreciation expenses		21,646	
Service expenses		16,537	
Miscellaneous expenses		14,627	
Other expenses		27,235	Each individual item accounts for less than 5% of the total amount.
		<hr/>	
Subtotal		203,981	
R&D expenses			
Salary and wages		\$ 37,548	
Supplies		33,263	
Other expenses		15,337	Each individual item accounts for less than 5% of the total amount.
		<hr/>	
Subtotal		86,148	
Profit from expected credit loss		(\$ 1,027)	
Total operating expenses		<u>\$ 332,408</u>	

National Aerospace Fasteners Corporation  
Summary of Employee Benefit, Depreciation, Impairment and Amortization Expenses by Functions  
For the year ended December 31, 2022

Detail 8

Expressed in thousands of New Taiwan Dollars

Type	2022			2021		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salaries and wages	\$231,869	\$165,184	\$397,053	\$188,814	\$130,846	\$319,660
Labor insurance and national health insurance	23,247	9,304	32,551	22,024	10,681	32,705
Pension	8,424	4,859	13,283	8,422	5,050	13,472
Directors' remuneration		3,408	3,408		912	912
Other employee benefits	6,574	7,389	13,963	4,023	4,482	8,505
Depreciation expenses	148,773	25,426	174,199	162,187	22,972	185,159
Amortization expenses	325	6,446	6,771	1,799	6,956	8,755

Notes:

- The Company has 435 and had 407 employees in the current year and the previous year, respectively. In both years, 7 Directors were not concurrently employees.
- The annual average employee benefit expenses for the current year was NT\$ 1,062 thousand  $[(\text{Total employee benefit expenses for the current year} - \text{Total remuneration to Directors}) / (\text{Number of employees for the current year} - \text{Number of Directors not concurrently employees})]$ .  
The annual average employee benefit expenses for the previous year was NT\$ 936 thousand  $[(\text{Total employee benefit expenses for the previous year} - \text{Total remuneration to Directors}) / (\text{Number of employees for the previous year} - \text{Number of Directors not concurrently employees})]$ .
- The annual average employee salary expenses for the current year was NT\$ 922 thousand  $[(\text{Total employee salary expenses for the current year} / (\text{Number of employees for the current year} - \text{Number of Directors not concurrently employees}))]$ .  
The annual average employee salary expenses for the previous year was NT\$ 799 thousand  $[(\text{Total employee salary expenses for the previous year} / (\text{Number of employees for the previous year} - \text{Number of Directors not concurrently employees}))]$ .
- The rate of adjustment in average remuneration to employees was 15.39%  $((\text{Average remuneration to employees for the current year} - \text{Average remuneration to employees for the previous year}) / \text{Average remuneration to employees for the previous year})$ .

National Aerospace Fasteners Corporation  
Summary of Employee Benefit, Depreciation, Impairment and Amortization Expenses by Functions (Continued)  
For the year ended December 31, 2022

Detail 8

Expressed in thousands of New Taiwan Dollars

5. The Company's remuneration policies (including remuneration to Directors, Supervisors, Managerial officers, and employees)
- (1) Directors' and Supervisors' remuneration policies, standards, packages, the procedures through which remunerations were determined, and their linkage to business performance and future risks:
    - A. Pursuant to Article 13-1 of the Company's Articles of Incorporation, the Board of Directors is authorized to determine the remuneration of the Company's Chairman, Directors, and Supervisors based on their participation in the Company's operation, level of contribution, remuneration level of the peer companies in the same industry, and the Company's regulations governing salary and remuneration.
    - B. Pursuant to Article 18 of the Company's Articles of Incorporation, the Company shall set aside no less than 1% and no more than 10% as remuneration to employees and no more than 2% as remuneration to Directors from the net profit before tax minus the amount of distributed employee and director remuneration.
  - (2) President's and Vice President's remuneration policies, standards, packages, the procedures through which remunerations were determined, and their linkage to business performance and future risks:
    - A. The remunerations to the President and the Vice Presidents are commensurate with their personal contribution to the overall operation performance of the Company, and remuneration level of the peer companies in the same industry, taking into consideration the Company's future operational risks. The Remuneration Committee then proposes salary proposals to the Board of Directors for discussion and approval.
    - B. Pursuant to Article 18 of the Company's Articles of Incorporation, the Company shall set aside no less than 1% and no more than 10% as remuneration to employees and no more than 2% as remuneration to Directors from the net profit before tax minus the amount of distributed employee and director remuneration.
  - (3) Employees' remuneration policies, standards, packages, the procedures through which remunerations were determined, and their linkage to business performance and future risks:
    - A. The remunerations to the employees are commensurate with their personal level of contribution to the overall strategic goals of the Company, and remuneration level of the peer companies in the same industry, taking into consideration the Company's future operational risks. The Company provides career development opportunities, and bonuses and training for talents with outstanding performance and potential. Through an open and transparent promotion mechanism, we promote outstanding talents to higher levels and provide them with relatively favorable salaries so as to encourage positive development of the Company as a whole.
    - B. Pursuant to Article 18 of the Company's Articles of Incorporation, the Company shall set aside no less than 1% and no more than 10% as remuneration to employees and no more than 2% as remuneration to Directors from the net profit before tax minus the amount of distributed employee and director remuneration.

National Aerospace Fasteners Corporation

Loans to Others

For the year ended December 31, 2022

Table 1

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Code</u>	<u>Lender</u>	<u>Borrower</u>	<u>Financial statement account</u>	<u>Related party</u>	<u>Highest balance for the period</u>	<u>Ending balance</u>	<u>Actual borrowed amount</u>	<u>Interest rate collars</u>	<u>Nature of loan</u>	<u>Business transaction amount</u>	<u>Reason for short-term financing</u>	<u>Allowance for bad debts</u>	<u>Collateral Item</u>	<u>Value</u>	<u>Ceiling for each borrower</u>	<u>Aggregate financing limit</u>	<u>Remarks</u>
0	National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Other receivables	Y	\$ 112,753	\$ 107,485	\$ 107,485	2.50%	Short-term borrowing	-	Fund for operation	-	N/A	-	\$ 389,452	\$ 389,452	(Note)

Note: The loan to a single entity shall not exceed 20% of the net worth stated on the Company most recent financial statements that are reviewed or audited by CPAs. The loan ceiling is calculated based on 20% of net equity at Dec. 31, 2022.

National Aerospace Fasteners Corporation

Endorsements/Guarantees to Others

For the year ended December 31, 2022

Table 2

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Code</u>	<u>Name of endorser/guarantor</u>	<u>Subject of endorsement/guarantee</u>		<u>Ceiling amount of endorsement/guarantee to a single entity (Note 3)</u>	<u>Ceiling amount of endorsement/guarantee for the period</u>	<u>Balance of endorsement/guarantee</u>	<u>Actual borrowed amount</u>	<u>Amount of endorsement/guarantee backed by assets</u>	<u>Accumulated endorsed/guaranteed amount as a percentage of net worth</u>	<u>Ceiling amount of endorsement/guarantee (Note)</u>	<u>Endorsement/guarantee made by parent company to subsidiary</u>	<u>Endorsement/guarantee made by subsidiary to parent company</u>	<u>Endorsement/guarantee for companies in Mainland China</u>	<u>Remarks</u>
	<u>Name</u>	<u>Relation</u>												
0	National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Subsidiary	\$ 973,630	\$ 178,793	\$ 170,441	\$ -	\$ -	8.75%	\$ 973,630	Y	N	Y	—

Note: The requirement that endorsements/guarantees can only be made to a company in which the Company holds, directly or indirectly, more than 50% of the voting shares refers to 50% of the net worth stated in the most recent financial statements reviewed or audited by the CPAs.

Amount of endorsements/guarantees made shall be less than 50% of the net worth stated in the most recent financial statements reviewed or audited by the CPAs.

National Aerospace Fasteners Corporation

Ending Marketable Securities Held (excluding investment in subsidiaries, associates and joint ventures)  
December 31, 2022

Table 3

Expressed in thousands of New Taiwan Dollars  
(Unless otherwise specified)

<u>Holding company</u>	<u>Name and type of marketable securities</u>	<u>Relation with the issuer</u>	<u>Financial statement account</u>	<u>Shares</u>	<u>Ending balance</u>		<u>Fair value</u>	<u>Remarks</u>
					<u>Carrying amount</u>	<u>Percentage of ownership</u>		
National Aerospace Fasteners Corporation	Baicheng Co., Ltd.	N/A	Financial assets measured at fair value through other comprehensive income - non-current	700,000	\$ -	0.51%	\$ -	Registration nullified
"	Shintori Restaurant Co., Ltd.	N/A	"	20,307	-	2.75%	-	Discontinued

National Aerospace Fasteners Corporation

Total Purchases from or Sales to Related Parties Amounting to at Least NT\$ 100 Million or 20% of the Paid-in Capital

For the year ended December 31, 2022

Table 4

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Company name</u>	<u>Transaction counterparty</u>	<u>Relation</u>	<u>Transaction details</u>				<u>Abnormal transaction</u>		<u>Notes and accounts receivable (payable)</u>		Remarks
			<u>Purchase/Sale</u>	<u>Amount</u>	<u>% of total</u>	<u>Payment term</u>	<u>Unit price</u>	<u>Payment term</u>	<u>Ending balance</u>	<u>% of total</u>	
National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Subsidiary	Purchase	\$ 178,571	24%	Note	N/A	Note	(\$ 76,221)	( 23% )	

Note: The payment term is 90-day AMS. No significant difference from other purchase/sale terms.

National Aerospace Fasteners Corporation  
 Business Relationship and Major Transactions between the Parent Company and Subsidiaries and among Subsidiaries  
 For the year ended December 31, 2022

Table 5

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Code</u>	<u>Company name</u>	<u>Counterparty</u>	<u>Relation</u>	<u>Financial statement account</u>	<u>Amount</u>	<u>Transaction terms</u>	<u>% of total consolidated revenue or total asset</u>
The Company	National Aerospace Fasteners Corporation	NAFCO Suzhou Precision	Note 1	Sales	\$ 42,862	90 days AMS	2%
"	"	"	"	Purchase	178,571	90 days AMS	8%
"	"	"	"	Other expenses	10,281	90 days AMS	-
"	"	"	"	Accounts receivable	9,638	-	-
"	"	"	"	Accounts payable	76,221	-	2%
"	"	"	"	Other receivables	108,652	-	2%
"	"	"	"	Other payables	1,652	-	-

Note 1: Parent company to subsidiary

National Aerospace Fasteners Corporation

Information of Investee Companies and Location, and Other Relevant Information (excluding investees in Mainland China)

For the year ended December 31, 2022

Table 6

Expressed in thousands of New Taiwan Dollars

(Unless otherwise specified)

<u>Investor</u>	<u>Investee</u>	<u>Location</u>	<u>Principal business</u>	<u>Initial investment amount</u> <u>Ending balance in</u> <u>2022</u>	<u>Ending balance in</u> <u>2021</u>	<u>Shares</u>	<u>Ending balance</u> <u>Percentage</u> <u>of</u> <u>ownership</u>	<u>Carrying amount</u>	<u>Net income of</u> <u>investee</u>	<u>Recognized</u> <u>portion</u>	<u>Remarks</u>
National Aerospace Fasteners Corporation	NAFCO Group Ltd.	British Virgin Islands	Investment	\$ 405,897	\$ 405,897	13,000,000	100%	308,828	(\$ 24,532)	(\$ 28,784)	Subsidiary
NAFCO Group Ltd.	NAFCO Holdings Ltd.	British Virgin Islands	Investment	405,897	405,897	13,000,000	100%	311,317	( 24,532)	N/A	Second tier subsidiary

National Aerospace Fasteners Corporation  
Information on investments in mainland China  
For the year ended December 31, 2022

Table 7

Expressed in thousands of New Taiwan Dollars  
(Unless otherwise specified)

Investee	Principal business	Paid-in capital	Method of investment	Accumulated amount of investment remitted outwards from Taiwan at beginning	Investment remitted outwards or recovered in current period		Accumulated amount of investment remitted outwards from Taiwan at ending	Net income of investee	% of ownership held directly or indirectly	Recognized portion Note 2	Ending carrying amount	Investment income received at ending	Remarks
					Outwards	Recovered							
NAFCO Suzhou Precision	Production and sales of aviation parts and mold processing	\$405,897 (USD 13 million)	Note 1	\$405,897 (USD 13 million)	-	-	\$405,897 (USD 13 million)	(\$24,532)	100%	(\$24,532)	\$311,317	-	-

Name	Accumulated investment from Taiwan to Mainland China at ending	Investment amount approved by Investment Commission of MOEA	Investment amount permitted by the Investment Commission of MOEA
National Aerospace Fasteners Corporation	(USD 13 million) \$ 405,897	(USD 13 million) \$ 399,230	\$1,168,355

Note 1: Investment was made through NAFCO Holdings Ltd. established in a third area.  
Note 2: Audited by parent company's CPAs.

National Aerospace Fasteners Corporation

Information of major shareholders

December 31, 2022

Table 8

	<u>Name of major shareholders</u>	<u>Shares held</u>	<u>Shares</u>	<u>Percentage of ownership</u>
	Getac Holdings Corp.		20,578,174	39.08
	National Development Fund, Executive Yuan		3,773,188	7.16

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of common shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration due to difference in preparation basis.

Note 2: If a shareholder delivers the shareholdings to the trust, the above information will be disclosed by the individual trustee at which the trust account is opened. For shareholders who declare insider shareholdings with ownership greater than 10% in accordance with the Security and Exchange Act, the shareholdings include shares held by shareholders and those delivered to the trust over which shareholders have rights to determine the use of trust property. For information relating to insider shareholding declaration, please refer to Market Observation Post System.

**National Aerospace Fasteners Corporation**

**Person in charge: TSAI, Feng-Tzu**

**March 31, 2023**