

Stock Code:6163



HWACOM SYSTEMS INC.

2022 Annual Report

Annual Report Website: <http://mops.twse.com.tw>

Company Website: <http://hwacom.com>

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I. Letter to Shareholders

Business Operation Report

i. Financial Performance in 2022:

1. Financial Results :

The Company's Net Revenue of 2022 was NT\$6,094.449 million, a decrease of 1.59% over NT\$ 6,192.732 million in 2021. Net profit after tax was NT\$138.097 million, and EPS was NT\$1.06.

2. Budget Implementation: The Company did not disclose financial forecast in 2022.

3. Analysis of financial performance and profitability

Units: NT\$ thousands; %

Year		2022	2021	Variance (%)
Financial performance	Net Revenue	6,094,449	6,192,732	(1.59)
	Gross profit	1,224,102	1,371,855	(10.77)
	Income from operations	117,540	210,937	(44.28)
	Non-operating income and expenses	46,080	9,918	364.61
Profitability	ROA (%)	2.54%	3.59%	(24.40)
	ROE (%)	6.24%	8.62%	(27.61)
	Pre-tax income to paid-in capital (%)	12.23%	16.52%	(25.97)
	Net margin (%)	2.27%	2.77%	(18.05)
	EPS (NT\$)	1.06	1.43	(25.87)
	Net income after income tax (NT\$)	138,097	171,524	(19.49)

4. R&D Status:

The Company continuously invested related technologies as following:

- A. Value-added application platform on Vehicle-to-Everything used for Intelligent Transportation System.
- B. Integrated big data with information security for service technology.
- C. Integrated both technologies of AI and big data to develop the monitoring platform of operation center in smart city.
- D. 5G private network applications.
- E. Industrial IoT information security services.

ii. Business Plan in 2023:

1. Management Guideline:

- A. HWACOM will continue to focus on the business field of " Value-Added Service Integrator in Broadband Application ". Moreover, the Company will enhance R&D capability of integrating AI and big data technologies into application systems.
- B. Innovative Services Development: Optimistic about the diversified development of IoT, ICT, and mobile markets, the Company will enhance on 5 fields, such as 5G private network application and integration service, information network service, digital multimedia service, information security application and integration service, and smart service, etc. The Company aims to gradually evolve into an innovative and value-added integration service company to meet customers' demand and establish our core value.

- C. Drive digital transformation by consolidating internal organization and lining up external resource. Through digitalization of technological integration, software development, service platforms, and project management, establish an integrated service provider with total solutions.
- D. Strengthen branding promotion and establish a valuable image of brand name. Gradually enhance branding recognition through the delivery of brand value.
- E. Fulfill the corporate social responsibility of a citizen by adopting the spirit of "giving back to society". The company will collaborate with partners and customers to proactively participate in social welfare activities, execute its obligations, and contribute to society while showing responsibility for ESG's major issues.

2.Expected sales figures, their basis, and significant manufacturing and marketing strategy.

- A. Enhance overall profitability and strengthen control and management capabilities for large-scale projects; optimize project acceptance schedules for cost drop .
- B. Elevate sales capabilities by shifting from Product Sales to Business Solution sales based on customer needs, in order to achieve as a "Broadband Application Service Integrator."
- C. Strengthen sales of value-added integration services in cloud-based IoT application and information security .
- D. Drive increasing profit and reducing cost; prioritize talent cultivation, growth, and overall welfare and reward measures.
- E. Continuously promote the establishment of platforms for information exchange in the company to enhance the efficiency of execution of jobs, thereby improving operational performance.

iii.The Strategy of Business Development

- 1.Promote digital transformation and value-added services for cloud IoT.
- 2.Build an infrastructure team for Smart, Information and Communication technology, IoT, and Cybersecurity services.
- 3.Strengthen partnerships in industry, and continuously invest in niche products and services while formulating market sales and promotion execution plans.
- 4.Develop cloud-based Internet of Things, Cybersecurity, and smart city governance by big data, to establish a shared innovation service and application platform.

iv.Impacts of External Competitive, Regulatory, and Macro-environmental Factors

In response to the competitive market trends and the industry changes resulting from the COVID-19 pandemic, the Company will uphold the spirit of long-term dedication to earn customer trust. We will strengthen our company structure, financial status, performance track record, technical capabilities, and most importantly, service quality, to strive for customer recognition of our technical expertise and service, thereby winning more projects.

Lastly, the Company wants to express our utmost gratitude to our shareholders, customers, partners, and all employees who have provided unwavering supports. The Company will continue to uphold the belief in sustainable operation and pursuit of excellence, hoping to achieve better results in the coming year.

Sincerely

Chairman CHEN KUO CHANG

II Company Profile

i. Date of Establishment: May 4, 1994

ii. Company History:

2008 - Issued a secondary domestic secured convertible bond with an issuance amount of NT\$200 million.

- Won "HD MOD STB (270,000 units) and server equipment expansion project for the year of 2008" of North and South Branch of Chunghwa Telecom Co., Ltd. The amount was NT\$ 942 million.

- Won "GESW network equipment expansion and installation project for the year of 2008" of North and South Branch of Chunghwa Telecom Co., Ltd. The amount was NT\$ 663 million.

- Won "HD MOD STB (180,000 units) and server equipment expansion project for the year of 2008" of North and South Branch of Chunghwa Telecom Co., Ltd. The amount was NT\$ 628 million.

- Won "DSLAMVDSL2 FTTx network equipment expansion project (NA2970109) for the year of 2008" of North and South Branch of Chunghwa Telecom Co., Ltd. The amount was NT\$ 564 million.

- Won "VDSL2 network equipment expansion project (N97C3603, S97C5073) for the year of 2008" of North and South Branch of Chunghwa Telecom Co., Ltd. The amount was NT\$ 1202 million.

- Won "AGG-C concentrator equipment expansion and installation project (NA8970417) for the year of 2008" of North and South Branch of Chunghwa Telecom Co., Ltd. The amount was NT\$ 559 million.

- Won "newly bought AGG-E concentrator equipment expansion and installation project (NA2970421) for the year of 2008" of North and South Branch of Chunghwa Telecom Co., Ltd. The amount was NT\$ 432 million.

2009 - Won "HD MOD STB (150,000 units) and server equipment project (NA1980210) for the year of 2009" for Chunghwa Telecom. The amount was NT\$ 512 million.

- Won "VDSL2 network system equipment project (NA1980264) for the year of 2009" for Chunghwa Telecom. The amount was NT\$ 586 million.

2010 - Won "VDSL2 network system equipment project (A Group)(NA1990076) for the year of 2010" for Chunghwa Telecom 's North Branch. The amount was NT\$ 804 million.

- Won " DSLAMVDSL2 HGW expansion project" for Chunghwa Telecom. The amount was NT\$ 530 million.

2011 - Won "Total 200,000 Sets of MOD equipment project (A Group+ B Group)(NA1000216) for the year of 2013" for Chunghwa Telecom's North Branch. The amount was NT\$ 469 million.

- Won "VDSL2 network system equipment project (A Group)(NA8000397) for the year of 2013" for Chunghwa Telecom's North Branch. The amount was NT\$ 749 million.

2012 - Issued the third time domestic secured convertible bond with an issuance amount of NT\$250 million.

- Won "GPON system equipment expansion project (NA1010248) for the year of 2013" for Chunghwa Telecom's North Branch. The amount of this bid was NT\$ 1,073,900 thousands (tax included).

2013 - Won "MOD STB equipment project (NA3010535) for the year of 2013" of North and South Branch of Chunghwa Telecom. The amount was NT\$ 553,000 thousands (tax included)

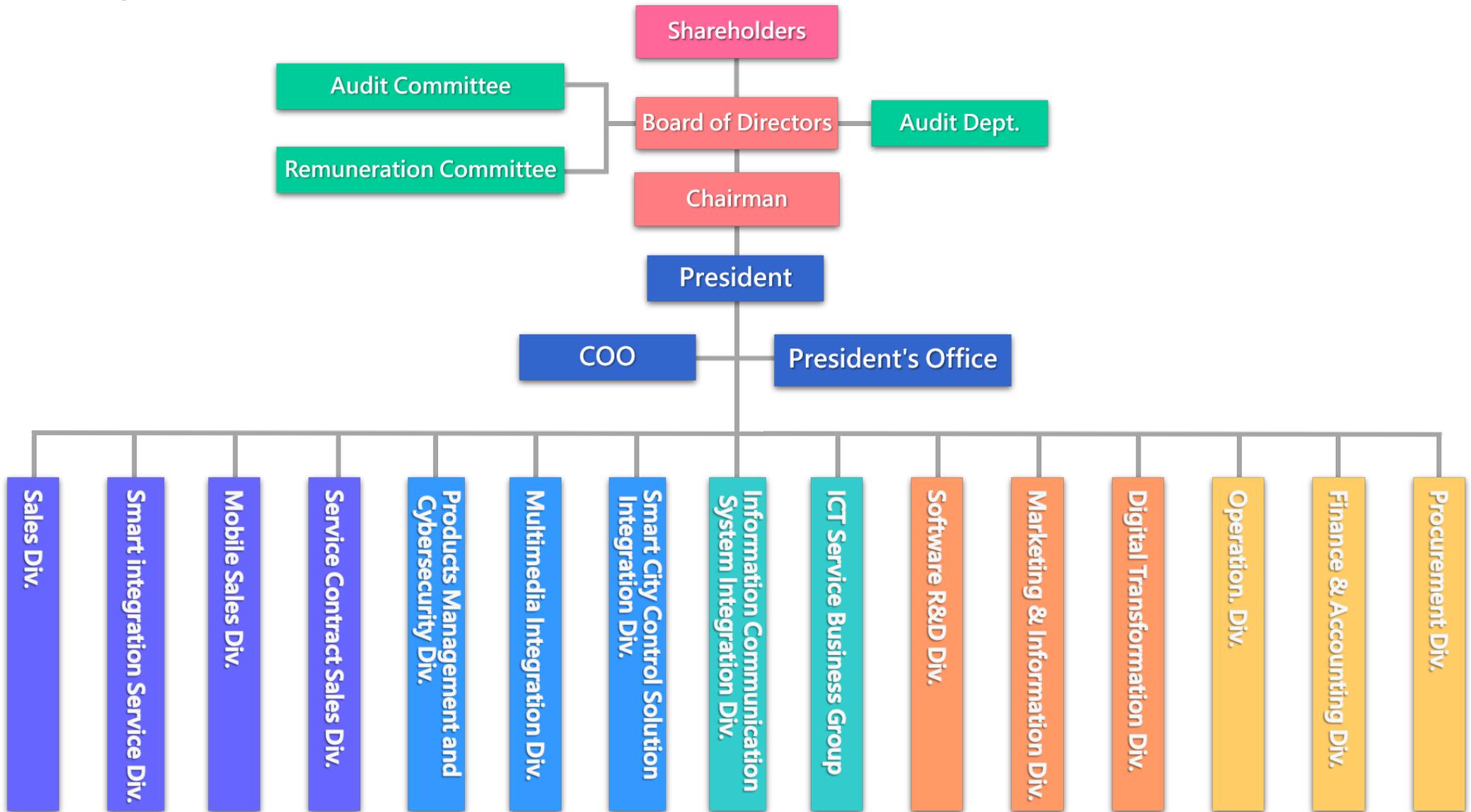
- Won "DSLAMVDSL2 secondary expansion project (A Group)(NA8020303) for the year of 2013" for Chunghwa Telecom. The amount was NT\$ 855,535 thousands (tax included).

- Won bid R13 On-site equipment engineering of Northern Region Highway and Port Western Interchange Existing Traffic Control System Upgrade and Improvement Project

- for Northern Region Branch Office of Freeway Bureau, MOTC. The amount was NT\$ 421,580 thousands (tax included).
- Exercised the bond redemption rights and terminate over-the-counter trading of third time domestic secured convertible bond.
 - Won "GPON system equipment project (A Group)(NA1010633102) for the year of 2013" for Chunghwa Telecom's North Branch. The amount of this bid was NT\$ 418,645 thousands (tax included).
- 2014 – The record date of the Company's third share capital reduction was on March 19, 2014.
- 2015 – Repurchased Company shares for the fourth time, the actual period of this buyback was August 12 to October 8, 2015, has repurchased 2,500,000 shares of stock.
- 2016 – Won bid R32 "National Highway 3 Traffic Control Enhancement and Installation of Traffic Control Equipment on Selected Sections project" for Southern Region Branch Office of Freeway Bureau, MOTC. The amount of this bid was NT\$ 468,160 thousands (tax included).
- 2017 - Won V2 DSLAM+HGW access device expansion project (A Group) for the year of 2017" for Chunghwa Telecom. The amount was NT\$ 429,833 thousands (tax included).
- 2018 - Obtained "Taiwan Taoyuan International Airport Terminal 3 Area Information Communication System Engineering project" of CTCI Advanced Systems Inc., regarding contracting engineering such as detail design of information communication system, equipment procurement ,installation, and testing.
- 2019 - Completed private placement on capital increase project of amount of NT\$ 194,000 thousands, applicant Advantech Investment Co., Ltd. has become a strategic investor of the Company.
- 2020 - Won core NGN SVG equipment implementation project (A Group) for the year of 2020" for Chunghwa Telecom. The amount was NT\$ 446,191 thousands (tax included).
- Awarded formal dual certificates or "ISO 27001:2013 Information Security Management System" and "ISO 27701:2019 Privacy Information Management System" by the British Standards Institute. °
- 2021 - Issued a fourth domestic unsecured convertible corporate bonds, with a total issuance amount of NT\$ 300 million.
- 1.Merger and acquisition activities, investments in affiliated enterprises, and corporate reorganization in the most recent fiscal year as well as the current fiscal year up to the date of publication of the annual report: None.
 - 2.Instances in which a major quantity of shares belonging to directors, supervisors, or shareholders holding greater than 10 percent stake in the company is transferred or otherwise changes hands in the most recent fiscal year as well as the current fiscal year up to the date of publication of the annual report: None.
 - 3.Changes in ownership rights: None.
 - 4.Significant changes in business operations or contents of the business: None.
 - 5.Other significant matters affecting shareholder equity and their impact on the company: None.

III Corporate Governance Report (Please replace the final version)

- i. Organizational System
- 1. Organizational Structure



2. Functions of Major Departments

Department	Functions
Audit Office	<ol style="list-style-type: none"> 1. Establishment, revision, and review of internal audit systems. 2. Execution of internal audit operations for the Company and its subsidiaries. 3. Handling of employee and vendor complaints.
Smart Integration, Mobile, Service Contract Sales Div. Sales Div.	<ol style="list-style-type: none"> 1. Expand business operations by classifying them based on industry. 2. Conduct regular market survey and analyze customer satisfaction to identify potential clients. 3. Develop product sales plans and maintain customer satisfaction. 4. Strategize for international market development. 5. Engage in business contracts for equipment maintenance or overall operational services. 6. Utilize the service information platform and skilled technical professionals to provide customers with high-quality services.
Product Management and Cybersecurity Div.	<ol style="list-style-type: none"> 1. Provision of comprehensive cybersecurity solutions and managed security services. 2. Agency and promotion of IP data system products. 3. Agency, planning, and promotion of IT-related products and solutions. 4. Establishment of strong collaborative partnerships with original manufacturers.
Information Communication System Integration Div.	<ol style="list-style-type: none"> 1. Provide professional technical support and plan for presales of broadband communication systems. 2. Provide professional technical support and plan for presales of IP data networks and transmission systems. 3. Development and promotion of 3G/4G telecom value-added application services. 4. Provide professional technical support and plan for ICT system integration and comprehensive solutions. 5. Professional technical integration services for cloud services and virtualization solutions. 6. Integration services for telecom software and application development.
Multimedia Integration Div.	<ol style="list-style-type: none"> 1. IPTV/OTT and DVB-C set-top box products. 2. IPTV and OTT service system solutions. 3. Digital headend and transmission solutions. 4. Wi-Fi integrated marketing services (promote advertising sales business). 5. Traffic information/digital advertising billboard software system.
Smart City Control Solution Integration Div.	<ol style="list-style-type: none"> 1. Integrated solutions for smart city. 2. Implementation and transportation, monitoring, and disaster management systems. 3. Development and integration of smart monitoring system platform. 4. Implementation of IoT systems and application services for data analysis. 5. Development and establishment of heterogeneous system integration and decision-making platforms. 6. Support ICT and Cybersecurity dpt. to create business opportunities in urban control fields.
ICT Service Business Group	<ol style="list-style-type: none"> 1. Plan and implement customer system integration. 2. Provide maintenance service for customer software and hardware. 3. Customer service center: Resolving customer issues.
Software R&D Div.	<ol style="list-style-type: none"> 1. Research and development of application services and customization. 2. Research and development, implementation, of system platforms. 3. Development of new software technologies.
Operation. Div.	<ol style="list-style-type: none"> 1. Responsible for human resources, general affairs, business management. legal and operation tasks in the company. 2. Operation tasks including inventory management and shipment processes.
Finance & Accounting Div.	<ol style="list-style-type: none"> 1. Handle accounting processes, prepare financial reports, provide and analyze management information, tax planning, and budget management. 2. Capital movement, cash flow management, cashier management, and administrative affairs.
Procurement Div.	<ol style="list-style-type: none"> 1. Responsible for procurement and management of company's fixed assets, as well as internal and external materials and equipment.
Marketing & Information Div.	<ol style="list-style-type: none"> 1. Responsible for market research and analysis. 2. Maintain relationships with product agents. 3. Develop product sales plans and maintain customer satisfaction. 4. Integrate company resources for optimal efficiency. 5. Coordinate external media relations.
Digital Transformation Div.	<ol style="list-style-type: none"> 1. Formulate and implement information system policies. 2. Responsible for planning and maintenance of operational system informatization and computerized information management integration across internal departments. 3. Planning and research and development of application systems and services. 4. Develop integrated application systems and services. 5. Establish the "Hwacom Digital Platform."

ii. Information on Directors, GMs, Vice GMs, Assistant Presidents, head of each department, and branch officers

1. Directors and Supervisors :

A. Information on Directors and Supervisors

May 2, 2023

Title	Nationality or place of registration	Name	Gender, age	Date of election / appointment to current term	Term of office	Commencement date of first term	No. of shares held at time of election		No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Positions held concurrently in the company and/or in any other company	Other officer(s), director(s), or supervisor(s) with which the person has a relationship of spouse or relative within the second degree			Note
							No. of Shares	Share-holding ratio	No. of Shares	Share-holding ratio	No. of Shares	Share-holding ratio	No. of Shares	Share-holding ratio			Title	Name	Relationship	
Chairman	R.O.C.	CHEN, KUO CHANG	Male above 60	2022.6.23	3	1997.9.8	6,063,097	4.54%	6,063,097	4.32%	0	0%	0	0%	NKUST President of Hand Information Co., Ltd.	President of HwaCom Systems Inc., Hwacom Investment Inc. Representative of Hwakuan Systems Integration Technology (Shanghai) Co., Ltd. Director of Mainland-Taiwan Investment Co., Ltd.. Representative of HwaCom Charity Foundation Chairman of S-Link Systems Inc. Director of Tarantula Networks Ltd. Chairman of Family plus technology Inc.	None	None	None	Note 1
Director	R.O.C.	Advantech Investment Co., Ltd. Representative: HUANG, T ZU CHE	Male 30~40	2022.6.23 2022.6.23	3	2020.6.24	24,575,000 0	18.38% 0.00%	24,575,000 0	17.51% 0.00%	0 0	0% 0%	0 0	0% 0%	University of Colorado Denver, MS Finance	Director of ZyXEL Communications Corp. Director of Huan Yan IoT Co., Ltd. Director of Advantech Service-IoT (Shanghai) Co., Ltd. Project Manager of Strategy Investment Dpt., Advantech Co., Ltd.	None	None	None	
Director	R.O.C.	Mainland-Taiwan Investment Co., Ltd. Representative: YANG, CH I HUANG	Male 50~60	2022.6.23 2022.6.23	3	2022.6.23	3,364,427 30,000	2.52% 0.02%	3,214,427 400,000	2.29% 0.28%	0 0	0% 0%	0 0	0% 0%	Master of EE, NTU IP Network Management, Eastern Media Technology (EMT)	Vice President of HwaCom Systems Inc. Supervisor of S-Link Systems Inc Director of Family plus technology Inc.	None	None	None	
Director	R.O.C.	KUAN, MIN CHIH	Male 50~60	2022.6.23	3	1997.9.8	198,257	0.15%	118,257	0.08%	0	0%	0	0%	IECS of FCU Assistant Vice GM of Hand Information Co., Ltd.	Vice President of HwaCom Systems Inc. Director of S-LINK SYSTEMS Inc.	None	None	None	
Director	R.O.C.	HUANG, YI NG CHIEN	Male 40~50	2019.6.28	3	2009.6.10	145,975	0.11%	225,975	0.16%	0	0%	0	0%	Master of International Business, NCCU Account Director of US Stream Technologies Inc.	Vice President of HwaCom Systems Inc. Director of Family plus technology Inc.	None	None	None	
Director	R.O.C.	WENG, SHUA HUNG	Female 50~60	2019.6.28	3	2019.6.28	10,688	0.01%	90,688	0.06%	0	0%	0	0%	IECS of FCU Sales Manager of Hand Information Co., Ltd.	Vice President of HwaCom Systems Inc.,	None	None	None	

Title	Nationality or place of registration	Name	Gender, age	Date of election / appointment to current term	Term of office	Commencement date of first term	No. of shares held at time of election		No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Positions held concurrently in the company and/or in any other company	Other officer(s), director(s), or supervisor(s) with which the person has a relationship of spouse or relative within the second degree			Note
							No. of Shares	Share-holding ratio	No. of Shares	Share-holding ratio	No. of Shares	Share-holding ratio	No. of Shares	Share-holding ratio			Title	Name	Relationship	
Independent Director	R.O.C.	LI,HSU TUNG	Male 50~60	2022.6.23	3	2016.6.21	0	0.00%	0	0.00%	0	0%	0	0%	Master of Business Administration, NTU President of Da Hwa International Securities Investment Consulting Co., Ltd	Member of Remuneration Committee of HwaCom Systems Inc.	None	None	None	
Independent Director	R.O.C.	LI,MING CHUN	Male 50~60	2022.6.23	3	2016.6.21	0	0.00%	0	0.00%	0	0%	0	0%	Doctoral program in Law at Kyoto University Assistant Professor of Law School, Okayama University Assistant Research Fellow of Institute of International Relations, NCCU	Member of Remuneration Committee of HwaCom Systems Inc. President for R&D of Taiwan Brain Trust	None	None	None	
Independent Director	R.O.C.	WENG, CHUNG HSIUNG	Male 60~70	2022.6.23	3	2022.6.23	0	0.00%	0	0.00%	0	0%	0	0%	Doctor of Business Administration, NTU Director Dean of Administration of College of management, NTU Member of Board of Examiners of Civil Service Examinations	Member of Remuneration Committee of HwaCom Systems Inc. Adjunct professor of Information Management, NTU	None	None	None	

Note 1: To enhance the efficiency of corporate governance and ensure prudent decision-making that aligns with maximizing company value, our company currently has the Chairman serving as the President. Which allows for smoother execution of decisions and reduces the likelihood of making unfavorable choices for the company.

In order to reduce the concentration of power in the Chairman cum President role, we are taking steps this year to amend our company's articles of incorporation. These amendments include increasing the number of directors and planning for a certain proportion of independent directors. We aim to maintain the normal functioning of the board of directors and mitigate any potential interference.

Table 1: Major Shareholders of Corporate Shareholders

May 2, 2023

Name of corporate shareholder	Major shareholders of corporate shareholders
Advantech Investment Co., Ltd.	Advantech Co., Ltd.

Table 2: Major Shareholders of Major Corporate Shareholders

March 27, 2023

Name of the Corporate	Major Shareholders of the Corporate
Advantech Co., Ltd.	Asus Computer Co., Ltd. (13.25%), K and M Investment Co., Ltd. (11.74%), AIDC Investment Corp. (11.60%), K.C. Liu (3.62%), Advantech Foundation (2.87%), Tran-Fei Development Co., Ltd. (2.53%), Yong-Shun Zhuang (2.26%), First Sentier Investors ICVC-Stewart Investors Asia Pacific Leaders Sustainability Fund(1.92%), The Overlook Partners Fund LP (1.92%), Chunghwa Post Co.,Ltd. (1.24%)

Information on Directors (2)

i. Qualifications and Independence Status of Directors (Including Independent Directors) :

Name \ Qualification	Qualifications and Experience	Independence Status	Number of public companies where the individual holds the title as Independent Director
Chairman of the board CHEN, KUO CHANG	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Current Chairman and President of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None
Corporate Director ADVANTECH Investment Co., Ltd. Representative: HUANG, TZU CHE	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person. The individual is not a director, supervisor, or employee of that other company. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None
Corporate Director Mainland-Taiwan Investment Co., Ltd. Representative: YANG, CHI HUANG	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person. The individual is not a director, supervisor, or employee of that other company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None
Director KUAN, MIN CHIH	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None
Director HUANG, YING CHIEN	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None

Name \ Qualification	Qualifications and Experience	Independence Status	Number of public companies where the individual holds the title as Independent Director
Director WENG,SHUA HUNG	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None
Independent Director LI,HSU TUNG	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person. The individual is not a director, supervisor, or employee of that other company. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None
Independent Director LI,MING CHUN	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person. The individual is not a director, supervisor, or employee of that other company. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	None
Independent Director WENG,CHUNG HSIUNG	<ol style="list-style-type: none"> Possess a minimum of five years of work experience in the required areas for the business of the Company. Not under any of the circumstances stated in Article 30 of the Company Act. 	<ol style="list-style-type: none"> Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person. The individual is not a director, supervisor, or employee of that other company. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. There is no spousal or immediate familial relationship with other directors or supervisors. 	3

ii. Diversity and independence of the Board of Directors:

- Board diversity: The members of the Company's Board of Directors are nominated and elected according to the Articles of Incorporation. The Company adopts the candidate nomination system. It assesses the candidates' education and work experiences while following “Rules of Election of Directors” and “Corporate Governance Best Practice Principles” to ensure the diversity and independence of the Board members. The Company has established 7 directors (including 2 independent directors). The members possess capabilities in management, decision-making, industry knowledge, global perspective and, and finance accounting analysis.

Diversity Items Name	Basic Information									Expertise and Skills				
	Gender	Nationality	Title	Age			Term of Independent Director			Management	Decision-Making	Industry Knowledge	Global Perspective	Finance and Accounting Analysis
				Under 50	50 to 60	Above 60	Less than 3 years	3-6 years	More than 6 years					
CHEN,KUO CHANG	Male	Republic of China	Chairman President			V				V	V	V	V	
ADVANTECH Investment Co., Ltd. Representative: HUANG,TZU CHE	Male	Corporate Director	-	V						V	V	V	V	
Corporate Director Mainland-Taiwan Investment Co., Ltd. Representative: YANG,CHI HUANG	Male	Corporate Director			V					V	V	V	V	
KUAN,MIN CHIH	Male	Republic of China	Vice President		V					V	V	V	V	
HUANG,YING CHIEN	Male	Republic of China	Vice President	V						V	V	V	V	V
WENG,SHUA HUNG	Female	Republic of China	Vice President		V					V	V	V	V	
LI,HSU TUNG	Male	Republic of China	-		V			V		V	V	V	V	V
LI,MING CHUN	Male	Republic of China	-		V			V		V	V	V	V	V
WENG,CHUNG HSIUNG	Male	Republic of China	-			V	V			V	V	V	V	V

- Independence of the Board of Directors: Currently, there are 9 Directors of the Company and the ratio of independent Directors is 30%, of female Directors is 11.11%. Two independent directors have served for 3 to 6 years. All independent directors comply with the regulations set by the Financial Supervisory Commission regarding independent directors, there are no family relationships among all the directors of the Company as defined in Items 3 and 4 of Article 26-3 of the Securities and Exchange Act.

2. Profiles of the President, Vice President, Assistant President, head of each department, and branch officers

May 2, 2023

Title	Nationality	Name	Gender	Date of election / appointment	No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Positions held concurrently in the company and/or in any other company	Other officer(s) with which the person has a relationship of spouse or relative within the second degree			Note
					No. of Shares	Share-holding ratio	Shares	No. of Shares	Shareholding ratio	Shares			No. of Shares	Shareholding ratio	Title	
President	R.O.C.	CHEN, KUO-CHANG	Male	1994.5.4	6,063,097	4.93%	0	0%	0	0%	NKUST President of Hand Information Co., Ltd.	Chairman of HwaCom Systems Inc., Hwacom Investment Inc. Representative of Hwakuan Systems Integration Technology (Shanghai) Co., Ltd. Director of Mainland-Taiwan Investment Co., Ltd. Representative of HwaCom Charity Foundation Chairman of S-Link Systems Inc. Director of Tarantula Networks Ltd. Chairman of Family plus technology Inc.	None	None	None	Note 11
Service Contract Sales Div. Vice President	R.O.C.	KUAN, MIN-CHIH	Male	1994.5.4	118,257	0.08%	0	0%	0	0%	IECS, FCU Assistant Vice GM of Hand Information Co., Ltd.	Director of HwaCom Systems Inc. Director of S-Link Systems Inc.	None	None	None	
President's Office Vice President	R.O.C.	KE KUO-CHUAN	Male	2000.11.2	130,000	0.09%	0	0%	0	0%	Department of Accounting, NCCU Passed CPA exam Finance Director of APEX Science & Engineering Co.	None	None	None	None	
Marketing & Information Div. Vice President	R.O.C.	HSIEH, MING-YEH	Male	2006.10.2	133,789	0.10%	0	0%	0	0%	CS&IE, Tamkang University California State University Computer Science Vice GM of Chunghwa Mobile Entertainment Corporation.	Director of S-Link Systems Inc.	None	None	None	
Smart integration Service Div. Vice President	R.O.C.	WENG, SHUA-HUNG	Female	1994.7.26	90,688	0.06%	0	0%	0	0%	Information Management EMBA, NTU	Director of HwaCom Systems Inc.	None	None	None	
Multimedia Integration Div. Vice President	R.O.C.	HUANG, YING-CHIEN	Male	2004.11.1	225,975	0.16%	0	0%	0	0%	Master of International Business, NCCU Account Director of US Stream Technologies Inc.	Director of HwaCom Systems Inc. Director of Family plus technology Inc.	None	None	None	
Product Management and Cybersecurity Div. Vice President	R.O.C.	CHENG, CHAO-JEN	Male	2011.4.1	25,000	0.02%	0	0%	0	0%	Master of Management of technology, NYCU President of Telcordia Technologies Taiwan	None	None	None	None	
Mobile Sales Div. Vice President	R.O.C.	WANG, HUNG-JEN	Male	2009.6.1	74,190	0.05%	0	0%	0	0%	Westcoast University MMIS Sales Manager of AVANT TELSISTEM INC.	Representative of Corporate Director ACOM NETWORKS TECHNOLOGY CO., LTD.	None	None	None	
President's Office Vice President	R.O.C.	LAN, KUAN-G-CHAO (Note 1)	Male	2008.12.1	-	-	-	-	-	-	Business Administration, MCU Sales Manager of ARTDIO COMPANY	None	None	None	None	
Information Communication System Integration Div. Vice President	R.O.C.	YANG, CHIH-HUANG	Male	2017.5.19	400,000	0.28%	0	0%	0	0%	Master of EE, NTU IP Network Management, Eastern Media Technology (EMT)	Representative of Corporate Director Mainland-Taiwan Investment Co., Ltd. Supervisor of S-Link Systems Inc. Director of Family plus technology Inc.	None	None	None	
Sales Div. II Vice President	R.O.C.	TU, MENG-LANG	Male	2017.5.19	90,000	0.06%	0	0%	0	0%	State University of New York computer science IBM, Senior Regional Manager of the Business BU	None	None	None	None	
Software R&D Div. Vice President	R.O.C.	LU, YUAN-HUNG	Male	2004.9.3	31,179	0.02%	0	0%	0	0%	Masyer of Computer Systems, Institute of Electrical Engineering, National Chung Cheng University R&D person of First International Computer	Director of Family plus technology Inc.	None	None	None	

Title	Nationality	Name	Gender	Date of election / appointment	No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Positions held concurrently in the company and/or in any other company	Other officer(s) with which the person has a relationship of spouse or relative within the second degree			Note
					No. of Shares	Share-holding ratio	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio			Title	Name	Relationship	
ICT Service Business Group CTO / Vice President	R.O.C.	LIN,HSIEH-HENG	Male	2017.3.1	0	0.00%	0	0%	0	0%	Master of Automation and Control Engineering, NCTU Vice President of Stark Technology Inc. Vice President of Eastern Media International Co., Ltd. Assistant Researcher at Chunghwa Telecom Research Institute	None	None	None	None	
Sales Div. III Vice President	R.O.C.	WU,HSING-TUNG	Male	1998.9.15	250,353	0.18%	0	0%	0	0%	Department of Electronics, NTUT Assistant Manager at Synnex Corporation	None	None	None	None	
Smart City Control Solution Integration Div. Vice President	R.O.C.	YANG,CHU-N-MING	Male	2010.4.12	200,000	0.14%	0	0%	0	0%	Master of Transportation and Logistics Management, FCU Director of VSPRITE TECHNOLOGY CO., LTD.	None	None	None	None	
C.O.O	R.O.C.	WANG,JUN-G-TE (Note 2)	Male	2022.2.9	80	0.06%	0	0%	0	0%	Industrial Engineering and Management Department, National Tsing Hua University San Jose State University VP, Business Development & Operations/Supermicro Computer Inc. Assistant Professor, Department of Business Management, Ming Chi University of Technology.	None	None	None	None	
Vice President	R.O.C.	CHEN,CHUN-CHENG (Note 3)	Male	2022.2.10	0	0.00%	0	0%	0	0%	Master of Business Administration, NTU Vice President, GIGABYTE Technology Director, Micro-Star International Co., Ltd.	None	None	None	None	
Chief Financial Officer	R.O.C.	WANG,FEI-CHIU (Note 4)	Female	2022.3.22	0	0.00%	0	0%	0	0%	MBA, National Chengchi University. Senior Director, Super Micro Computer, Inc. Chief of Finance, HP Enterprise Taiwan and Hong Kong.	None	None	None	None	
Accounting Director	R.O.C.	HSIAO,CHIA-LING	Female	2001.2.12	24,950	0.02%	0	0%	0	0%	Accounting, TamKang University Accounting Officer, APEX Science & Engineering Co.	None	None	None	None	
Multimedia Integration Div. Senior Director	R.O.C.	HUANG,WEN-SHU	Male	2008.12.1	159,342	0.11%	0	0%	0	0%	Master of Information Science, NCTU Project Manager, Grandview Video Technology Co., Ltd.	Director of Family plus technology Inc.	None	None	None	
Multimedia Integration Div. Senior Director	R.O.C.	HUANG,CHEN-JUNG	Male	2010.11.1	0	0.00%	0	0%	0	0%	Computer Science, SCU Project Manager, Information Flow Technology Co., Ltd.	Supervisor of Family plus technology Inc.	None	None	None	
Administration. Div. Senior Director	R.O.C.	CHEN,LI-YEN (Note 5)	Female	2011.2.11	-	-	-	-	-	-	Department of Foreign Languages and Literatures, NCHU Quality Assistant Manager of Unitech Computer Co., Ltd.	None	None	None	None	
Product Management and Cybersecurity Div. Senior Director	R.O.C.	YANG,JEN-CHI	Male	2011.9.30	31,802	0.02%	0	0%	0	0%	Department of Physics, TamKang University Asia Company	None	None	None	None	
Audit Office Senior Director	R.O.C.	CHEN,FANG-JUI	Female	2015.8.3	35,000	0.02%	0	0%	0	0%	Department of Accounting, Fu Jen Catholic University Senior Manager LITE-ON TECHNOLOGY CORPORATION Certified Accountant, BDO	None	None	None	None	
Mobile Sales Div. Senior Director	R.O.C.	WANG,LI-CHEN	Female	2014.5.14	32,279	0.03%	68,675	0.05%	0	0%	Mechanical Drawing at Yongping Senior High School. Sales Assistant at T-PLUS SOLUTIONS LIMITED.	None	None	None	None	
Digital Transformation Div. Senior Director	R.O.C.	PAN,CHUN-MING	Male	2019.5.13	25,634	0.02%	2,000	0%	0	0%	MBA, University of North Alabama Nokia Siemens Network IPPlanner	None	None	None	None	
Sales Div. III Senior Director	R.O.C.	YANG,HUNG-TU	Male	2019.5.13	30,000	0.02%	0	0%	0	0%	EMBA of NTUST Director of Ring Line Co., Ltd. Director of Genesis Technology, Inc.	None	None	None	None	
Information Communication System	R.O.C.	FANG,WEN-HUNG	Male	2015.1.1	-	-	-	-	-	-	Coventry University (U.K.) Operational Communication Chief at Asia Pacific Telecom (APT) Corporation.	None	None	None	None	

Title	Nationality	Name	Gender	Date of election / appointment	No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Positions held concurrently in the company and/or in any other company	Other officer(s) with which the person has a relationship of spouse or relative within the second degree			Note
					No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio			Title	Name	Relationship	
Integration Div. Director		(Note 6)									Chief at TAIWAN G-THCH CO., LTD. Engineer, Far Eastone Telecommunications Co., Ltd. Engineer, TATUNG COMPANY					
Software R&D Div. Director	R.O.C.	HSU,SHU-HAO	Male	2016.1.6	0	0.00%	0	0%	0	0%	Department of Computer Science and Information Engineering, Dayeh University Technical Manager of STARK TECHNOLOGY INC. Software Engineer, Giantene Technology Co., Ltd.	None	None	None	None	
Multimedia Integration Div. Director	R.O.C.	LIN,YU-CHING	Male	2011.9.30	40,000	0.03%	0	0%	0	0%	Master of Information Management, Aletheia University Project Manager, Twoway Communications, Inc.	None	None	None	None	
Smart integration Service Div. Director	R.O.C.	HUANG,JIU-LIN (Note 7)	Male	2013.3.4	-	-	-	-	-	-	EMBA, NCKU Sales Director of STARK TECHNOLOGY INC.	None	None	None	None	
Product Management and Cybersecurity Div. Director	R.O.C.	CHEN,YU-CHIA	Male	2015.1.4	0	0.00%	0	0%	0	0%	Chemical Engineering, Southern Taiwan University of Science and Technology Network Engineer of SYMPHOX INFORMATION CO., LTD.	None	None	None	None	
Information Communication System Integration Div. Director	R.O.C.	CHEN,TZU-HAO	Male	2015.1.4	18,167	0.01%	0	0%	0	0%	Electronic Engineering, NTUT Eastern Media International Co., Ltd., Broadband Technology Service	None	None	None	None	
Sales Div. III Director	R.O.C.	CHUNG,YU-TING	Female	2018.10.1	150,000	0.11%	0	0%	0	0%	Department of Business Administration, NTUST SYSTEX Corporation Chicony Electronics CO., Ltd. ROHM SEMICONDUCTOR TAIWAN CO., LTD.	None	None	None	None	
Smart integration Service Div. Div Director	R.O.C.	CHUNG,CHIU-JU	Female	2019.8.2	20,323	0.01%	0	0%	0	0%	EMBA, Shih Chien University	None	None	None	None	
Sales Div. III Div. Director	R.O.C.	CHANG,PO-YU	Male	2019.10.14	0	0.00%	0	0%	0	0%	MBA, USQ Vice President of DONG-XIANG INFORMATION CO., LTD. IP Planner, NOKIA SOLUTIONS AND NETWORKS TAIWAN CO., LTD. Director of DIYIXIAN.COM LIMITED TAIWAN BRANCH(HONG KONG)	None	None	None	None	
Sales Div. III Director	R.O.C.	KUNG,HSIUNG-YU	Male	2020.2.26	25,000	0.02%	0	0%	0	0%	Master of Information Management, National Sun Yat-sen University Senior Business Manager of Omni system Integration, Inc. Project Manager of D-LINK CORPORATION (TAIWAN)	None	None	None	None	
Sales Div. III Director	R.O.C.	MO,CHIYUN (Note 8)	Female	2020.3.9	-	-	-	-	-	-	Master of Big Data Management, SCU Oracle Taiwan LLC Nielsen Corporation Shanghai Branch	None	None	None	None	
Information Communication System Integration Div. Director	R.O.C.	YU,CHAO-LUNG	Male	2020.9.1	120,000	0.09%	0	0%	0	0%	Information Management, NTUB Assistant Manager of LIGHT STAR INFORMATION CO., LTD.	None	None	None	None	
ICT Service Business Group Director	R.O.C.	CHU,SHIH-JEN	Male	2020.9.1	39,886	0.03%	0	0%	0	0%	Department of Business Administration, NKUST	None	None	None	None	

Title	Nationality	Name	Gender	Date of election / appointment	No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Positions held concurrently in the company and/or in any other company	Other officer(s) with which the person has a relationship of spouse or relative within the second degree			Note
					No. of Shares	Share-holding ratio	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio			Title	Name	Relationship	
Software R&D Div. Director	R.O.C.	HU,CHUNG-WEI	Male	2020.9.1	10,000	0.01%	0	0%	0	0%	Department of Marine Environment and Engineering, National Sun Yat-sen University Master of Oceanography, NTU Engineer of Atlas Services Group Energy B.V. R&D Manager of ABOUTMEDIA TECHNOLOGY CO., LTD R&D Manager of Monmouth Technologies, Inc.	None	None	None		
ICT Service Business Group Director	R.O.C.	CHEN,KUO-SHENG	Male	2020.9.1	21,935	0.02%	0	0%	0	0%	Master of Electro-Optical Engineering, Taipei Tech	Director of Engineering Department of S-Link Systems Inc.	None	None	None	
Logistics Div. Director	R.O.C.	CHAO,WAN-LING	Female	2020.9.1	30,167	0.02%	212	0%	0	0%	Secretarial Science, NTUB	None	None	None		
ICT Service Business Group Director	R.O.C.	TSAI,SHU-YUN	Female	2020.9.1	30,000	0.02%	0	0%	0	0%	Master of Applied Mathematics, NCHU Providence University Mercuries Data Systems Ltd.	None	None	None		
Information Communication System Integration Div. Director	R.O.C.	YANG,CHUN-FU	Male	2021.3.2	10,000	0.01%	0	0%	0	0%	University of Birmingham MBA Head of New Business Department, Taiwan Fixed Network UnaBiz Director	None	None	None		
Smart integration Service Div. Director	R.O.C.	CHI,CHEN-HSIUNG	Male	2021.10.1	0	0.00%	0	0%	0	0%	Chinese Culture University Project Manager of MBA TECHNIQUE CO., LTD.	None	None	None		
Smart integration Service Div. Director	R.O.C.	LI,HSIAO-PING	Female	2021.10.1	559	0.00%	0	0%	0	0%	Master of Tourism Management, NHU	None	None	None		
Sales Div. III Director	R.O.C.	YU,HSI-YAO	Male	2021.10.1	25,000	0.02%	0	0%	0	0%	Newport University MBA Assistant Manager of ATEAM Technology CO.	None	None	None		
Software R&D Div. Director	R.O.C.	LI,CHANG-JU (Note 9)	Male	2022.5.1	30,000	0.02%	0	0%	0	0%	Department of Information Communications, CCU System Analyst of Altrust Inc.	None	None	None		
Sales Div. III Director	R.O.C.	LAI,YUEH-HUNG (Note 10)	Male	2022.5.1	0	0.00%	0	0%	0	0%	Master of Financial Engineering, King's College UoL	None	None	None		

Note 1: LAN,KUANG-CHAO was dismissed of Vice President on November 1, 2022.

Note 2: WANG,JUNG-TE took office of COO on February 9, 2022.

Note 3: CHEN,CHUN-CHENG took office of Vice President on February 10, 2022.

Note 4: WANG,FEI-CHIU took office of Vice President on March 22, 2022.

Note 5: CHEN,LI-YEN was dismissed of Senior Director on November 1, 2022.

Note 6: FANG,WEN-HUNG was dismissed of Director on August 31, 2022.

Note 7: HUANG,JUI-LIN was dismissed of Director on March 31, 2022.

Note 8: MO,CHI-YUN was dismissed of Director on January 14, 2022.

Note 9: LI,CHANG-JU took office of Director on May 1, 2022.

Note 10: LAI,YUEH-HUNG took office of Director on May 1, 2022.

Note 11: To enhance operational efficiency and ensure decision-making that maximizing the company's value, the current practice is for the Chairman to concurrently hold the position of President. This arrangement facilitates smoother execution of decisions and reduces the likelihood of actions that may be detrimental to the company.

To diminish the concentration of power resulting from the Chairman's dual role, the Company is taking steps in the current fiscal year to amend articles of incorporation. Including increasing the number of directors and incorporating a certain proportion of independent directors. The objective is to maintain the normal functioning of the board of directors and mitigate potential interference.

iii. Remuneration paid during the most recent fiscal year (2022) to Directors, Supervisors, President, and Vice Presidents

1. Remuneration paid to Directors and Independent Directors

December 31, 2022 (Unit: NT\$ thousands, thousand shares)

Title	Name	Remuneration to director								Sum of A+B+C+D and ratio to net income		Remuneration received by directors for concurrent service as an employee								Sum of A+B+C+D+E+F +G and ratio to net income		Remuneration received from investee enterprises other than subsidiary-es or from the parent company
		Remuneration (A)		Retirement pay and pension (B)		Directors Compensation (C)		Allowances (D)				Salary, rewards, and special disbursements (E)		Retirement pay and pension (F)		Employee compensation (G)						
		The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company		All consolidated entities		The Company	All consolidated entities	
																Amount in cash	Amount in stock	Amount in cash	Amount in stock			
Chairman	CHEN, KUO-CHANG	60	60	0	0	1,097	1,097	8	8	1,165 0.84%	1,165 0.84%	8,732	8,732	0	0	0	0	0	0	9,897 7.17%	8,897 4.83%	None
Director	ADVANTEC H Investment Co., Ltd.	60	60	0	0	200	200	8	8	72 0.19%	72 0.19%	0	0	0	0	0	0	0	0	268 0.19%	268 0.04%	None
Director	Mainland-Taiwan Investment Co., Ltd.	30	30	0	0	0	0	5	5	35 0.03%	35 0.03%	0	0	0	0	0	0	0	0	35 0.03%	35 0.03%	None
Director	WENG, SHU A-HUNG	60	60	0	0	200	200	8	8	268 0.19%	268 0.19%	5,585	5,585	0	0	1,392	0	0	0	7,245 5.25%	7,245 6.06%	None
Director	KUAN, MIN-CHIH	60	60	0	0	200	200	8	8	268 0.19%	268 0.19%	3,938	3,938	0	0	763	0	0	0	4,969 3.60%	4,969 2.53%	None
Director	HUANG, YI NG-CHIEN	60	60	0	0	250	250	8	8	318 0.23%	318 0.23%	5,745	5,745	0	0	213	0	0	0	6,276 4.54%	6,276 3.58%	None
Independent Director	LI, HSU-TUNG	510	510	0	0	0	0	20	20	530 0.38%	530 0.38%	0	0	0	0	0	0	0	0	530 0.38%	530 0.38%	None
Independent Director	LI, MING-CHUN	510	510	0	0	0	0	15	15	525 0.38%	525 0.38%	0	0	0	0	0	0	0	0	525 0.38%	525 0.38%	None
Independent Director	WENG, CHUNG-HSIUNG	300	300	0	0	0	0	12	12	312 0.23%	312 0.23%	0	0	0	0	0	0	0	0	312 0.23%	312 0.23%	None

- The policy, system, standard, and structure of remuneration for independent directors should be stated, and the amount of remuneration should be justified with an illustration of the person's duty, risk, and devoted time: The Remuneration Committee, in accordance with, is responsible for establishing and periodically reviewing policies, systems, standards, and structures related to the evaluation of directors and executives' performance and compensation. Recommendations regarding director's remuneration are submitted to the Board of Directors for discussion, limited to those specified in the company's articles of incorporation or authorized by shareholder resolution. According to the company's articles of incorporation, the remuneration of the Chairman and directors is determined by the Board of Directors, taking into account their level of involvement in the company's operations and their contribution's value, as well as considering industry standards domestically and internationally. In the event of annual profits, the Board of Directors may allocate remuneration to directors, employees, and report it to the shareholders' meeting, with a limit of not exceeding 1 percent for director remuneration. However, the company's accumulated losses shall have been covered, and then employee and director remuneration should be allocated according to the aforementioned ratio.
- Other than the content revealed in the table above, any remuneration received by the director of the company for offering service (e.g. serving as an external consultant) to any company mentioned in the financial statement: None.

2. Remuneration paid to Supervisors

December 31, 2022 (Unit: NT\$ thousands, thousand shares)

Title	Name	Remuneration to Supervisor						Sum and Ratio of Total Remuneration (A+B+C) to Net Income		Remuneration received from investee enterprises other than subsidiary-es or from the parent company
		Remuneration (A)		Supervisor Compensation (B)		Allowances (C)		The Company	All consolidated entities	
		The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities			
Supervisor	LU, YANG-CHENG	30	30	180	0	2	2	212 0.15	212 0.15	None
Supervisor	LIN, CHIH-LING	30	30	200	0	4	4	234 0.17	234 0.17	None

3. Remuneration paid to the President and Vice Presidents

December 31, 2022 (Unit: NT\$ thousands, thousand shares)

Title	Name	Salary (A)		Pension (B)		Bonuses and Allowances (C)		Employee compensation (D)				Sum and Ratio of Total Remuneration (A+B+C+D) to Net Income		Remuneration received from investee enterprises other than subsidiaries or from the parent company
		The Company	All Companies Listed in the Consolidated Financial Statements	The Company	All Companies Listed in the Consolidated Financial Statements	The Company	All Companies Listed in the Consolidated Financial Statements	The Company		All Companies Listed in the Consolidated Financial Statements		The Company	All Companies Listed in the Consolidated Financial Statements	
								Amount in cash	Amount in stock	Amount in cash	Amount in stock			
President	CHEN,KUO-CHANG													
ICT Service Business Group CTO / Vice President	LIN,HSIEH-HENG													
Service Contract Sales Div. Vice President	KUAN,MIN-CHIH													
Smart integration Service Div. Vice President	WENG,SHUA-HUNG													
Information Communication System Integration Div. Vice President	YANG,CHI-HUANG													
Sales 2 Div. Vice President	TU,MENG-LANG													
GM's Office Vice President	KE KUO-CHUAN													
Marketing & Information Div. Vice President	HSIEH,MING-YEH													
Multimedia Integration Div. Vice President	HUANG,YING-CHIEN													
GM's Office Vice President	LAN,KUANG-CHAO	69,149	69,149	0	0	18,731	18,731	7,222	0	7,222	0	95,102 68.87%	95,102 68.87%	0
Mobile Sales Div. Vice President	WANG,HUNG-JEN													
Software R&D Div. Vice President	LU,YUAN-HUNG													
Sales 3 Div. Vice President	WU,HSING-TUNG													
Product Management and Cybersecurity Div. Vice President	CHENG,CHAO-JEN													
Smart City Control Solution Integration Div. Vice President	YANG,CHUN-MING													
Vice President	CHEN,CHUN-CHENG													
Chief Operating Officer	WANG,JUNG-TE													
Chief Financial Officer	WANG,FEL-CHIU													
Smart City Control Solution Integration Div. Vice President	YANG,CHUN-MING													

Range of Remuneration

Range of Remuneration paid to President and Vice Presidents	Name of President and Vice President	
	The Company	All consolidated entities
Less than NT\$1,000,000	LIN,HSIEH-HENG	LIN,HSIEH-HENG
NT\$1,000,000 (inclusive) ~ NT\$2,000,000 (exclusive)	LAN,KUANG-CHAO	LAN,KUANG-CHAO
NT\$2,000,000 (inclusive) ~ NT\$3,500,000 (exclusive)	CHEN,CHUN-CHENG	CHEN,CHUN-CHENG
NT\$3,500,000 (inclusive) ~ NT\$5,000,000 (exclusive)	KUAN,MIN-CHIH、CHENG,CHAO-JEN、KE KUO-CHUAN、HSIEH,MING-YEH、WANG,HUNG-JEN、LU,YUAN-HUNG、WANG,FEI-CHIU	KUAN,MIN-CHIH、CHENG,CHAO-JEN、KE KUO-CHUAN、HSIEH,MING-YEH、WANG,HUNG-JEN、LU,YUAN-HUNG、WANG,FEI-CHIU
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	CHEN,KUO-CHANG、WENG,SHUA-HUNG、HUANG,YING-CHIEN、TU,MENGLANG、YANG,CHI-HUANG、WU,HSING-TUNG、YANG,CHUN-MING、WANG,JUNG-TE	CHEN,KUO-CHANG、WENG,SHUA-HUNG、HUANG,YING-CHIEN、TU,MENGLANG、YANG,CHI-HUANG、WU,HSING-TUNG、YANG,CHUN-MING、WANG,JUNG-TE
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)		
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)		
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)		
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)		
Over NT\$100,000,000		
Total	18	18

4. Remuneration paid to five highest remunerated management personnel for company listed on TWSE or TPEX

December 31, 2022; Unit: NT\$ thousands

Title	Name	Remuneration (A)		Retirement pay and pension (B)		Bonus and Allowances (C)		Employee Compensations (D)				Sum of A+B+C+D and ratio to net income		Remuneration received from investee enterprises other than subsidiaries or from the parent company
		The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company		All consolidated entities		The Company	All consolidated entities	
								Amount of Cash	Value of Shares	Amount of Cash	Value of Shares			
Vice President	WU,HSING-TUNG	4,880	4,880	0	0	3,127	3,127	1,838	0	1,838	0	9,845 7.13%	9,845 7.13%	None
Chairman	CHEN,KUO-CHANG	6,228	6,228	0	0	2,563	2,563	0	0	0	0	8,791 6.37%	8,791 6.37%	None
Vice President	YANG,CHI-HUANG	5,118	5,118	0	0	2,289	2,289	798	0	798	0	8,205 5.94%	8,205 5.94%	None
Chief Operating Officer	WANG,JUNG-TE	5,457	5,457	0	0	2,592	2,592	0	0	0	0	8,049 5.83%	8,049 5.83%	None
Vice President	WENG,SHUA-HUNG	4,689	4,689	0	0	955	955	1,392	0	1,392	0	7,036 5.09%	7,036 5.09%	None

Note 1: The term "five highest remunerated management personnel" refers to the company's managerial staff, and the criteria for determining these executives are based on the regulations set forth in the letter No. 0920001301 issued by the Ministry of Finance and the Financial Supervisory Commission on March 27, 2003. As for the calculation and determination of the "five highest remunerated management personnel", it is based on the total amount received by the company's managerial staff from consolidated financial reports, including salaries, retirement pensions, bonuses, special allowances, and the total amount of employee compensation (i.e., A+B+C+D), and the top five individuals with the highest combined amounts are identified. If directors also hold these managerial positions, they should be listed on this form as well as on above table 1-1.

Names and Distributions of Employee Profit-Sharing Compensation to Managerial Officers

Unit: NT\$ thousands/ thousand shares

	Title	Name	Amount in stock	Amount in cash	Total	As a % of net profit
Managerial officers	President	CHEN,KUO-CHANG	0	14,345	14,345	0
	Vice President	KUAN,MIN-CHIH				
	Vice President	KE KUO-CHUAN				
	Vice President	HSIEH,MING-YEH				
	Vice President	WENG,SHUA-HUNG				
	Vice President	HUANG,YING-CHIEN				
	Vice President	CHENG,CHAO-JEN				
	Vice President	WANG,HUNG-JEN				
	Vice President	LAN,KUANG-CHAO (Note 1)				
	Vice President	YANG,CHI-HUANG				
	Vice President	TU,MENG-LANG				
	Vice President	LU,YUAN-HUNG				
	Chief Technology Officer and Vice President	LIN,HSIEH-HENG				
	Vice President	WU,HSING-TUNG				
	Vice President	YANG,CHUN-MING				
	Chief Operating Officer	WANG,JUNG-TE (Note 2)				
	Vice President	CHEN,CHUN-CHENG (Note 3)				
	Chief Financial Officer	WANG,FEI-CHIU (Note 4)				
	Accounting Directors	HSIAO,CHIA-LING				
	Senior Directors	HUANG,WEN-SHU				
	Senior Directors	HUANG,CHEN-JUNG				
	Senior Directors	CHEN,LI-YEN (Note 5)				
	Senior Directors	YANG,JEN-CHI				
	Senior Directors	CHEN,FANG-JUI				
	Senior Directors	WANG,LI-CHEN				
	Senior Directors	PAN,CHUN-MING				
	Senior Directors	YANG,HUNG-TU				
	Director	FANG,WEN-HUNG (Note 6)				
	Director	HSU,SHU-HAO				
	Director	LIN,YU-CHING				
	Director	HUANG,JUI-LIN (Note 7)				
	Director	CHEN,YU-CHIA				
	Director	CHEN,TZU-HAO				
	Director	CHUNG,YU-TING				
	Director	CHUNG,CHIU-JU				
	Director	CHANG,PO-YU				
	Director	KUNG,HSING-YU				
	Director	MO,CHI-YUN (Note 8)				
	Director	YU,CHAO-LUNG				
	Director	CHU,SHIH-JEN				
Director	HU,CHUNG-WEI					
Director	CHEN,KUO-SHENG					
Director	CHAO,WAN-LING					
Director	TSAI,SHU-YUN					
Director	YANG,CHUN-FU					
Director	CHI,CHEN-HSIUNG					
Director	LI,HSIAO-PING					
Director	YU,HSI-YAO					
Director	LI,CHANG-JU (Note 9)					
Director	LAI,YUEH-HUNG (Note 10)					

Note 1: LAN,KUANG-CHAO was dismissed of Vice President on November 1, 2022.

Note 2: WANG,JUNG-TE took office of COO on February 9, 2022.

Note 3: CHEN,CHUN-CHENG took office of Vice President on February 10, 2022.

Note 4: WANG,FEI-CHIU took office of Vice President on March 22, 2022.

Note 5: CHEN,LI-YEN was dismissed of Senior Director on November 1, 2022.

Note 6: FANG,WEN-HUNG was dismissed of Director on August 31, 2022.

Note 7: HUANG,JUI-LIN was dismissed of Director on March 31, 2022.

Note 8: MO,CHI-YUN was dismissed of Director on January 14, 2022.

Note 9: LI,CHANG-JU took office of Director on May 1, 2022.

Note 10: LAI,YUEH-HUNG took office of Director on May 1, 2022.

5. Separate comparisons and descriptions of total remuneration, as a percentage of net income, as paid by the Company and all other companies included in the consolidated financial statements during the past two fiscal years to Directors, Supervisors, the President, and Vice Presidents, with analysis and description of remuneration policies, standards, and packages, procedure for determining remuneration, and its linkage to operating performance and future risks:

1. Analysis of total remuneration of Directors, Supervisors, President and Vice Presidents as a percentage of net income during the past two fiscal years:

Unit: NT\$ thousands

Percentage of total remuneration to net income (%)	2022			2021		
Title	Total Remuneration	Net Income	Percentage of total remuneration to net income (%)	Total Remuneration	Net Income	Percentage of total remuneration to net income (%)
Director	3,689	138,097	2.67%	1,320	171,524	0.77%
Supervisor	446		0.32%	128		0.07%
President / Vice President	69,149		50.07%	62,339		36.34%

There have been no changes in the remuneration payment methods for the directors, supervisors, President, and vice President of the Company in the past two years.

2. The remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risks:

(1) The remuneration policies, standards, and packages

The remuneration for directors and supervisors of the company is provided in accordance with the provisions of the company's articles of association:

Article 16: "The remuneration for the Chairman, directors, and supervisors shall be authorized by the Board of Directors based on their level of participation and contribution to the company's operations, taking into account industry standards."

The salary structure for the President and Vice President of the company is handled in accordance with the "Salary and Bonus Management Regulations," with recommendations submitted to the Board of Directors by the Compensation Committee.

The remuneration for directors and supervisors includes allowances for transportation expenses, remuneration for performing duties, and for profit distribution. If directors also hold positions as employees of the company, employee compensation may be allocated. In addition to the base salary, the President and Vice President may receive additional allowances and employee compensation based on their positions, duties, and performance.

(2) The procedure for setting remuneration

According to the Article 20 of the company's articles of incorporation:

"If the company is profitable for the year, 10% to 20% shall be allocated as employee remuneration, and the remuneration for directors and supervisors shall not exceed 1%. However, if the company has accumulated losses, the amount required for offsetting shall be reserved in advance."

"If the company has surplus earning to be distributed, taxes shall be reserved and dues to be paid first, followed by offsetting accumulated losses. Then, 10% shall be allocated as the legal reserve, and special surplus reserves shall be set up in accordance with the law. If necessary, a portion of the surplus may be retained, and the remainder shall be distributed as dividends to shareholders. Among the dividends distributed in the current year, the proportion of cash dividends shall be no less than 10%, and the rest shall be distributed in the form of stock dividends."

(3)The relation to business performance and future risks

The remuneration of directors and supervisors in the Company is determined according to the profit distribution table approved by the shareholders' meeting, and it is closely related to the company's operational performance. The Remuneration Committee of the Company regularly reviews the remuneration system based on the contributions of directors to the board and the company's operations. The remuneration of the President and Vice President is managed in accordance with the "Salary and Bonus Management Regulations," taking into account their contributions to the company's operations, including future business risks, environmental considerations, and corporate social responsibility. These factors serve as the basis for calculating their remuneration, and the reasonableness of the remuneration is periodically reviewed by the Remuneration Committee.

Therefore, the company's operational performance is closely linked with the remuneration of directors and supervisors, as well as the remuneration of the President and Vice President.

iv. Implementation of Corporate Governance

1.Board of Directors: In the recent fiscal year, the board of directors meets 12 times (A), and the attendance of directors is as follows:

Title	Name	Attendance in Person (B)	By Proxy	Actual Attendance Rate (%) 【 B/A 】 (Note)	Remark
Chairman	CHEN,KUO-CHANG	12	0	100.00%	2022.6.23 Re-elected
Director	ADVANTECH Investment Co., Ltd. Representative : HUANG,TZU CHE	12	0	100.00%	2022.6.23 Re-elected
Director	Mainland-Taiwan Investment Co., Ltd. Representative : YANG,CHI HUANG	9	0	100.00%	2022.6.23 Appointed
Director	WENG,SHUA-HUNG	11	0	92.00%	2022.6.23 Re-elected
Director	KUAN,MIN-CHIH	11	0	92.00%	2022.6.23 Re-elected
Director	HUANG,YING-CHIEN	11	0	92.00%	2022.6.23 Re-elected
Independent Director	LI,HSU-TUNG	12	0	100.00%	2022.6.23 Re-elected
Independent Director	LI,MING-CHUN	12	0	100.00%	2022.6.23 Re-elected
Independent Director	WENG,CHUNG-HSIUNG	9	0	100.00%	2022.6.23 Appointed
Supervisor	LU,YANG-CHENG	2	0	67.00%	2022.6.23 Dismissal
Supervisor	LIN,CHIH-LING	3	0	100.00%	2022.6.23 Dismissal

Other mentionable items:

- If any of the following circumstances occur, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:
 - Matters referred to in Article 14-3 of the Securities and Exchange Act: None.
 - Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the board of directors: None.
- If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None.
- TWSE/TPEX Listed Companies shall disclose information such as the evaluation cycle and period, evaluation scope, method, and evaluation content of the board of directors' self (or peers) evaluation, and fill in Appendix II (2) on the implementation of the board of directors' evaluation.

Evaluation cycle	Once a year
Assess Period	January 1, 2022 to December 31, 2022
Assessment scope	Evaluation of the performance of Board of Directors, Individual Board Members, and Functional Committees
Evaluation method	Internal Evaluation of the Board of Directors, Self-Evaluation of Board Members, Internal Evaluation of Functional Committees
Evaluation content	The content of evaluation scope includes the following items: (1) Evaluation of the Board of Directors: Includes the level of involvement in company operations, the quality of board decision-making, board composition and structure, director selection and continuous education, internal controls, etc. (2) Evaluation of Individual Board Members: Includes understanding of company goals and

	<p>tasks, awareness of director responsibilities, level of involvement in company operations, internal relationship management and communication, director's expertise and continuous education, internal controls, etc.</p> <p>(3) Evaluation of Functional Committees: Includes the level of involvement in company operations, understanding of functional committee responsibilities, quality of functional committee decision-making, composition and selection of committee members, internal controls, etc.</p>
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4.Measures taken to strengthen the functionality of the board:

1.Board Meeting Efficiency and Evaluation:

The company has established the "Board Meeting Regulations" in accordance with the guidelines of the "Regulations Governing Board Meetings of Publicly Listed Companies". In order to enhance the efficiency of board meetings, the board of directors has developed the "Board Performance Evaluation Guidelines" for evaluation by the Remuneration Committee, which also provides specific improvement recommendations.

2.Director continuous education:

To encourage directors to enhance their knowledge and skills, the Company arranges periodic training courses for directors and supervisors conducted by designated personnel.

3.Directors' and Officers' Liability Insurance:

To provide protection for directors, supervisors, and executives against risks arising from their business activities, the company purchases "Directors' and Officers' Liability Insurance" for them on an annual basis.

Note: For the 11th Board of Directors election in the fiscal year 2022, directors seeking re-election are required to attend 12 meetings. Newly elected directors are required to attend 9 meetings. As for the supervisors, after their appointment, they are expected to attend 3 meetings before their removal.

2.Audit Committee:

In the recent fiscal year, the audit committees meet 6 times (A), and the attendance of directors is as follows:

Title	Name	Attendance in Person(B)	Actual Attendance Rate (%) (B/A)	Remark
Independent Director	LI,HSU-TUNG	6	100.00%	2022.6.23 Re-elected
Independent Director	LI,MING-CHUN	6	100.00%	2022.6.23 Appointed
Independent Director	WENG,CHUNG-HSIUNG	6	100.00%	2022.6.23 Re-elected

Other mentionable items:

i. If there are circumstances as follows, the date on which the meetings, sessions, contents of motion, all Audit Committee members' opinions and the company's responses should be specified:

(1) Matters listed in Article 14-5 of the Securities and Exchange Act:

Audit Committee Date	The content of proposal that is related to the matters listed in Article 14-5 of the Securities and Exchange Act.	Audit Committee holding opposing or reserved opinions.
Third time in 2022 2022.08.11	<p>1.The company's consolidated financial statements for the second quarter of 2022.</p> <p>2.Capital increase proposal of subsidiary company, S-LINK SYSTEMS INC.</p> <p>3.Investment proposal of LEON ENERGY CO., LTD.</p>	None
	<p>Independent directors' dissenting opinions, reservations or significant recommendations: None.</p> <p>Results of Audit Committee Resolutions(2022.08.11): Passed after the Chairman obtained unanimous consent from all attending committee members.</p> <p>The Board of Directors' responses to the opinion of the Audit Committee: Passed after the Chairman obtained unanimous consent from all attending directors and independent directors.</p>	
Fourth time in 2022 2022.11.07	<p>1.Draft the audit plan for the fiscal year 2023.</p> <p>2.To execute the transfer of treasury shares to employees in accordance with the provisions of the "Fifth Repurchase of Treasury Shares for Employee Transfer Guidelines" of the company, and present it for discussion.</p> <p>3.Proposal of change in the company's financial supervisor.</p> <p>4.Proposal of change in the company's authorized spokesperson.</p> <p>5.Proposal of amendment to certain articles of the company's "Internal Handling Procedures for Material Inside Information."</p>	None
	<p>Independent directors' dissenting opinions, reservations or significant recommendations: None.</p> <p>Results of Audit Committee Resolutions(2022.11.07): Passed after the Chairman obtained unanimous consent from all attending committee members.</p> <p>The Board of Directors' responses to the opinion of the Audit Committee: Passed after the Chairman obtained unanimous consent from all attending directors and independent directors.</p>	

<p>First time in 2023 2023.03.14</p>	<ol style="list-style-type: none"> 1.The completed business report and financial statements for the fiscal year 2022 are presented for deliberation. 2.The consolidated and individual financial statements for the fiscal year 2022 are presented for deliberation. 3.The deliberation of the "Internal Control Statement" for the fiscal year 2022. 4.The presentation of director and employee remuneration distribution for the fiscal year 2022. 5.Report on the repurchase of company shares. 6.Proposal for amendments to certain articles of the company's "Articles of Incorporation." 7.Proposal to establish the "Salary Administration Regulations" of the company 8.Establishment of a greenhouse gas inventory and verification plan for subsidiary companies. 	<p>None</p>
<p>Independent directors' dissenting opinions, reservations or significant recommendations: None.</p>		
<p>Results of Audit Committee Resolutions (2023.03.14): Passed after the Chairman obtained unanimous consent from all attending committee members.</p>		
<p>The Board of Directors' responses to the opinion of the Audit Committee: Passed after the Chairman obtained unanimous consent from all attending directors and independent directors.</p>		

(2)Other than the above-mentioned matters, the matters which have not been adopted by the Audit Committee but resolved with consent of over two-thirds of all members of the board of directors: In the past fiscal year, the company convened 5 Audit Committee meetings, and all members of the Audit Committee attended and approved the proceedings.

ii.Considering the measure for withdrawal from conflict of interest, the names of directors, contents of proposals, reasons to avoid conflict interest, and participation for voting should be specified: None.

iii.The communication between independent directors and chief of internal audit as well as the CPAs (should include significant matters, methods, and outcomes regarding aspects such as the Company's finance, business).

(1)The internal audit supervisor of the Company regularly communicates the audit report results to the Audit Committee and presents internal audit reports during quarterly Committee meetings. In case of any special circumstances, immediate reporting is also made to the Audit Committee members. There were no such special circumstances during the fiscal year 2022. The communication between the Audit Committee and the internal audit supervisor of the company has been good.

(2)The Company's CPAs report the results of their audit or review of the financial statements for each quarter during the Audit Committee meetings. They also communicate any other matters related to legal requirements. In case of any special circumstances, immediate reporting is made to the Audit Committee members. There were no such special circumstances during the fiscal year 2022. The communication between the Audit Committee and the external auditors has been good.

3. Corporate Governance - Implementation status and deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and Reasons thereof

Evaluation Item	Implementation Status			Deviations from the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Description	
i. Does the Company establish and disclose its Corporate Governance Best-Practice Principles based on the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies?		V	(1) The Company has been continuously reviewing and, as necessary, revising or establishing relevant rules, procedures, and internal operating guidelines to enhance operational efficiency and strengthen risk management mechanisms, thereby improving the implementation of corporate governance. In recent years, in compliance with regulatory guidelines formulated or revised by regulatory authorities, and taking into account the operational needs of the company, the following regulations have been completed and serve as the basis for implementation: "Board Meeting Regulations," "Procedures for Acquisition or Disposal of Assets," "Procedures for Derivative Financial Instrument Transactions," "Shareholders' Meeting Regulations," "Operating Procedures for Related Party Transactions, Specific Companies, and Group Enterprises," "Monitoring Operations of Subsidiaries," "Code of Conduct for Directors, Supervisors, and Managers," "Code of Conduct for Employees," and "Internal Handling and Prevention of Insider Trading Operations Procedures." These regulations are made available for reference on the company's website and internal portal at http://www.hwacom.com . (2) The company's corporate governance system is still under planning. However, the Company complies with relevant laws and regulations by disclosing significant corporate information and regularly disclosing financial information. The Board of Directors fulfills its responsibilities as entrusted by shareholders by guiding the company's strategic direction and effectively supervising the management functions of the executive team to create shareholder value and achieve sound financial performance and sustainable operations. Currently, the Company is progressively formulating comprehensive provisions and measures in accordance with the "Principles of Corporate Governance for TWSE/TPEX Listed Companies".	As deemed necessary, the company will handle matters in accordance with relevant and explicit Acts.
ii. Shareholding Structure and Shareholders' Rights (1) Does the Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly? (2) Does the Company know the identity of its major shareholders and the parties with ultimate control of the major shareholders? (3) Has the Company built and implemented a risk management system and a firewall between the Company and its affiliates? (4) Has the Company established internal rules prohibiting insider trading of securities based on undisclosed information?	V V V V	V	(1) The company has not yet established internal operating procedures. The company's spokesperson and shareholder services personnel are responsible for handling related shareholder issues. If there are legal matters involved, they will be referred to the legal department for handling. (2) The Company has entrusted a professional share handling agency for related matters. A dedicated person is responsible for handling these matters and reporting the shareholdings of directors, executives, and major shareholders holding 10% or more of the company's shares on a monthly basis. This ensures oversight of the company's major shareholders who exercise actual control over the Company. (3) The Company has established the "Operating Procedures for Related Party Transactions, Specific Companies, and Group Enterprises" as a set of guidelines governing financial transactions with related entities. Additionally, the "Subsidiary Monitoring Regulations" have been put in place to establish appropriate risk management mechanisms and prevent irregular transactions with related entities. (4) The Company has implemented the "Internal Handling and Prevention of Insider Trading Operations Procedures" to prohibit insiders from trading securities based on undisclosed material information in the market. This prevents the misuse of non-public information by company insiders.	Unspecified None None None
iii. Composition and responsibilities of the board of directors (1) Have a diversity policy and specific management objectives been adopted for the board and have they been fully implemented? (2) Has the Company voluntarily established other functional committees in addition to the remuneration committee and the audit committee? (3) Has the Company established rules and methodology for evaluating the performance of its Board of Directors, implemented the performance evaluations on an annual basis, and submitted the results of performance evaluations to the board of directors and used them as reference in determining salary/compensation for individual directors and their nomination and additional office terms? (4) Does the Company regularly evaluate its external auditors' independence?	V V V V	V V V	(1) The company's directors and independent directors have industry expertise and experience, each with different specialties in various fields, contributing to the overall development and operation of the company. (2) The company has established a remuneration committee in accordance with the law, while other functional committees are established based on the needs and discussions of the board of directors. (3) The board of directors and remuneration committee determine director compensation based on the company's operational performance and reference to industry standards and we strive to continually improve our corporate governance. Starting from the year 2020, we have formulated methods and evaluation criteria for board performance assessment, conducting regular assessments and reporting the results to the board of directors. (4) The company's CPAs operate independently in accordance with relevant laws and regulations, and provide an "independent declaration" to the company annually.	None None Unspecified None

Evaluation Item	Implementation Status			Deviations from the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Description	
iv. Does the TWSE/TPEX listed company have in place an adequate number of qualified corporate governance officers and has it appointed a chief corporate governance officer with responsibility corporate governance practices (including but not limited to providing information necessary for directors and supervisors to perform their duties, aiding directors and supervisors in complying with laws and regulations, organizing board meetings and annual general meetings of shareholders as required by law, and compiling minutes of board meetings and annual general meetings)?		V	The Company has appointed a secretary to the board of directors and a shareholder services personnel to handle matters related to board meetings and shareholders' meetings. They are responsible for company registration, changes in registration, and the preparation of minutes for board meetings and shareholders' meetings. However, we have not yet designated a corporate governance officer at this time.	Unspecified
v. Has the Company established channels for communicating with its stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) and created a stakeholders section on its company website? Does the Company appropriately respond to stakeholders' questions and concerns on important corporate social responsibility issues?	V		The Company has set up a section for stakeholders on our website, providing timely and sufficient information for stakeholders to make informed judgments. Additionally, stakeholders can also communicate with us through channels such as telephone or email.	None
vi. Has the Company appointed a professional shareholder services agent to handle matters related to its shareholder meetings?	V		The affairs of our company's shareholders' meeting is arranged and planned by the Shareholder Services Department of Fubon Securities, including the scheduling of the shareholders' meeting agenda and the completion of relevant reporting procedures.	None
vii. Information Disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business, and corporate governance status? (2) Does the Company use other information disclosure channels (e.g., maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)? (3) Does the company publish and report its annual financial report within two months after the end of the fiscal year, and publish and report its financial reports for the first, second, and third quarters as well as its operating statements for each month before the specified deadlines?	V V	V	(1) The Company has dedicated personnel to maintain and update the website, ensuring timely disclosure of financial and business-related information for shareholders and the general public to reference. The company's website is http://www.hwacom.com . (2) The Company has assigned individuals responsible for collecting and disclosing company information, and a spokesperson system has been established to ensure the timely and proper disclosure of information that may affect the decision-making of shareholders and stakeholders. (3) The company completes the announcement and filing of annual and quarterly financial reports within the statutory deadlines, and submits monthly reports on the operational performance of each month.	None None Unspecified
iii. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' continuing education, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing liability insurance for directors and supervisors)?	V		(1) Employee Rights & Interests: The Company has always treated employees with integrity and safeguards their legal rights in accordance with the Labor Standards Act and the company's personnel regulations. (2) Employee Relations: The Company provides various channels for employees to express their opinions, fostering a sense of engagement. It establishes a good relationship of trust with employees through enriching and stabilizing employee welfare systems, providing excellent education and training programs. Examples include subsidizing employee club activities, employee travel allowances, group insurance coverage, health check-up services, parking subsidies, and transportation allowances. (3) Investor Relations: The Company aims to maximize shareholder value and treats all shareholders fairly. It promptly discloses significant information, such as financials, business updates, and insider shareholding changes, through the "Public Information Observation System." The company's spokesperson and shareholder services personnel are responsible for addressing shareholder suggestions. (4) Supplier Relations: The Company maintains a good relationship with suppliers in accordance with the relevant procurement management measures. (5) Rights&Interests of Stakeholders: The Company and its partner banks fulfill rights and obligations based on contracts and relevant operational rules, ensuring the protection of both parties' legal interests. The company provides sufficient information for stakeholders to understand its operations and financial condition. Stakeholders have the right to communicate with the company, make suggestions, and protect their legitimate interests.	None

Evaluation Item	Implementation Status			Deviations from the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No	Description	

6. Directors and Supervisors' Continuing Education:

Title	Name	Designated Hours	Training Units	Training Date	Course Name	Hours	Remark
Director	KUAN,MIN-CHIH	6	Taiwan Corporate Governance Association , TCGA	2022/11/29 2022/12/13	Impact Investing, from ESG to SDGs Trends and Risk Management in Digital Technology and Artificial Intelligence.	6	Completed
Director	WENG,SHUA-HUNG	6	Securities and Futures Institute, SFI Taiwan	2022/03/18 2022/11/03	Financial information that directors are most likely to overlook. Introduction and case analysis of insider short-term trading	6	Completed
Corporate Director Representative	HUANG,TZU-CHE	6	Taiwan Corporate Governance Association , TCGA	2022/10/05 2022/10/19	The key to sustainable business operation - External Innovation Practical performance assessment of corporate "ESG sustainability" and "Risk management".	6	Completed
Corporate Director Representative	YANG,CHIH-HUANG	6	Securities and Futures Institute, SFI Taiwan	2022/10/28 2022/11/15	Analysis and utilization of corporate financial information ESG new economy and new opportunities for corporate transformation.	6	Completed
Independent Director	LI,MING-CHUN	3	Securities and Futures Institute, SFI Taiwan	2022/11/16	How does the board of directors utilize OKR to enhance corporate governance effectiveness?	3	Uncompleted
Independent Director	LI,HSU-TUNG	6	Taipei Exchange Taiwan Corporate Governance Association , TCGA	2022/08/25 2022/11/18	Internal Employee Stock Ownership Advocacy Seminar for Over-the-Counter Companies. Exploration of Key Issues in the Merger and Acquisition Integration Process	6	Completed
Independent Director	WENG,CHUNG-HSIUNG	6	Taiwan Corporate Governance Association , TCGA	2022/08/10 2022/11/10	Business Management Practices: New Knowledge in Digital Transformation Cross-Cultural Management and Sustainable Business	6	Completed

7. Implementation of Risk Management Policies and Risk Measurement Standards: The Company has established internal regulations in accordance with the Law to conduct various risk management and assessments.

(1) Risk management policies

- Promoting a risk management-oriented business model.
- Establishing mechanisms for early identification, accurate measurement, effective supervision, and strict control of risks.
- Constructing a comprehensive risk management system across the entire company to keep risks within acceptable or controllable limits.
- Introducing best practices in risk management and achieving continuous improvement.

(2) Risk Items and Management Framework

Important Risk Item	Level 1 Control Mechanisms Risk Management Responsibility Units	Level 2 Control Mechanisms Risk Assessment Mechanism	Highest Decision-making and Supervisory Mechanisms
Operational Risk	Business Units, Technical Support Units	Business Development Management Committee	Highest Decision-making Mechanism: Board of Directors Supervisory Mechanism: Audit Office
Technological and Industry Changes	Marketing Units, Technical Support Units		
Cyber Security Risk	Information Units		
Market Risk	Marketing Units, Technical Support Units		
<ul style="list-style-type: none"> ■Competitors' Actions ■New Service Development 			
Compliance with Policies and Regulations	President's Office		
Corporate Image Maintenance	Marketing Units		
Investment and Reinvestment	Finance Units		
Employee Safety, Employee Conduct, Ethics, and Integrity	Operation Units		
Interest Rate, Exchange Rate, and Financial Risks	Finance Units		

Evaluation Item	Implementation Status			Description	Deviations from the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies and the reasons
	Yes	No			

Lending to Others, Endorsements and Guarantees, Derivative Financial Instruments, and Capital Management	Finance Units				
Expression of Financial Statements	Accounting Units				
Litigation and Non-Litigation Matters	Legal-related Units				
Changes in Shareholding of Directors, Supervisors, and Major Shareholders	Share Registry Units				
Board Meeting Management	Share Registry Units				

8.The implementation of customer policies: The company maintains a strong and stable relationship with customers, providing them with exceptional services to generate profits for the company and create a win-win situation for both parties.

9.Purchase of liability insurance for the Company's directors and supervisors: The company has purchased liability insurance for directors and supervisors.

10.Information on personnel related to financial information transparency and their relevant certifications:

(1) President's Office: 1 Certified Public Accountant.

(2)Accounting Department: 1 Certified Public Accountant, 2 Bookkeepers of general examination.

11.Participation of managers in training and continuing education related to corporate governance:

Title	Name	Organizer	Training Date	Course Name	Hours of courses	Remark
Vice President	KUAN,MIN-CHIH	Taiwan Corporate Governance Association , TCGA	2022/11/29 2022/12/13	Impact Investing, from ESG to SDGs Trends and Risk Management in Digital Technology and Artificial Intelligence.	6	
Vice President	WENG,SHU A-HUNG	Securities and Futures Institute, SFI Taiwan	2022/03/18 2022/11/03	Financial information that directors are most likely to overlook. Introduction and case analysis of insider short-term trading	6	
Vice President	YANG,CHI-HUANG	Securities and Futures Institute, SFI Taiwan	2022/10/28 2022/11/15	Analysis and utilization of corporate financial information ESG new economy and new opportunities for corporate transformation.	6	
Accounting Director	HSIAO,CHI A-LING	ACCOUNTING RESEARCH AND DEVELOPMENT FOUNDATION.	2022/09/22 2022/09/23	Financial Statement Self-Preparation Advanced Course - Equity Method in Reinvestment Legal Liability Case Analysis of Whistleblowers in Economic Crimes and Financial Fraud Constructing Corporate Culture and Being Prepared for ESG Practices Cyber Security, Enterprise Application, and Legal Responsibilities Analysis	12	

ix. Please give explanation regarding the recent annual corporate governance evaluation results released by the TWSE Corporate Governance Center, including improvements made in areas that needed enhancement, priority measures and actions for areas that have not yet been improved:

In accordance with the Corporate Governance Evaluation Results, the Company has made improvements in areas that did not meet the benchmarks:

The company, with a rating of 66% to 80% in the sixth evaluation, prioritizes strengthening the "enhancement of board structure and operations" aspect. In 2022, the company's Remuneration Committee has held at least two meetings, with over half of the committee members being independent directors, and all committee members have attended at least two meetings. Additionally, an Audit Committee has been established the fiscal year 2022.

4. The composition and operation of the Remuneration Committee

1. Information Regarding Remuneration Committee members

December 31, 2023

Position (Note1) Name	Criteria	Professional qualifications and experience (Note2)	Status of independence (Note3)	Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member
Independent Director (Convener)	LI,HSU-TUNG	Please refer to the content related to independent directors on pages 10 and 11 of this annual report.	1. Neither the individual, spouse, nor immediate relatives, including parents are directors or employees of the Company or its affiliates. 2. Neither the individual, spouse, nor immediate relatives, including parents, hold 1% or more of the total issued shares of the company, or are among the top ten natural-person shareholders. 3. A director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. 4. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person. The individual is not a director, supervisor, or employee of that other company. 5. The individual is not the chairman, President, or an equivalent position in the Company, nor a director, supervisor, or employee of another company or organization that is either the same person or the spouse. 6. The individual is not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company. 7. Has not provide business, legal, financial, accounting, or other services to the Company or its affiliated enterprises in the past 2 years.	0
Independent Director	LI,MING-CHUN			0
Independent Director	WENG,CHUNG-HSIUNG			3

2. Information on operations of the Remuneration Committee

(1) The Company's Remuneration Committee comprises three members

(2) Current Committee Term: June 23,2022 to June 22, 2025. The Remuneration Committee held 3 meetings (A) in the most recent fiscal year. The qualifications and attendance of committee members are as follows:

Title	Name	Attendance in Person(B)	By proxy	Actual Attendance Rate (%) (B/A)(Note1)	Remark
Convener	LI,HSU-TUNG	3	0	100%	None
Committee member	LI,MING-CHUN	3	0	100%	None
Committee member	WENG,CHUNG-HSIUNG	3	0	100%	None

Other mentionable items:

- i. If the board of directors does not accept, or amends, any recommendation of the remuneration committee, specify the board meeting date, meeting session number, content of the recommendation(s), the outcome of the resolution(s) of the board of directors, and the measures taken by the Company: None.
- ii. With respect to any matter for resolution by the remuneration committee, if there is any dissenting or qualified opinion of a committee member that is on record or stated in writing, specify the remuneration committee meeting date, meeting session number, content of the motion, the opinions of all members, and the measures taken by the Company: None.

Note1:

(1) If any member of the remuneration committee left the committee before the end of the fiscal year, please indicate the date of their departure in the Remarks column. Calculate their in-person attendance rate (%) based on the number of remuneration committee meetings held and the number of meetings they attended in person during their tenure on the committee.

(2) If any by-election for remuneration committee members was held before the end of the fiscal year, the names of the new and old committee members should be filled in the table, with a note stating whether the member left office, was newly serving, or was serving consecutive terms, and the date of the by-election. The in-person attendance rate (%) should be calculated based on the number of remuneration committee meetings held and the number attended in person during the period of each such person's actual time on the committee.

5. Promotion of Sustainable Development—Implementation Status and Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons thereof

Evaluation Item	Implementation status			Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons
	Yes	No	Description	
1. Has the Company established a governance framework, and an exclusively (or concurrently) dedicated unit to be in charge of promoting sustainable development? Has the board of directors authorized senior management to handle related matters under the supervision of the board?	V		<ol style="list-style-type: none"> The Company has established a "Corporate Social Responsibility (CSR) Promotion Committee" under the supervision of the Board of Directors. The President serves as the Chairman, with one Executive Secretary appointed. The committee consists of three subgroups: Social Welfare, Corporate Governance, and Environmental Protection, each led by respective department managers. The execution status of each organization within the company is described, including but not limited to: <ol style="list-style-type: none"> The Social Welfare subgroup under the CSR Promotion Committee is led by HSIEH, MING-YEH Vice GM of the Marketing Div; the Corporate Governance subgroup is led by the Audit Office, and the Environmental Protection subgroup is led by the Operation Div. The CSR Promotion Committee holds a quarterly meeting to review the company's CSR initiatives, and regularly reports its progress to the Board of Directors. 	None
2. Does the company conduct risk assessments of environmental, social and corporate governance (ESG) issues related to the company's operations in accordance with the materiality principle, and formulate relevant risk management policies or strategies?	V		<ol style="list-style-type: none"> The company holds regular operational meetings on a monthly basis, as well as quarterly board meetings. During these meetings, issues related to CSR are discussed, and the potential risks are evaluated. This assessment encompasses the operational aspects of subsidiaries as well. Based on the assessed risk levels, appropriate strategies are formulated to ensure the smooth operation of the company. The risk assessment criteria, process, results, and risk management policies or strategies for identifying significant environmental, social, and corporate governance issues are specified. 	None
3. Environmental Issues <ol style="list-style-type: none"> Has the Company set an environmental management system designed to industry characteristics? Does the Company endeavor to use energy more efficiently and to use renewable materials with low environmental impact? Has the Company evaluated the potential risks and opportunities posed by climate change for its business now and in the future and adopted relevant measures to address them? Did the company collect data for the past two years on greenhouse gas emissions, volume of water consumption, and the total weight of waste, and establish policies for greenhouse gas reduction, reduction of water consumption, or management of other wastes? 		V	<ol style="list-style-type: none"> Given the nature of our industry, environmental management requirements are not applicable, and therefore relevant systems have not been established. The Company promote an office supplies recycling and reuse program to enhance resource utilization, aiming to effectively utilize and recycle resources. Since 2016, the Company has been participating annually in the surveys conducted by international organizations CDP (known as Carbon Disclosure Project) and EcoVadis, disclosed information regarding greenhouse gas emissions, water consumption, waste, and more. We have also implemented policies to promote energy efficiency, carbon reduction, and water conservation. When completing the CDP and EcoVadis questionnaires, the Company calculates carbon emissions and water consumption. Furthermore, we have implemented energy-saving measures throughout the office, such as temperature control for air conditioning, the use of high-efficiency and low-power lighting equipment, avoid of simultaneous use of high-power appliances in the same outlet, turn off lights in unoccupied spaces, and encourage employees to use stairs instead of elevators. We actively promote energy conservation and environmental awareness among our staff, regularly evaluate energy-saving effectiveness, and strive to meet international and domestic environmental standards as part of our ongoing efforts. 	Unspecified None None Unspecified

Evaluation Item	Implementation status			Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons
	Yes	No	Description	
4. Social Issues				
(1) Has the company formulated relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?	V		(1) The company complies with labor-related regulations and respects internationally recognized labor rights principles to safeguard the rights and interests of employees. Our employment policies ensure equal treatment without discrimination.	There is currently no direct establishment of management policies and procedures in accordance with the International Human Rights Convention.
(2) Has the Company established and implemented reasonable employee welfare measures (include salary/compensation, leave, and other benefits), and are business performance or results appropriately reflected in employee salary/compensation?	V		(2) Employee salaries are determined based on job grades and work experience, with periodic salary adjustments and promotions based on performance. Bonuses are also provided to employees based on their performance, and employee remuneration is allocated according to company articles of association.	None
(3) Does the Company provide employees with a safe and healthy working environment, and implement regular safety and health education for employees?	V		(3) The Company has established procedures for handling accidents, clearly defining response and contingency measures to ensure the safety of personnel and assets, mitigate disasters, facilitate rapid recovery, and prevent or minimize accidents. We provide life insurance, accident insurance, and accident medical insurance for employees. Additionally, higher coverage accident insurance is provided for employees engaged in high-risk activities or working at heights. We regularly conduct employee health check-ups, strengthen accident and medical insurance coverage for employees in high-risk roles, and plan training courses related to labor safety, encouraging employees to obtain relevant certifications and enhancing workplace safety inspections.	None
(4) Has the Company established effective career development training programs for employees?	V		(4) The Company regularly conducts employee education and training programs, and encourages employees to obtain relevant certifications.	
(5) Does the company comply with the relevant laws and international standards with regards to customer health and safety, customer privacy, and marketing and labeling of products and services, and implement consumer protection and grievance policies?	V		(5) The Company have a dedicated customer service unit to handle consumer-related services. Our products and services comply with national regulations. However, we have yet to establish specific policies and procedures for protecting consumer rights and handling complaints.	
(6) Has the company formulated supplier management policies requiring suppliers to comply with relevant regulations on issues such as environmental protection, occupational safety and health, or labor rights, and what is the status of their implementation?	V		(6) 1. Supplier selection is based on relevant operational evaluations. Prior to engaging with suppliers, the Company require them to comply with laws and regulations to avoid causing environmental pollution. We select suppliers through a fair, just, and rigorous procurement bidding process based on the principles of transparency. 2. While our contracts do not explicitly state the termination or rescission of contracts for suppliers in violation of their corporate social responsibility policies, we periodically assess the qualification criteria of suppliers as a basis for continuing transactions. 3. The Company collaborates with suppliers on social care initiatives to enhance corporate social responsibility on an ongoing basis. 4. The Company has established an "Integrity Operation Procedure and Code of Conduct" that includes the statement 14 on protecting consumer rights. We have a customer service hotline available on our official website, which serves as a related provision for protecting consumer rights.	None None
			(7) The Company's involvement in community development and charitable activities is as follows: 2022/02/24 Donation for infant diapers to Rui Fang Social Welfare Center.NT\$9,806 2022/03/24 Donation Eden Children's Service Project NT\$20,000	Unspecified

Evaluation Item	Implementation status			Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons
	Yes	No	Description	
			2022/04/28 Donation Beifeng Elementary School Rapid Test Kits Emergency Backup NT\$18,890 2022/06/16 Donation Child Welfare Alliance Foster Children's Life Care Fundraising NT\$20,000 2022/10/06 Donation Xizhi Beigang Elementary School Computer Equipment Upgrade NT\$25,000 2022/04/28 Donation Luzhou Social Welfare Elderly Nutritional Supplements NT\$19,460 2022/06/24 Donation New Taipei City Elderly Accompaniment and Fullness Project NT\$20,000 2022/10/20 Donation Eden Social Welfare Elderly Care Service Plan NT\$20,000 2022/10/27 Donation Huashan Foundation #33rd Winter Feast for the Poor NT\$11,000 2022/11/03 Donation New Taipei Ren'ai Home Elderly Supplies NT\$17,820 2022/03/31 Donation Awei Care Bedding Supplies for Disabled NT\$18,900 2022/07/21 Donation Eden Zhonghe Le Yuan Jia Zi Center Supplies NT\$8,122 2022/07/28 Donation Awei Care Center Residents' Summer Pants Replacement NT\$27,000 2022/09/08 Donation Creation Social Welfare Foundation Sputum Suction Machine NT\$20,000 2022/05/05 Donation Tucheng Social Welfare - Pan X xin NT\$15,000 2022/08/11 Donation Tucheng Social Welfare - Xu Zi X NT\$20,000 2022/09/15 Donation Tucheng Social Welfare - Lin X Shiang NT\$10,000 2022/11/03 Donation Tucheng Social Welfare - Wu X Ling NT\$10,000 2022/11/17 Donation Tongren Cheng X's Mother Burn Wound Healing Medical Expenses NT\$50,000 2022/01/13 Donation Elementary School Underprivileged Students' Lunar New Year Feast NT\$8,970 2022/05/26 Donation New Taipei City Material Assistance for Vulnerable Populations during Epidemic NT\$19,224 2022/07/14 Donation Sanchong Social Welfare Material Assistance for Vulnerable Populations NT\$9,516 2022/10/13 Donation Elementary School Underprivileged Students' Love Candy NT\$9,950 2022/10/20 Donation Shen'ao Elementary School Underprivileged Students' Halloween Love Candy NT\$4,975 2022/03/17 Donation Mother's Day Love Cake Fundraising NT\$6,600 2022/04/21 Donation Dragon Boat Festival Zongzi Fundraising for Underprivileged Students NT\$10,740 2022/07/08 Donation Mid-Autumn Festival Love Mooncake Fundraising NT\$14,740 2022/07/28 Donation Love Beyond Skin Foundation Gift Box Sale NT\$29,880 2022/09/01 Donation Autumn Festival Mooncake Fundraising NT\$19,470 2022/10/06 Donation Taiwan Ready-Use Course Association Art Course for Rural Children NT\$30,000	None

Evaluation Item	Implementation status			Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons
	Yes	No	Description	
			2022/10/13 Donation Taiwan Ballet Theatre Art Education Efforts NT\$10,000 2022/11/10 Donation Eden 112th Year Love Lunar New Year Feast NT\$13,760 2022/12/09 Donation Fullon Fundraising Lunar New Year Feast for Badou Junior High Underprivileged Students NT\$6,900 2022/12/15 Donation Shuangxi District Office Winter Warmth Initiative NT\$11,850 2022/03/10 Donation Zhanghe Junior High School Education Tuition Case 111-00481 NT\$26,400 2022/04/21 Donation Miner's Son Education Foundation NT\$20,000 2022/09/29 Donation TamKang Love Meal Voucher Program NT\$27,000	
5. Does the company refer to international reporting standards or guidelines when preparing its sustainability report and other reports disclosing non-financial information? Does the company obtain third party assurance or certification for the reports above?		V	1. The Company discloses relevant and reliable corporate social responsibility information in our annual shareholder meeting reports. The Company has not yet prepared a corporate responsibility report, but will do so in accordance with regulatory requirements.	Since 2022, the Company has been referring to international sustainability reporting guidelines to prepare our annual report. The report will include matters that the Company is required to disclose according to GRI, SASB, and SDGs standards.
6. If the Company has adopted its own sustainable development best practice principles based on the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, please describe any deviation from the principles in the Company's operations: None.				
7. Other important information to facilitate better understanding of the company's promotion of sustainable development:				
(1) Environmental Protection: The Company handles waste generated from production in accordance with environmental regulations, and have centralized management and classification for household waste. We also comply with government environmental laws and regulations to ensure environmental protection and resource conservation. (2) Social Engagement, Contribution, Service, and Philanthropy: The Company actively participates in various activities organized by charitable organizations for the underprivileged in society, promoting community engagement and fostering social solidarity. (3) Consumer Rights: We prioritize product quality and safety, promptly address customer complaints, and provide comprehensive product information to safeguard consumer rights. (4) Human Rights: 1. The content of the company's relevant personnel regulations complies with the provisions of labor laws and is handled by dedicated personnel to protect employees' basic rights. 2. The Company prohibits gender-based discrimination in the recruitment, selection, promotion, performance evaluation, or advancement of job applicants or employees. We have established relevant measures and regulations to ensure equal treatment. (5) Health and Safety: The Company provides safety and health education to employees and implements preventive measures to ensure a safe working environment and disaster preparedness.				

6. Ethical Corporate Management – Implementation Status and Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons thereof

Evaluation Item	Implementation status(Note 1)			Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons
	Yes	No	Description	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Does the company have an ethical corporate management policy approved by its Board of Directors, and articles of association and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board of Directors and the top management team?</p> <p>(2) Whether the company has established an assessment mechanism for the risk of unethical conduct; regularly analyzes and evaluates, within a business context, the business activities with a higher risk of unethical conduct; has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in Article 7, paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/TPE Listed Companies?</p> <p>(3) Does the company clearly set out the operating procedures, behavior guidelines, and punishment and appeal system for violations in the unethical conduct prevention program, implement it, and regularly review and revise the program?</p>	V		<p>(1) In order to implement corporate governance, establish an ethical culture in business operations, the Company has formulated the "Ethical Corporate Management Best Practice Principles" set by the Board of Directors. For more information, please refer to our website at http://www.hwacom.com.</p> <p>(2) The Company strengthens our transaction review mechanisms to prevent bribery, corruption, and illegal political contributions, particularly in business activities with a higher risk of dishonest behavior within its scope of operations.</p> <p>(3) The Company strictly adheres to the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and implements an operation policy of integrity. The management regularly reviews these practices to prevent dishonest behavior and ensures the implementation of the company's business philosophy. For business activities with a higher risk of dishonest behavior, the company not only enhances the awareness of ethical conduct among relevant personnel but also establishes the "Code of Ethics for Employees" to regulate the ethical standards of all employees in the company and its subsidiaries, aiming to gain public trust, enhance corporate image, and ensure sustainable operation and development of the Company.</p>	None
<p>2. Ethical Management Practice</p> <p>(1) Does the company assess the ethics records of whom it has business relationships with and include ethical conduct related clauses in the business contracts?</p> <p>(2) Has the company set up a dedicated unit under the Board of Directors to promote ethical corporate management, and does it regularly (at least once a year) report the ethical corporate management policy the unethical prevention program, and the monitoring implementation status to the Board of Directors?</p> <p>(3) Has the company established policies to prevent conflict of interests, provided appropriate communication and complaint channels, and properly implemented such policies?</p> <p>(4) Does the company have effective accounting policy and internal control systems in place to enforce ethical corporate management? Does the internal audit unit follow the results of unethical conduct risk assessments and devise audit plans to audit compliance with the systems to prevent unethical conduct or hire outside accountants to perform the audits?</p> <p>(5) Does the company provide internal and external ethical corporate management training programs on a regular basis?</p>	V	V	<p>(1) The Company avoids conducting transactions with individuals or entities with a history of dishonest behavior in commercial activities, and includes clauses related to integrity in contracts.</p> <p>(2) The company's President's Office plans and promotes the implementation of corporate integrity in various units.</p> <p>(3) Currently, the Company has not established a policy to prevent conflicts of interest. However, employees are encouraged to discuss any concerns they have about their own behavior or work with the company at any time.</p> <p>(4) Internal audit personnel develop annual audit plans and conduct audits based on the company's effective accounting policy and internal control system.</p> <p>(5) The Company conducts internal and external ethical conduct training programs. The Company also encourages employees to enroll and participate the ethical related training conducted by external institutions.</p>	None

Evaluation Item	Implementation status(Note 1)			Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and the Reasons
	Yes	No	Description	
<p>3. Implementation of Complaint Procedures</p> <p>(1) Has the company established specific whistle-blowing and reward procedures, set up conveniently accessible whistle-blowing channels, and appointed appropriate personnel specifically responsible for handling complaints received from whistle-blowers?</p> <p>(2) Has the company established standard operation procedures for investigating the complaints received, follow-up measures taken after investigation, and mechanisms ensuring such complaints are handled in a confidential manner?</p> <p>(3) Has the company adopted proper measures to protect whistle-blowers from retaliation for filing complaints?</p>	V		Although the Company does not have a specific whistleblowing and reward system for now, we have established a complaint mailbox to receive complaints and grievances regarding violations of integrity in business operations. We ensure that whistleblowers are not subjected to improper treatment as a result of their reports.	None
<p>4. Strengthening Information Disclosure</p> <p>Does the company disclose its ethical corporate management policies and the results of their implementation on its website and the Market Observation Post System (MOPS)?</p>	V		A. To implement corporate governance and establish an ethical culture, the Company has formulated the "Ethical Corporate Management Best Practice Principles" set by the Board of Directors. For more information, please refer to our website at http://www.hwacom.com . We have dedicated information disclosure personnel responsible for collecting and disclosing company information on our company website.	None
<p>5. If the company has adopted its own ethical corporate management best practice principles based on the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, please describe any deviations between the principles and their implementation: The Company currently has the "Ethical Corporate Management Best Practice Principles", and the actual operations align closely with the provisions of the code.</p>				
<p>6. Other important information for a better understanding of the status of operation of the company's ethical corporate management policies: To implement corporate governance and establish an ethical culture, the Company has established the "Ethical Corporate Management Best Practice Principles" through the Board of Directors. For more information, please refer to our company's website at http://www.hwacom.com.</p>				

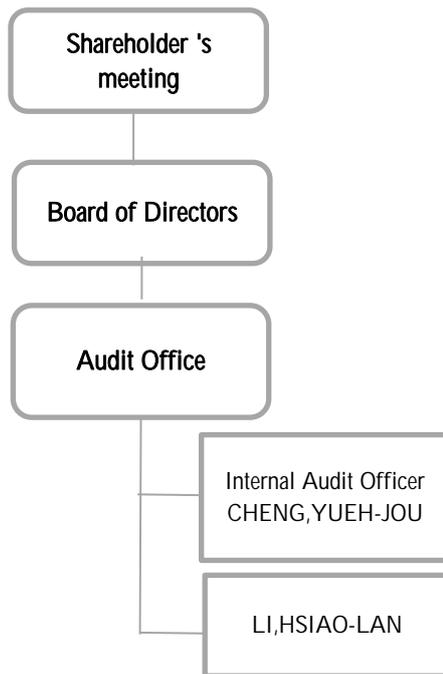
7. If the company has established corporate governance guidelines and related regulations, the query methods should be disclosed: Although the Company has not yet established corporate governance guidelines, relevant information is disclosed on the Public Information Observation System and in the company's annual report for public reference."

8. Other important information about the corporate governance of the Company:
The Company continuously reviews and, when necessary, revises or establishes relevant policies, procedures, and internal operational guidelines to enhance operational efficiency and strengthen risk management mechanisms. This is done to improve corporate governance. In recent years, we have aligned with regulatory requirements set forth by supervisory authorities and considered the operational needs of the company. As a result, we have completed the following policies and procedures: "Board Meeting Rules," "Procedures for Asset Acquisition or Disposal", "Derivative Financial Product Trading Procedures," "Shareholders' Meeting Procedures," "Operating Procedures for Related Party Transactions, Specific Companies, and Group Enterprises," "Monitoring Procedures for Subsidiaries," "Code of Ethics for Directors, Supervisors, and Managers," "Code of Conduct for Employees," and "Internal Handling of Material Nonpublic Information and Prevention of Insider Trading Procedures." These policies and procedures serve as the basis for our operations. The latest versions of these documents are available on our company's website and internal portal for reference. For more information, please visit our website at <http://www.hwacom.com>.

9. Implementation of internal control system

1. Statement of Internal Control

(1) Internal Audit Organization



Responsibilities of Internal Audit:

- Urge each unit to establish internal control systems and adhere to them.
- Implement auditing, report auditing results, and track deficiencies.
- Review the self-assessment results of each department and subsidiary.
- Handle employee complaints and vendor grievances.
- Other tasks to be executed in accordance with regulations.

(2) The Audit Office of the Company directly reports to the Board of Directors, its audit scope includes the company and its subsidiaries, covering all operational and managerial functions such as finance and business operations. The audits are categorized into ten major cycles, and conducted in accordance with laws and regulations. The primary audit approach is the routine audit execution based on the annual audit plan. Additionally, special project audits are conducted as needed to timely identify potential deficiencies in internal control systems and provide improvement recommendations. After the completion of audits, the Audit Office prepares audit reports, which are submitted to the Chairman. The Head of Audit Office regularly reports on the execution and results of audits during board meetings to ensure the implementation of good corporate governance practices. Furthermore, the Audit Office encourages self-assessment within the company's units and helps establish a self-supervision mechanism. The results of self-assessment serve as a basis for providing recommendations to the Board of Directors and the President for issuing the internal control system statement.

2. If CPA Was Engaged to Conduct a Special Audit of Internal Control System, Provide Its Audit Report: None.

HwaCom Systems Inc.,

Statement of Internal Controls

Date: 03/14/2023

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

- (1) The Company's Board of Directors and management team understand their responsibilities of developing, implementing and maintaining the Company's internal control system, and such a system has been established. The purpose of establishing the internal control system is to reasonably assure the following objectives : (a) The effectiveness and efficiency of business operation (including earnings, operation performance and the safeguard of company assets) ; (b) Achieve the reliability, timeliness, transparency, and compliance objectives according to the relevant laws and regulations in order to provide reasonable assurances.
- (2) Due to the innate limitation in designing a faultless internal control system, this system can only assure the reasonableness of the above three objectives have been fairly achieved. In addition, the effectiveness of internal control system could alter over time due to the change of business environment or situation. Since the Company's internal control system has included self-examination capability, the Company will make immediate corrections when errors are detected.
- (3) The evaluation of effectiveness of the internal control system design and implementation is made in accordance with the "Guidelines for the Establishment of Internal Control Systems by Public Companies" (the Guidelines). The Guidelines are made to examine the following five factors during the management and control process : (1) control environment, (2) risk assessment and response, (3) control activities, (4) information and communication, and (5) supervision. Each factor also includes several items. Details of each factor can be found in the Guidelines.
- (4) The Company has examined the effectiveness of each respected area in the internal control system based on the Guidelines.
- (5) The examination result indicated that the Company's internal control system (including subsidiary governance) dated December 31, 2022 has effectively assured that the following objectives have been reasonably achieved during the assessing period : (a) The degree that effectiveness and efficiency of business operation; (b) The reliability of the financial and related reports ; (c) The compliance of the relevant laws/regulations and company policies.
- (6) This Statement is a significant part of the Company's annual report and prospectus available to the general public. If it contains false information or omits any material content, the Company is in violation of Article 20, Article 32, Article 171 and Article 174 set forth in the Taiwan's Security and Exchange Act.
- (7) The Company hereby declares that this statement had been approved by the Board of Directors on March 14, 2023. Among the 9 attending Directors, 0 people have a dissenting opinion, to the contents of this statement.

HwaCom Systems Inc.,

Chairman & President

10. If there has been any legal penalty against the company or its internal personnel, or any disciplinary penalty by the company against its internal personnel for violation of the internal control system, during the most recent fiscal year up to the publication date of the annual report, the annual report shall disclose the penalty, the main shortcomings, and condition of improvement: None.
11. For the most recent fiscal year and as of the date of publication of the annual report, major resolutions of the shareholders' meeting and Board meetings:

1. Major resolutions at the shareholders' meeting

Date	Meeting Minutes			Special Note
	Summary of Motions	Resolution Results:	Implementation	
2022.6.23 (2022 Shareholder's meeting)	<p>Reported Matters:</p> <p>1. The business report for 2021.</p> <p>2. The 2021 auditor's report on the statements prepared by the supervisor for the Board of Directors in shareholders' meetings.</p> <p>3. The report on the distribution of remuneration to directors, supervisors, and employees for 2021.</p> <p>4. The report on the repurchase of company shares.</p> <p>Acknowledged Matters:</p> <p>1. The business report and financial statements for 2021.</p> <p>2. The profit distribution plan for 2021</p> <p>Discussion Matters:</p> <p>1. Amendment of the company's "Articles of Incorporation" proposal.</p> <p>2. Revision of the company's "Procedures for Asset Acquisition or Disposal" proposal.</p> <p>Election Matters:</p> <p>1. The 11th Board of Directors election of the Company.</p> <p>Other Discussion Matters:</p> <p>1. Proposal to lift the restrictions on competition for newly appointed directors and their representatives.</p>	<p>Noted</p> <p>Noted</p> <p>Noted</p> <p>Noted</p> <p>Acknowledged</p> <p>Acknowledged</p> <p>Passed</p> <p>Passed</p> <p>Passed</p> <p>Passed</p>	<p>i. The consolidated and individual financial statements for the fiscal year 2021 have been prepared, audited and certified by our appointed accounting firm, BDO Taiwan Union & Co., who has issued an audit report. The financial statements, along with the business report, have also been audited by the company's supervisors.</p> <p>ii. As of the beginning of the fiscal year 2021, undistributed surplus earnings was NT\$146,633,865. Actuarial gains were included in retained earnings, amounting to NT\$143,095. The net profit for the period was NT\$171,523,937. Legal reserve of NT\$17,166,703 was made. The distributable earnings for the period was NT\$301,134,194.</p> <p>ii. In order to comply with relevant legal amendments and establish an Audit Committee, certain provisions of the company's articles of incorporation have been revised to accommodate the operation of the committee.</p> <p>iv. In accordance with the regulations issued by the Financial Supervisory Commission, certain provisions of the company's "Asset Acquisition or Disposal Handling Procedures" have been amended to ensure compliance and proper operation.</p> <p>Election results: The elected directors for the 11th term of the Company and their voting rights are as follows: Director-Elect: Director-Account No. 1 CHEN,KUO-CHANG Voting Rights: 100,222,289 shares Director - Account No. 72963 ADVANTECH Investment Co., Ltd. Voting Rights: 74,462,422 shares Director - Account No. 263 Mainland-Taiwan Investment Co., Ltd. Voting Rights: 74,426,026 shares Independent Director-LI,HSU-TUNG Voting Rights: 72,999,224 shares Independent Director-LI,MING-CHUN Voting Rights: 72,982,722 shares Independent Director-WENG,CHUNG-HSIUNG Voting Rights: 72,957,942 shares Director - Account No. 5 KUAN,MIN-CHIH Voting Rights: 69,104,224 shares Director - Account No. 13 WENG,SHUA-HUNG Voting Rights: 69,100,787 shares Director - Account No. 25476 HUANG,YING-CHIEN Voting Rights: 69,095,881 shares</p>	None

2. Major Resolutions of the Board Meetings

Date/No.	Meeting Minutes	Special Note
2022.03.22 (Twentieth session of the tenth Term)	Resolutions passed by Board of Directors: <ol style="list-style-type: none"> 1. The company's business report and Audit Committee's Review Report for FY 2021. 2. The company's consolidated and individual financial statements for FY 2021. 3. Deliberation on the "Internal Control Statement" for FY 2021. 4. Report on the distribution of remuneration to directors, supervisors, and employees for FY 2021. 5. Report on the repurchase of company shares. 6. Amendment of certain articles of the company's "Articles of Incorporation." 7. Amendment of the "Acquisition or Disposal of Assets Processing Procedures" of the company. 8. Amendment of the "Management Regulations for the Financial Statement Preparation Process" of the company. 9. Amendment of the "Implementation Rules for Internal Audit: Operations of the Management Regulations for the Financial Statement Preparation Process" of the company. 10. Change of the signing certified public accountant for the company. 11. Election of the 11th Board of Directors. 12. Resolution to lift the non-compete restriction for newly appointed directors and their representatives. 13. Convening the shareholders' general meeting for FY 2022. 	None
2022.05.11 (Twenty-first session of the tenth Term)	Resolutions passed by Board of Directors: <ol style="list-style-type: none"> 1. Proposal for the distribution of surplus earnings for FY 2021. 2. Proposal to submit the list of nominated directors (including independent directors) for review by the Board of Directors. 3. Resolution to lift the non-compete restriction for newly appointed directors and their representatives. 4. Convening the shareholders' general meeting for FY 2022. 	None
2022.06.23 (First session of the eleventh Term)	Resolutions passed by Board of Directors: <ol style="list-style-type: none"> 1. Election for the appointment of Chairman of the Board. 2. Appointment of members to the "Remuneration Committee" of the company. 3. Establishment of the Audit Committee and formulation of the Organizational Regulations of the Audit Committee. 	None
2022.07.25 (Second session of the eleventh Term)	Resolutions passed by Board of Directors: <ol style="list-style-type: none"> 1. Proposal for personnel appointment. 	None
2022.08.11 (Third session of the eleventh Term)	Resolutions passed by Board of Directors: <ol style="list-style-type: none"> 1. Establishment of greenhouse gas inventory and verification plan for the company. 2. Proposal for determining the ex-dividend date for earning distribution for the FY 2021. 3. Proposal for conducting a supplemented public offering for the private placement conducted in the 2019 fiscal year. 4. Capital increase proposal of subsidiary company, S-LINK SYSTEMS INC. 5. Investment proposal of LEON ENERGY CO., LTD. 	None
2022.10.06 (Forth session of the eleventh Term)	Resolutions passed by Board of Directors: <ol style="list-style-type: none"> 1. Application for registration of capital change and issuance of new shares for the fourth domestic unsecured convertible corporate bonds of the Company, to be converted into common shares in the third quarter in 2022. 	None
2022.11.07 (Fifth session of the eleventh Term)	Resolutions passed by Board of Directors: <ol style="list-style-type: none"> 1. The audit plan proposal for the fiscal year 2023. 2. Proposal to execute the transfer of treasury shares to employees in accordance with the provisions of the "Fifth Repurchase of Treasury Shares for Employee Transfer Guidelines" of the company. 3. Proposal of change in the company's financial supervisor. 4. Proposal of change in the company's authorized deputy spokesperson. 5. Proposal of amendment to certain articles of the company's "The Operating Procedure of the Material Inside Information." 	None

2023.03.14 (Seventh session of the eleventh Term)	Resolutions passed by Board of Directors: 1. The company's business report and Audit Committee's Review Report for the FY 2022. 2. The consolidated and individual financial statements of the Company for the FY 2022. 3. Deliberation on the "Internal Control Statement" for the FY 2022. 4. Report on the distribution of remuneration to directors, supervisors, and employees for the FY 2022. 5. Report on the repurchase of company shares. 6. To amend certain provisions of the company's "Articles of Incorporation". 7. Proposal to establish the "Salary Administration Regulations" of the company. 8. Development of a greenhouse gas inventory and verification plan for subsidiary companies. 9. Convening the shareholder's meeting for the FY 2023.	None
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12. Where, during the most recent fiscal year and as of the date of publication of the annual report, a director or supervisor has expressed a dissenting opinion with respect to a material resolution passed by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof: None.
13. During the most recent fiscal year and as of the date of publication of the annual report, a summary of resignations and dismissals of the company's Chairman of the Board, President, Chief Accounting Officer, Chief Financial Officer, Chief Internal Auditor, and Chief R&D Officer: None.

Summary of Resignations and Dismissals of Key Personnel of the Company

May 2, 2023

Title	Name	Date of Appointment	Date of Termination	Reason for Resignation or Dismissal
Chairman	CHEN,KUO-CHANG	1994.05.04	In-Service	Not Applicable
President	CHEN,KUO-CHANG	1994.05.04	In-Service	Not Applicable
Chief Financial Officer	WANG,FEI-CHIU	2022.11.07	In-Service	Not Applicable
Chief Accounting Officer	HSIAO,CHIA-LING	2001.02.12	In-Service	Not Applicable
Chief Internal Auditor	CHENG,YUEH-JOU	2020.05.12	In-Service	Not Applicable
Chief R&D Officer	LU,YUAN-HUNG	2018.08.09	In-Service	Not Applicable

v. Audit Fees for CPA

A. Information on CPA Professional Fees

Amount Unit: NT\$ thousands

Name of accounting firm	Name of CPA	Audit Period	Audit fee	Non-Audit fee	Total	Remark
BDO Taiwan	CHANG,SHU-CHENG	01.01.2022~12.31.2022	1,790	571	2,361	Business Registration and others
	HSU,KUN-HSI	01.01.2022~12.31.2022				

B. If the Company changes the CPA agency and the audit fee is lower than the previous year, the amount of audit before and after changing the CPA agency and reasons for changing the CPA agency should be disclosed: None.

C. If the audit fee decreases by 15 percent or more compared with the previous years, the reduced amount, proportion, and reasons of reducing the audit fee should be disclosed: None.

vi. Information on Replacement of CPAs:

1. Information regarding the former CPAs

Date of replacement	Passed by Board of Directors on March 22, 2022.		
Reason for replacement and explanation	In order to align with the internal organizational adjustment of our appointed accounting firm, BDO Taiwan, the CPAs for the financial statements for the first quarter of the year 2022 have been changed from Accountant Liu Ke-Yi and Accountant Hsu Kun-Hsi to Accountant Chang Shu-Cheng and Accountant Hsu Kun-Hsi.		
Describe whether the Company terminated or the CPAs did not accept the engagement	Parties	CPAs	The Company
	Circumstances		
	Terminated the engagement	Not Applicable	Not Applicable
If the CPAs issued an audit report expressing any opinion other than an unqualified opinion during the 2 most recent years, specify the opinion and the reasons	No longer accepted (discontinued) the engagement	Not Applicable	Not Applicable
	None		
If there was disagreement with the Company.	Yes		Accounting principles or practices
			Disclosure of financial reports
			Audit scope or steps
			Other
	No	V	
Explanation: None.			
Other disclosures (Any matters required to be disclosed under sub-items d to g of Article 10.6.A)	None		

2. Information Regarding the Successor CPAs

Name of accounting firm	BDO Taiwan
Names of CPAs	CHANG,SHU-CHENG Accountant. HSU,KUN-HSI Accountant
Date of engagement	Passed by Board of Directors on March 22, 2022.
Subjects discussed and results of any consultation with the CPAs prior to the engagement, regarding the accounting treatment of or application of accounting principles to any specified transaction, or the type of audit opinion that might be issued on the company's financial report	None
Successor CPAs' written opinion regarding the matters of disagreement between the Company and the former CPAs	None

3. The reply letter from the former CPA regarding the Company's disclosures regarding the matters under Article 10.6.A and 10.6.B(c) of the Regulations: None
- vii. Where the Company's Chairman, President, or any Managerial Officer in charge of Finance or Accounting matters has, during the past year, held a position at the Accounting Firm of its CPA or at an Affiliated Company of such accounting firm, the Name and Position of the Person, and the Period during which the position was held, shall be Disclosed: None.
- viii. Change in shares held and pledged by directors, managers, and major shareholders holding over 10% of outstanding shares in the most recent year and up to the publication of the annual report: None.

(1) Changes in Shareholding of Directors, Supervisors, Managerial Officers, and Major Shareholders

Shares: thousands

Title	Name	2022		2023 (up to April 30)	
		Shareholding Increase (Decrease)	Pledged Share Increase (Decrease)	Shareholding Increase (Decrease)	Pledged Share Increase (Decrease)
Chairman and President	CHEN,KUO CHANG	0	0	0	0
Corporate Director/ Major shareholders holding more than 10% of the shares.	ADVANTECH Investment Co., Ltd.	0	0	0	0
Corporate Director	Mainland-Taiwan Investment Co., Ltd.	0	0	(150)	0
Vice President	YANG,CHI HUANG	264	0	70	0
Director and Vice President	WENG,SHUA HUNG	80	0	0	0
Director and Vice President	KUAN,MIN CHIH	80	0	(160)	0
Director and Vice President	HUANG,YING CHIEN	80	0	0	0
Independent Director	LI,HSU TUNG	0	0	0	0
Independent Director	LI,MING CHUN	0	0	0	0
Supervisor	LU,YANG-CHENG	0	0	0	0
Supervisor	LIN,CHIH-LING	0	0	0	0
Chief Operating Officer	WANG,JUNG-TE (Note1)	0	0	80	0
Chief Technology Officer and Vice President	LIN,HSIEH-HENG	0	0	(39)	0
Vice President	TU,MENG-LANG	90	0	0	0
Vice President	KE KUO-CHUAN	130	0	0	0
Vice President	HSIEH,MING-YEH	80	0	0	0
Vice President	CHENG,CHAO-JEN	25	0	0	0
Vice President	LAN,KUANG-CHAO (Note2)	0	0	0	0
Vice President	WANG,HUNG-JEN	72	0	0	0
Vice President	LU,YUAN-HUNG	30	0	0	0
Vice President	WU,HSING-TUNG	250	0	0	0
Vice President	YANG,CHUN-MING	200	0	(7)	0
Vice President	CHEN,CHUN-CHENG (Note3)	0	0	0	0
Vice President	WANG,FEI-CHIU (Note4)	0	0	0	0
Senior Accounting Director	HSIAO,CHIA-LING	20	0	0	0
Senior Director	CHEN,FANG-JUI	35	0	0	0
Senior Director	HUANG,WEN-SHU	50	0	0	0
Senior Director	HUANG,CHEN-JUNG	0	0	0	0
Senior Director	CHEN,LI-YEN (Note5)	0	0	0	0
Senior Director	YANG,JEN-CHI	20	0	(9)	0
Senior Director	WANG,LI-CHEN	11,736	0	0	0
Senior Director	PAN,CHUN-MING	25	0	0	0
Senior Director	YANG,HUNG-TU	30	0	0	0
Director	CHEN,TZU-HAO	0	0	0	0
Director	CHEN,YU-CHIA	0	0	0	0
Director	LIN,YU-CHING	40	0	0	0
Director	HSU,SHU-HAO	0	0	0	0
Director	FANG,WEN-HUNG (Note6)	0	0	0	0
Director	HUANG,JUI-LIN (Note7)	0	0	0	0
Director	CHUNG,YU-TING	150	0	0	0
Director	CHUNG,CHIU-JU	20	0	0	0
Director	CHANG,PO-YU	0	0	0	0
Director	KUNG,HSING-YU	25	0	0	0
Director	MO,CHI-YUN (Note 8)	0	0	0	0
Director	YU,CHAO-LUNG	120	0	0	0

Title	Name	2022		2023 (up to April 30)	
		Shareholding Increase (Decrease)	Pledged Share Increase (Decrease)	Shareholding Increase (Decrease)	Pledged Share Increase (Decrease)
Director	CHU,SHIH-JEN	20	0	0	0
Director	HU,CHUNG-WEI	10	0	0	0
Director	CHEN,KUO-SHENG	0	0	(17.744)	0
Director	CHAO,WAN-LING	30	0	0	0
Director	TSAI,SHU-YUN	30	0	0	0
Director	YANG,CHUN-FU	10	0	0	0
Director	CHI,CHEN-HSIUNG	0	0	0	0
Director	LI,HSIAO-PING	0	0	0	0
Director	YU,HSI-YAO	25	0	0	0
Director	LI,CHANG-JU (Note 9)	0	0	0	0
Director	LAI,YUEH-HUNG (Note 10)	0	0	0	0

Note 1: LAN,KUANG-CHAO was dismissed of Vice President on November 1, 2022.

Note 2: WANG,JUNG-TE took office of COO on February 9, 2022.

Note 3: CHEN,CHUN-CHENG took office of Vice President on February 10, 2022.

Note 4: WANG,FEI-CHIU took office of Vice President on March 22, 2022.

Note 5: CHEN,LI-YEN was dismissed of Senior Director on November 1, 2022.

Note 6: FANG,WEN-HUNG was dismissed of Director on August 31, 2022.

Note 7: HUANG,JUI-LIN was dismissed of Director on March 31, 2022.

Note 8: MO,CHI-YUN was dismissed of Director on January 14, 2022.

Note 9: LI,CHANG-JU took office of Director on May 1, 2022.

Note 10: LAI,YUEH-HUNG took office of Director on May 1, 2022.

(2) Shares are transferred to and from related parties: None.

(3) Shares are pledged with related parties: None.

ix. Information on Top Ten Shareholders Who Are Related Parties, or Having Spousal Relationship, or Familial Relationship within the Second Degree of Kinship with Each Other:

May 2, 2023 Units: shares/ %

Name	Shareholding		Shareholding of spouse and minor children		Total shareholding by nominee		Specify the name of the entity or person and their relationship to the other top 10 shareholders with which the person is a related party or has a relationship of spouse or relative within the 2nd degree		Remark
	Shares	(%)	Shares	(%)	Shares	(%)	Name of entity or individual	Relationship	
ADVANTECH Investment Co., Ltd.	24,575,000	17.51 %	0	0	0	0	None	None	None
CHEN,KUO-CHANG	6,063,097	4.32%	0	0	0	0	Mainland-Taiwan Investment Co., Ltd. HwaCom Systems Inc.	Same Person in Charge	None
Mainland-Taiwan Investment Co., Ltd.	3,234,427	2.30%	0	0	0	0	CHEN,KUO-CHANG HwaCom Systems Inc.	Same Person in Charge	None
Mainland-Taiwan Investment Co., Ltd. Representative: CHEN,KUO-CHANG	6,063,097	4.32%	0	0	0	0	CHEN,KUO-CHANG HwaCom Systems Inc.	Same Person in Charge	None
HSIAO,PING-HUNG	2,220,001	1.58%	0	0	0	0	None	None	None
CTBC Bank Employee Stock Ownership Trust Account of Hwacom System Inc.	1,859,000	1.32%	0	0	0	0	None	None	None
HSIEH,WU-HSIEN	1,788,000	1.27%	0	0	0	0	None	None	None
CTBC Bank Co., Ltd. Trust Account - Hwacom System Inc.	1,518,000	1.08%	0	0	0	0	None	None	None
LIU,JI-HONG	1,326,000	0.94%	0	0	0	0	None	None	None
HUNG,HUN-CHIH	1,143,000	0.81%	0	0	0	0	None	None	None
LIN,CHE-MIN	1,001,000	0.71%	0	0	0	0	None	None	None

x. Total Ownership of Shares and Shareholding ratio in Investee Enterprises Directly or Indirectly Controlled by the Directors, Supervisors, Managerial Officers

December 31, 2022 Units: shares/ %

Investee enterprise	Investment by the Company		Investment by the Directors, Supervisors, Managerial Officers and Directly or Indirectly Controlled Entities of the Company		Total investment	
	Shares	Shareholding ratio	Shares	Shareholding ratio	Shares	Shareholding ratio
Zero One Technology Co.,Ltd.	125,000	0.08%	0	0	125,000	0.08%
Genie Networks Ltd.	905,679	3.53%	0	0	905,679	3.53%
VeriSilicon Microelectronics(Shanghai)Co.,Ltd.	712,548	0.14%	0	0	712,548	0.14%
ACOM NETWORKS TECHNOLOGY Co., Ltd.	380,000	19.00%	0	0	380,000	19.00%
TBTS Software Technology CO., Ltd.	500,000	11.63%	0	0	500,000	11.63%
OMNI MEDIA INTERNATIONAL INCORPORATION	500,000	0.76%	0	0	500,000	0.76%
LEON ENERGY CO., LTD.	100,000	0.44%	0	0	100,000	0.44%
TARANTULA NETWORKS LTD. ZQAM COMMUNICATIONS CORPORATION –Normal Stock	187,500	1.15%	0	0	187,500	1.15%
TARANTULA NETWORKS LTD. ZQAM COMMUNICATIONS CORPORATION –Preferred Stock	82,500	-	0	0	82,500	-
TARANTULA NETWORKS LTD. (Note1)	2,000,000	100.00%	0	0	2,000,000	100.00%
Hwakuan Systems Integration Technology (Shanghai) Co., Ltd.	Note 1	100.00%	0	0	Note 1	100.00%
Family plus technology Inc.	1,600,000	100.00%	0	0	1,600,000	100.00%
S-LINK SYSTEMS Inc. (Note 1)	4,500,000	100.00%	0	0	4,500,000	100.00%

Note 1: No shares issued.

IV. Capital Overview

1. Capital and Shares

(1) Sources of capital

1. Issued Shares

Unit: Shares, NT\$

Year and month	Issue price	Authorized Share Capital		Paid-in capital		Remarks		
		Shares	Amount	Shares	Amount	Sources of capital	Capital increase by assets other than cash	Others
2011.10	10	120,000,000	1,200,000,000	90,919,929	909,199,290	Treasury stock write-off for capital reduction 12,830,000	None	Note 1
2012.10	10	120,000,000	1,200,000,000	96,918,080	969,180,800	Corporate Bonds to Shares 59,981,510	None	Note 2
2013.1	10	120,000,000	1,200,000,000	103,108,837	1,031,088,370	Corporate Bonds to Shares 61,907,570	None	Note 3
2013.4	10	120,000,000	1,200,000,000	105,840,825	1,058,408,250	Corporate Bonds to Shares 27,319,880	None	Note 4
2013.7	10	120,000,000	1,200,000,000	106,165,289	1,061,652,890	Corporate Bonds to Shares 324,464	None	Note 5
2013.10	10	120,000,000	1,200,000,000	106,812,513	1,068,125,130	Corporate Bonds to Shares 647,224	None	Note 6
2014.2	10	120,000,000	1,200,000,000	107,203,692	1,072,036,920	Corporate Bonds to Shares 391,179	None	Note 7
2014.4	10	120,000,000	1,200,000,000	103,481,692	1,034,816,920	Treasury stock write-off for capital reduction 37,220,000	None	Note 8
2019.08	10	150,000,000	1,500,000,000	122,881,692	1,228,816,920	Private Replacement for capital increase 194,000,000	None	Note 9
2021.10	10	200,000,000	2,000,000,000	125,088,526	1,250,855,260	Corporate Bonds to Shares 2,206,834	None	Note 10
2022.02	10	200,000,000	2,000,000,000	133,693,380	1,336,933,800	Corporate Bonds to Shares 8,604,854	None	Note 11
2022.10	10	200,000,000	2,000,000,000	133,777,565	1,337,775,650	Corporate Bonds to Shares 84,185	None	Note 12

Note 1. Admitted with Official Letter No. 10001229130 of MOEA on October 3, 2011.

Note 2. Admitted with Official Letter No. 10101214820 of MOEA on October 22, 2012.

Note 3. Admitted with Official Letter No. 10201011690 of MOEA on January 16, 2013.

Note 4. Admitted with Official Letter No. 10201069310 of MOEA on April 18, 2013.

Note 5. Admitted with Official Letter No. 10201140920 of MOEA on July 27, 2013.

Note 6. Admitted with Official Letter No. 10201213530 of MOEA on October 17, 2013.

Note 7. Admitted with Official Letter No. 10301025010 of MOEA on February 13, 2014.

Note 8. Admitted with Official Letter No. 10301061320 of MOEA on April 10, 2014.

Note 9. Admitted with Official Letter No. 10801116720 of MOEA on September 5, 2019.

Note 10. Admitted with Official Letter No. 11001193130 of MOEA on October 28, 2021.

Note 11. Admitted with Official Letter No. 11101010490 of MOEA on February 14, 2022.

Note 12. Admitted with Official Letter No. 11101201850 of MOEA on October 31, 2022.

2. Type of shares

May 2, 2023/Unit: Shares

Type of Shares	Authorized Share Capital			Remarks
	Shares Outstanding	Unissued Shares	Total	
Common stock	133,777,565	66,222,435	200,000,000	OTC

3. Approved to offer and issue marketable securities by shelf registration: None.

(2) Composition of Shareholders

May 2, 2023

Composition of Shareholders Number	Government Agencies	Financial Institutions	Other Juridical Persons	Natural Persons	Foreign Institutions and Natural Persons	Total
Number of Shareholders	0	0	137	34,534	40	34,711
Shareholding	0	0	33,095,375	105,124,869	2,133,931	140,354,175
Shareholding Percentage	0.00%	0.00%	23.58%	74.90%	1.52%	100.00%

Note: Primary TWSE and TPEX listed companies and Emerging Stock companies should disclose the shareholding ratio of Mainland Chinese investors. "Mainland Chinese investors" means citizens, legal entities, groups, or other institutions of the Mainland China area, or a company in which the same have invested in a third jurisdiction as provided in Article 3 of the Regulations Governing Permission for People from the Mainland Area to Invest in the Taiwan Area.

(3) Distribution of Shareholding

1. Common stock

As of May 2, 2023 (NT\$10 per Share)

Shareholding Range	Number of Shareholders	Shareholding	Shareholding Percentage
1 to 999	18,633	395,069	0.28%
1,000 to 5,000	12,862	26,451,680	18.85%
5,001 to 10,000	1,805	15,220,113	10.84%
10,001 to 15,000	439	5,752,434	4.10%
15,001 to 20,000	332	6,341,943	4.52%
20,001 to 30,000	244	6,485,249	4.62%
30,001 to 40,000	100	3,685,128	2.63%
40,001 to 50,000	81	3,869,918	2.76%
50,001 to 100,000	123	8,711,112	6.21%
100,001 to 200,000	53	7,439,993	5.30%
200,001 to 400,000	20	5,545,778	3.95%
400,001 to 600,000	5	2,435,000	1.74%
600,001 to 800,000	2	1,530,000	1.09%
800,001 to 1,000,000	2	1,763,233	1.26%
More than 1,000,001	10	44,727,525	31.88%
Total	34,711	140,354,175	100.00%

2. Preferred Stock: None.

(4)List of Major Shareholders

As of May 2, 2023

Name of Major Shareholders	Shares	Shareholding	Shareholding Percentage (%)
ADVANTECH Investment Co., Ltd.		24,575,000	17.51%
CHEN,KUO-CHANG		6,063,097	4.32%
Mainland-Taiwan Investment Co., Ltd.		3,234,427	2.30%
HSIAO,PING-HUNG		2,220,001	1.58%
CTBC Bank Employee Stock Ownship Trust Account of Hwacom System Inc.		1,859,000	1.32%
HSIEH,WU-HSIEN		1,788,000	1.27%
CTBC Bank Co., Ltd. Trust Account - Hwacom System Inc.		1,518,000	1.08%
LIU,JI-HONG		1,326,000	0.94%
HUNG,HUN-CHIH		1,143,000	0.81%
LIN,CHE-MIN		1,001,000	0.71%

(5)Market Price, Net Value, Earnings Per Share, Dividends, and Relevant Information for the Most Recent Two Fiscal Years

Item	Year		2021	2022	As of March 31,2023 (Note 9)
	Market Price per share Share (Note 1)	Highest		23.2	21.15
Lowest			14.85	13.55	14.70
Average			18.46	16.04	16.73
Net Value per Share (Note 2)	Before distribution		17.97	17.43	17.57
	After distribution		17.63	17.11	17.26
EPS	Weighted average shares (thousand shares)		120,318	129,957	135,271
	EPS (Note 3)	1.43	0.02	1.06	-
		1.09	0.02	0.74	-
Dividends per Share	Cash dividends		0.3(Note 8)	0.3(Note 8)	-
	Stock dividend	-	-	-	-
		-	-	-	-
	Accumulated unpaid dividend (Note4)		-	-	-
Return analysis	Price-Earnings Ratio (Note 5)		12.91	15.13	-
	Price-Dividend ratio (Note 6)		61.53(Note 8)	53.47 (Note 8)	-
	Cash dividend yield (%) (Note 7)		1.63%(Note 8)	1.87% (Note 8)	-

*If shares are distributed in connection with a capital increase out of earnings or capital reserve, further disclose information on market prices and cash dividends retroactively adjusted based on the number of shares after distribution.

Note1: List the highest and lowest market price of common shares in each fiscal year and calculate the average market price by weighing transacted prices against transacted volumes in each respective fiscal year.

Note2: Based on the number of outstanding shares at year-end. Calculate the amount of distribution based on the amount resolved by the board of directors or resolved in the next year's shareholders meeting.

Note3: If retrospective adjustments are required because of issuance of stock dividends, the earnings per share should be disclosed in the amounts before and after the retrospective adjustments.

Note4: If equity securities are issued with terms that allow undistributed dividends to be accrued and accumulated until the year the Company makes profit, the amount of cumulative undistributed dividends up until the current year should be disclosed separately.

Note5: Price-Earnings ratio = Average per share closing price for the current year/Earnings per share.

Note6: Price-Dividend ratio = Average closing price per share for the fiscal year/Cash dividend per share

Note7: Cash dividend yield = Cash dividend per share/Average closing price per share for the current year

Note8: The Board of Directors has resolved on May 12, 2023, to distribute a dividend of NT\$0.3 per share for the year 2022. The proposal of the dividend distribution is subject to the approval of the shareholders' meeting.

Note9: Net worth per share and earnings per share are based on audited (auditor-reviewed) data as at the latest quarter before the publication date of the annual report. For all other fields, calculations are based on the data for the current year as of the date of publication of the annual report.

(6) The Company's Dividend Policy and Implementation Status

1. The dividend policy stipulated in the Company's Articles of Incorporation:

If the Company generates profits during fiscal year, , the Company should pay tax and offset accumulated losses first. Then , the Company should allocate 10% of the remaining earnings as legal capital reserves, allocate special capital reserve in accordance with the law, reserve retained earnings while necessary, and the remaining amount can be distributed as dividends to shareholders.

Considering the growing nature of the industry in which the Company operates, and in order to meet the future funding needs of the Company and satisfy shareholders' demands for cash inflow, if there is dividends to be distributed to shareholders, no less than 10% should be in the form of cash dividends, while the remaining portion should be distributed in the form of stock dividends.

2. The proposed dividend distribution for this shareholders' meeting is as follows:

The Company had undistributed earnings of NTD 261,026,180 at the beginning of fiscal year 2022. The Net Income for the current period is NTD 138,096,754, and it amounts to NTD 145,186,876 after adjustments. After the legal capital reserves (NTD 14,518,688) is set aside, the distributable earnings for the current period is NTD 391,694,368. The Earnings Distribution List is as follow:

Earnings Distribution List

Item	Fiscal year of 2022	
	Amount	Unit: NT\$
Beginning balance of undistributed earnings	261,026,180	
Net Income	138,096,754	
Actuarial gains or losses on Retained Earnings	7,090,122	
Adjusted Net Income	145,186,876	
Statutory surplus reserves	(14,518,688)	
Distributable earnings	391,694,368	
Distribution items		
Shareholders' dividends	(41,817,952)	Cash Dividend NT\$0.3
Ending balance of undistributed earnings	349,876,416	

Note: The cash dividends for common shares in this distribution will be calculated to the nearest whole NTD. Amounts less than one NTD will be rounded down, and any resulting fractional amounts will be transferred to other income.

In the event that the number of outstanding shares changes due to share repurchases, transfers, conversions, cancellations, capital increases, or other reasons, the total amount of cash dividends to be distributed will be adjusted according to the actual number of shares outstanding on the dividend base date, as determined by the shareholders' meeting.

3. Any expected major changes in the dividend policy: None.

(7)The impact of the distribution of stock dividend as proposed in this Shareholders Meeting on the Company's operation performance and earnings per share: Not Applicable.

(8)Employee, Director, and Supervisor Remuneration

1. Percentage or range of remuneration for employees, directors, and supervisors as stated in the Company's Articles of Incorporation:

If the Company generates profits during fiscal year, it should allocate 10% to 20% for employee remuneration, while the remuneration for directors and supervisors should not exceed 1%. However, the company's accumulated losses shall have been covered.

2. Accounting treatment when accrual allocated amount differs from the estimated amount of remuneration for employees, directors, and supervisors of the year, and the stock compensation for employees: None.

3. Information on any approval by the Board of Directors of distribution of remuneration:

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

The remuneration for Directors, Supervisors, and employees for the fiscal year 2022 has been approved by the Board of Directors on March 14, 2023. The approved amount for Director and Supervisor is NT\$1,855 thousands, and for employee is NT\$22,260 thousands. The approved remuneration amounts for employees and Directors / Supervisors are consistent with the estimated figures in the fiscal year 2022 financial report.

(2)The amount of any employee profit-sharing compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income and total employee profit-sharing compensation:

The company did not distribute employee stock dividends for the fiscal year 2022, so it is not applicable.

4. If there's any discrepancy between the actual and the accrual distribution of the remuneration of employees, Directors, and Supervisors (including the shareholdings, amount and stock price) in the previous year? If yes, please specify the amount of the difference, the reasons, and the status of action: None.

(9) Share Repurchases by the Company:

Repurchase no.	Fifth
Purpose of repurchase	Transfer shares to employees
Repurchase period	2020/03/24~2020/05/21
Repurchase price range	9.00~18.00
Types and numbers of shares bought back	Normal Stock 4,338,000 shares
Amount of shares bought back	NT\$ 59,797,365
Ratio of the number of shares already repurchased to the number of shares intended to be repurchased (%)	86.76%
The number of repurchased shares that have been cancelled or transferred	3,377,000 shares
Accumulated number of the Company's shares held by the Company	961,000 shares
Ratio of the accumulated number of the Company's shares held by the Company to the total number of issued shares (%)	0.72%

2. Issuance of Corporate Bonds:

(1) Issuance of Corporate Bonds:

As of the publication date of the annual report, the issuance of company bonds by the Company is as follows:

Type of corporate bonds	Forth of Unsecured Convertible Corporate Bonds
Issue date	2021, May 25th
Face value	NT\$ 100,000
Place of issue and trading (Note 3)	Not Applicable
Issue price	NT\$ 100 , Bonds were fully issued according to their face value.
Issue amount	NT\$ 300,000,000
Coupon rate	0% per annum
Term	Maturity 3 years Maturity date: May 25, 2024
Guarantor	Not Applicable
Trustee	LAND BANK OF TAIWAN CO., LTD.
Underwriting institution	PRESIDENT SECURITIES CORPORATION
Signing lawyer	Handsome Attorneys-at-Law, Lawyer Chiu Ya-Wen
Signing accountant	BDO Taiwan Accountant Liu Ke-Yi and Hsu Kun-Hsi
Terms of repayment	During the issuance period of 3 years, apart from the holders of the convertible corporate bonds who exercise the conversion into the Company's common shares according to Article 10 of these Regulations, or exercise the put option according to Article 18 of these Regulations, and apart from the Company's early redemption according to Article 17 of these Regulations or repurchase and cancellation by the

Type of corporate bonds	Forth of Unsecured Convertible Corporate Bonds	
	Company's business office of securities firms, the Company shall, within seven business days from the day following the maturity date of the convertible corporate bonds, redeem the convertible corporate bonds held by the bondholders in cash at the bond's face value. If the aforementioned date falls on a day when the Taipei Exchange, TPEX is closed for business, it shall be postponed to the next business day.	
Outstanding principal	NT\$ 300 million ONLY	
Redemption or early redemption provisions	Please refer to the Issuance and Conversion Regulations	
Restrictive clauses	Please refer to the Issuance and Conversion Regulations	
Name of credit rating agency, rating date, corporate bond rating result	Not Applicable	
Attached other rights	The amount converted into common shares as of the date of the annual report's publication	174,724,830
	Issuance and conversion regulations	Please refer to the Issuance and Conversion Regulations
Issuance and conversion, exchange or subscription methods, issuance conditions regarding potential dilution of equity and impact on existing shareholders' equity	None	
Name of the entrusted custodian institution for the exchange target	None	

(2) Information of Convertible Bonds:

Type of Corporate Bonds (Note1)	Forth of Unsecured Convertible Corporate Bonds	
Year	As of May 2, 2023	
Item	Highest	170.00
	Lowest	98.00
	Average	125.68
Conversion price	NT\$ 16.30	
Date of issuance and conversion price at the time of issuance.	Issuance date at May 25, 2021 Conversion price at the time of issuance is NT\$16.63 per share	
Method of fulfilling conversion obligations	Issuing new shares	

(3) Information on conversion of corporate bonds: None.

(4)Conduct of a shelf registration to issue corporate bonds: None.

(5)Information of corporate bonds with warrants: None.

iii. Preferred Shares Issuance

(1)Preferred Shares issued: None.

(2)Information of Preferred Shares with warrants: None.

iv. Issuance of Global Depository Receipts (GDR): None.

v. Issuance of Employee Stock Option:None.

vi. Employee Restricted Stock Units: None.

vii. Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

viii. Financing plans and implementation: The Company has not issued any ongoing or recently completed financing plans where the anticipated benefits have not yet been realized within the past three years.

V. Operational Overview

i. Content of Business

1. Business scope:

A. Main content of the Company's business activities:

1. CA02010 Manufacture of Metal Structure and Architectural Components ◦
2. CB01010 Manufacture of Machinery and Equipment ◦
3. CB01030 Manufacture of Pollution Controlling Equipment ◦
4. CB01990 Other Machinery Manufacturing ◦
5. CC01010 Manufacture of Power Generation, Transmission and Distribution Machinery
6. CC01020 Manufacture of Electric Wires and Cables ◦
7. CC01030 Electrical Appliances and Audiovisual Electronic Products Manufacturing
8. CC01040 Manufacture of Lighting Equipment ◦
9. CC01060 Wired Communication Mechanical Equipment Manufacturing
10. CC01070 Wireless Communication Mechanical Equipment Manufacturing
11. CC01080 Electronics Components Manufacturing
12. CC01101 Restrained Telecom Radio Frequency Equipment and Materials Manufacturing
13. CC01110 Computer and Peripheral Equipment Manufacturing
14. CC01120 Data Storage Media Manufacturing and Duplicating
15. CC01990 Other Electrical Engineering and Electronic Machinery Equipment Manufacturing
16. CD01020 Rail Vehicle and Parts Manufacturing
17. CD01060 Aircraft and Parts Manufacturing
18. CD01990 Other Transport Equipment and Parts Manufacturing
19. E502010 Fuel Catheter Installation Engineering
20. E599010 Piping Engineering
21. E601010 Electric Appliance Construction
22. E601020 Electric Appliance Installation
23. E603010 Cable Installation Engineering
24. E603040 Fire Safety Equipment Installation Engineering
25. E603050 Automatic Control Equipment Engineering
26. E603080 Traffic Signs Installation Engineering
27. E603090 Lighting Equipments Construction
28. E603100 Electric Welding Engineering
29. E604010 Machinery Installation
30. E605010 Computer Equipment Installation
31. E701010 Telecommunications Engineering
32. E701020 Satellite Television KU Channels and Channel C Equipment Installation
33. E701030 Controlled Telecommunications Radio-Frequency Devices Installation Engineering
34. E701040 Simple Telecommunications Equipment Installation
35. E801010 Indoor Decoration
36. E901010 Painting Engineering
37. EZ05010 Instrument and Meters Installation Engineering
38. EZ06010 Traffic Marking Engineering
39. EZ15010 Warming and Cooling Maintenance Construction
40. EZ99990 Other Engineering
41. F108031 Wholesale of Drugs, Medical Goods
42. F113010 Wholesale of Machinery
43. F113020 Wholesale of Electrical Appliances
44. F113030 Wholesale of Precision Instruments
45. F113050 Wholesale of Computers and Clerical Machinery Equipment
46. F113060 Wholesale of Measuring Instruments
47. F113070 Wholesale of Telecommunication Apparatus
48. F113090 Wholesale of Traffic Sign Equipments and Materials
49. F113100 Wholesale of Pollution Controlling Equipments
50. F113110 Wholesale of Batteries
51. F114010 Wholesale of Motor Vehicles
52. F114030 Wholesale of Motor Vehicle Parts and Motorcycle Parts, Accessories
53. F114070 Wholesale of Aircraft and Component Parts Thereof
54. F114080 Wholesale of Track Vehicle and Component Parts Thereof
55. F114990 Wholesale of Other Traffic Means of Transport and Component Parts Thereof
56. F118010 Wholesale of Computer Software

- 57.F119010 Wholesale of Electronic Materials
- 58.F208031 Retail Sale of Medical Apparatus
- 59.F209060 Retail Sale of Culture, Education, Musical Instruments and Educational Entertainment Supplies
- 60.F213010 Retail Sale of Electrical Appliances
- 61.F213030 Retail Sale of Computers and Clerical Machinery Equipment
- 62.F213040 Retail Sale of Precision Instruments
- 63.F213050 Retail Sale of Measuring Instruments
- 64.F213060 Retail Sale of Telecommunication Apparatus
- 65.F213080 Retail Sale of Machinery and Tools
- 66.F213090 Retail Sale of Traffic Sign Equipments and Materials
- 67.F213100 Retail Sale of Pollution Controlling Equipments
- 68.F214010 Retail Sale of Motor Vehicles
- 69.F214030 Retail Sale of Motor Vehicle Parts and Motorcycle Parts, Accessories
- 70.F214070 Retail Sale of Aircraft and Component Parts Thereof
- 71.F214080 Retail Sale of Track Vehicle and Component Parts Thereof
- 72.F214990 Retail Sale of Other Traffic Means of Transport and Component Part Thereof
- 73.F218010 Retail Sale of Computer Software
- 74.F219010 Retail Sale of Electronic Materials
- 75.F401010 International Trade
- 76.F401021 Restrained Telecom Radio Frequency Equipments and Materials Import
- 77.F601010 Intellectual Property Rights ◦
- 78.I103060 Management Consulting
- 79.I301010 Information Software Services
- 80.I301020 Data Processing Services ◦
- 81.I301030 Electronic Information Supply Services
- 82.I401010 General Advertisement Service
- 83.I501010 Product Designing
- 84.IE01010 Telecommunications Service Number Agencies
- 85.IG02010 Research and Development Service
- 86.IG03010 Energy Technical Services
- 87.IZ03010 Clipping
- 88.IZ12010 Manpower Dispatched
- 89.IZ13010 Internet Identify Services
- 90.IZ15010 Market Research and Public Opinion Polling
- 91.JA02010 Electric Appliance and Electronic Products Repair
- 92.JE01010 Rental and Leasing ◦
- 93.ZZ99999 All business activities that are not prohibited or restricted by law, except those that are subject to special approval.

B. Percentage:

2022

Unit: NT\$ thousands

Product Category	Amount	Ratio%
Telecommunication System Integration Service	1,722,795	28.27
IP Broadband Network Service	370,287	6.08
Media Industry Service	438,393	7.19
Enterprise Customers and Others	2,921,584	47.94
Smart City Application Service	641,390	10.52
Total	6,094,449	100.00

3. The current products (services) of the Company:

Product Name	Main Functions
Telecom System Integration Service	PRBT system, UMS system, multifunctional SMS service platform system, regional message notification system platform, EAP-SIM authentication platform, remote backup of storage system, mobile voice gateway platform, 3G/4G LTE core network core system, mobile payment services, x86 procurement, NGN7/8, MASS, centralized backup system, unified platform, x86 procurement, and more.
IP Broadband Network Service	V2(DSLAN/HGW), GPON-HGW-O equipment, Optical Distribution Network(ODN), MSAN broadband access network, SVG access equipment, AGG-E equipment(L2), DNS network equipment, IP network security services, V2 HGW equipment, and more
Media Industry Service	SD/HD, 4K2K content digital transcoding system, multi-format audio/ video Transcoder, camera and broadcasting control/sub-control systems, digital cable TV headend system, HD multimedia set-top boxes, fiber or telecom equipment, data terminal system, network application service, 3D games, Multimedia on Demand (MOD), DRM, and more.
Enterprise Clients	Data center central system for enterprise users, enterprise virtualization, cloud migration project, VDI desktop cloud, cybersecurity system, cybersecurity service, big data analytics, EMC bidding, SWRD NETAPP expansion, and MTK new data center relocation project, and more.
Intelligent Transportation Service (ITS)	Provide the necessary equipment for traffic control system, including CCTV cameras, large format displays, vehicle detectors, weather sensors (wind, rain, fog), power equipment, fire equipment, IT rooms, event management platforms, surveillant systems, BRT mechatronic systems, and customized development of the central computer systems for regional traffic control centers. Such systems which integrate various roadside traffic control devices, execute incident response plans, include intelligent transportation and equipment maintenance management apps, video recording and graphic control software, as well as image broadcasting software. Offering management and decision support service, as well as equipment update and maintenance for traffic control systems.
Integrated Monitoring Platform of Intelligent Operation Center (IOC)	The integrated monitoring platform, aoSCADA, is designed for the IOC of a smart city. It provides diverse intelligent monitoring and management services within an IoT environment.
Innovative Business Application Service	Followed by the expertise, experience, and capabilities accumulated in the aforementioned six application domains, the Company aim to establish a solid infrastructure by planning various innovative applications and services. These include intelligent transportation applications, smart digital signage systems, and Wi-Fi O2O service application platform. These initiatives will shape the direction of our company's growth over the next decade.

4. Planned development of new products(services):

The Company continues to strive towards its positioning as a Broadband Application Service Integrator, with the goal of realizing the vision of "Any Service Any Device Anywhere" in broadband services. Hwacom have been investing manpower and resources into the development of next-generation IPTV services, systems and network security, and integrated monitoring platforms for IOCs. These efforts aim to enhance our competitive advantage as a significant broadband multimedia product supplier in the market. The directions of R&D in this fiscal year are as follows:

(1) Media Industry Services

A. Multimedia Terminal Development Project:

With the rapid growth of Smart TV, we committee to innovation and actively collaborating with chip platform suppliers such as Intel, BroadCom, and domestic companies like Morningstar to develop the next-generation high-end 4K2K ultra-HD set-top box and networked OTT television device. We are also developing devices based on the Android operating system.

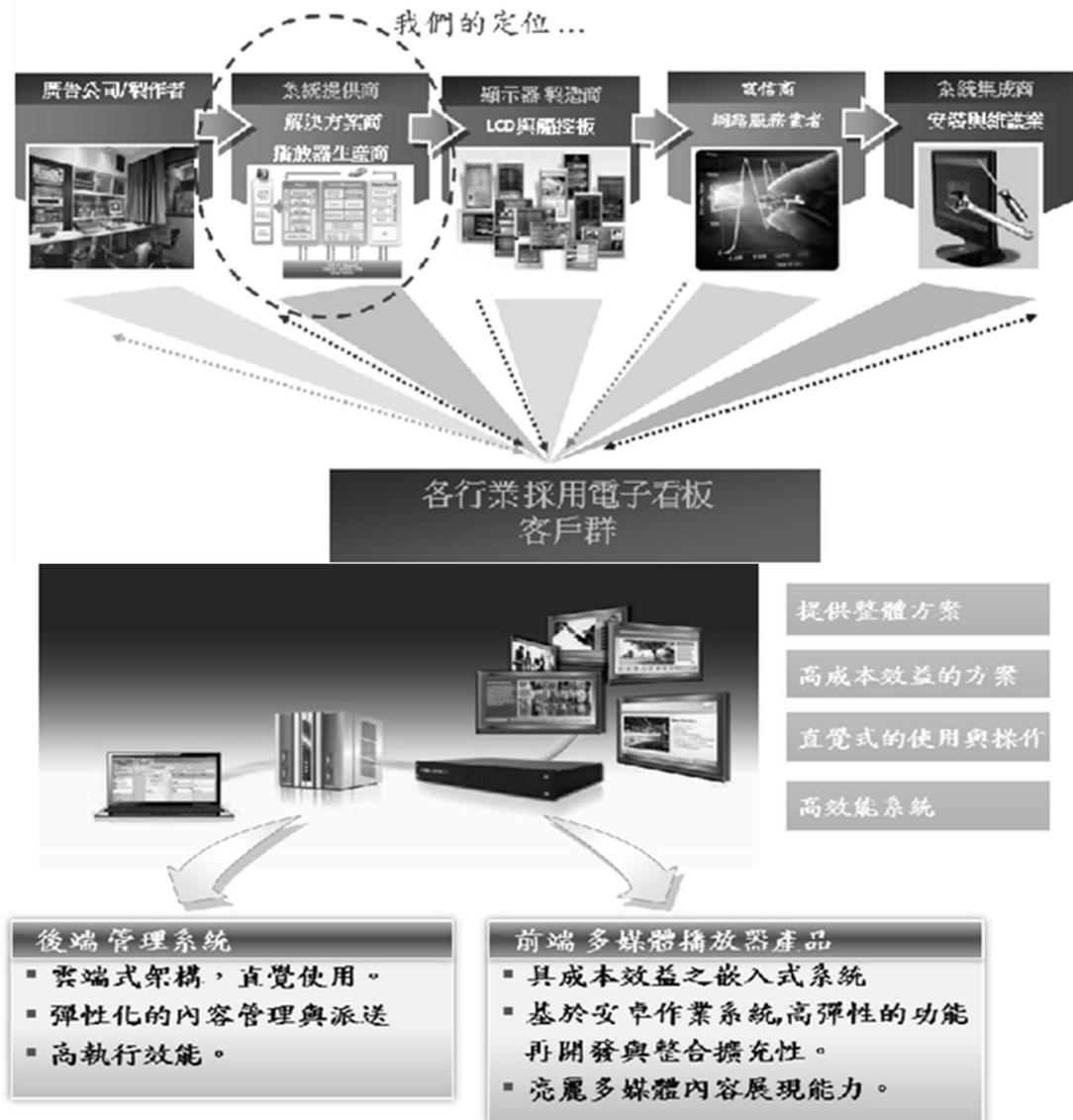
B. Media Cloud Service Platform:

Given the accelerating advancement of cloud technology and infrastructure in recent years, HwaCom, in alliance with international technology giants, plans to launch a media cloud platform. This platform will benefit enterprises and the media industry, enabling them to utilize internal media resources or launch media products with the most cost-effective investments.

(2) Innovative Application Business Services

A. Smart Digital Signage:

In terms of years of experience in multimedia digital contents and embedded terminal devices, as well as project expertise in information display and multimedia signage in transportation system, Hwacom foresees a significant demand for electronic signage applications in various real-life scenarios. As a result, Hwacom is investing to develop smart digital signage system as a new business opportunity.



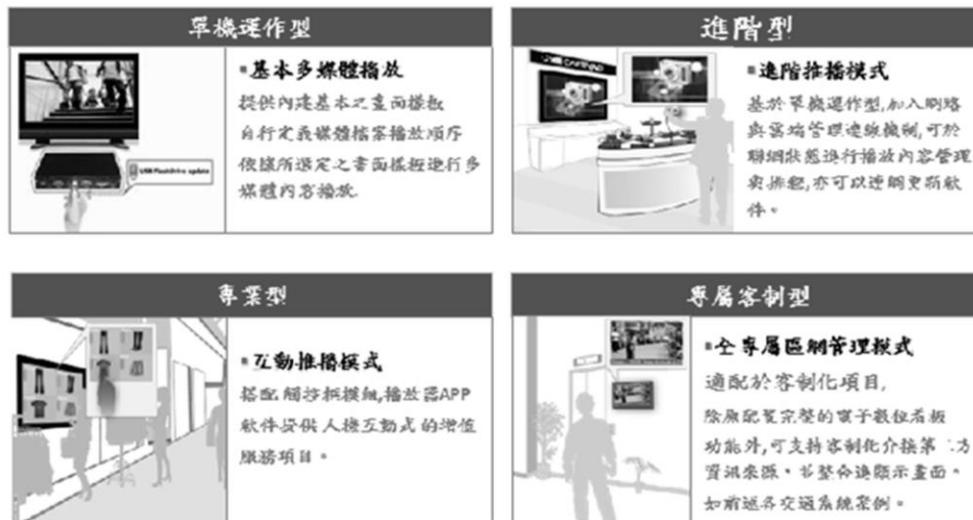
The developed products are as follows:

(A) Terminal Player in Android:

It is designed as a hardware terminal based on the Android platform, equipped with advertisement broadcasting app, information broadcasting app, smart navigation app, and so on. It can output HD audio and video to display screen for performing various information display services, and also digital dynamic advertisement broadcasting.

■ Multi-function Advertising Display Solution

可支持多樣化的應用情境



(B) Touchscreen Query Machine (Kiosk):

Collocated with a customized design touchscreen and stand, the aforementioned Android terminal player can be served as a smart navigator/Kiosk. Currently, it has been deployed in highway service areas and communities in the Greater Taipei area, providing interactive information such as traffic conditions, driving information, local attraction guidance, shopping malls, restaurants, stations, and tourist spots.

(C) Management System of Cloud-based Smart Digital Signage:

Utilizing professional capabilities of HwaCom in IT and application development, the Company have developed a management system that effectively manages the deployed terminal players/Kiosks across multiple locations. The system handles processes such as content distribution and production, and is also designed by a Cloud-based architecture. All management actions can be performed through the internet and web browsers.

We also provide a comprehensive functionality designed for the entire process and operations, for the B to B to C business model especially. It enables enterprises to scale up their business operations which adopted this system and its services.

■ 直覺式的使用者介面,易於操作的工作流程



■ 可視即所得的顯示畫面設計編輯器,以及方便發佈派送機制



■ 可部署於雲端IDC,採取網頁瀏覽器方式的後端管理系統,具備高度效能擴充性。



(D) Mobile App Mode by Function-oriented:

Within the aforementioned "Smart Digital Signage System," **According to different customer demand**, HwaCom offers function-oriented mobile apps. Those apps can be easily downloaded and deployed by frontend players located in various locations, enabling quick updates and changes to information displays, billboard ad templates, advertisement content, and navigation functions. These apps include ads broadcasting app, information broadcasting app, smart navigation apps, and more. We will continue to introduce new and innovative apps in the future.

(3) Smart City Management Services:

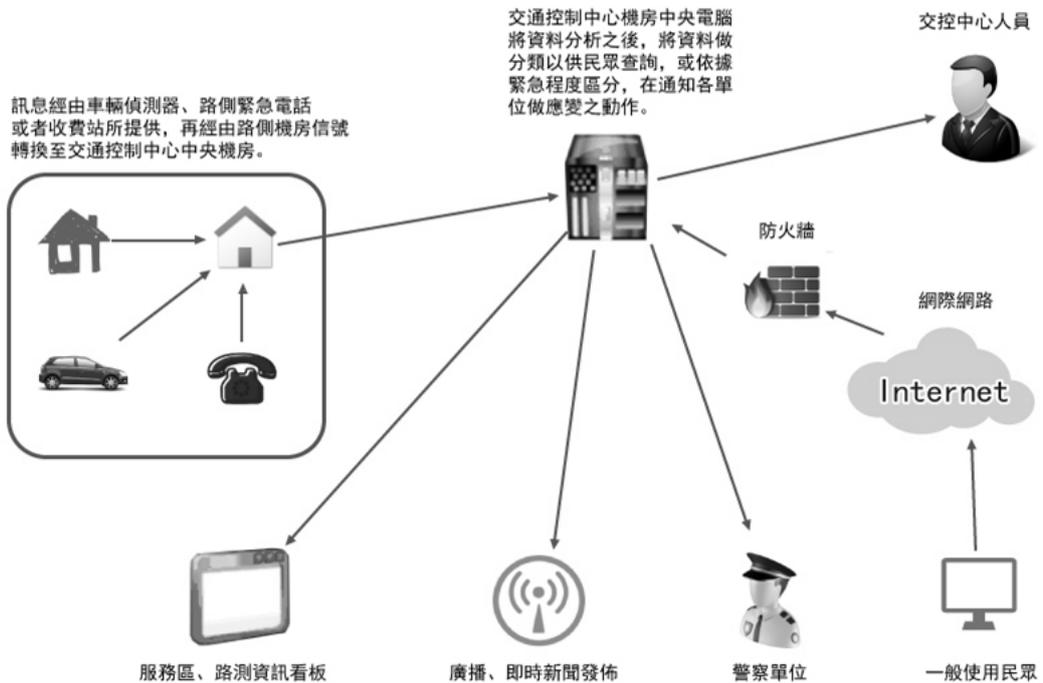
With the rapid development of digital networks and the improvement of network infrastructure, coupled with the maturity of IoT technologies, a diverse range of systems, platforms, and devices have been emerged. This has unlocked boundless possibilities for expansion in the applications of smart cities. Starting from basic access control systems, alarm systems, video surveillance, and environmental monitoring systems, the Company has further expanded its offering to smart image recognition, intelligent detection, and integrated systems that enable seamless collaboration among different subsystems. The goal is to provide citizens with a safer, more convenient, and comfortable living environment.

The Company specializes in the design and implementation of various network systems. In recent years, Company have dedicated to the field of smart city integration solutions, including the development of personalized home system as well as large-scale security control system for professional environments. Company provides customized design and implementation solutions to address the security requirements of different industries. The overview of our security control solution is as follows.



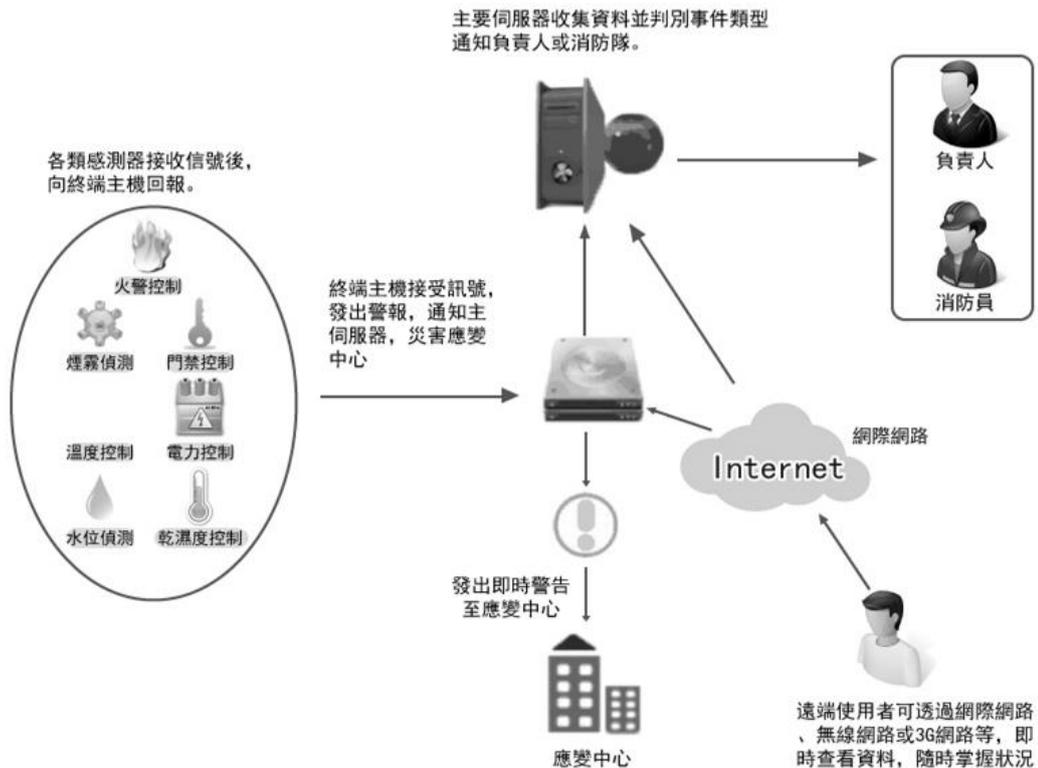
A. Intelligent Traffic Control

In order to automate the overall operational management of transportation and enhance the quality of transportation services (excerpted from Article 2 of "Act for Promotion of Private Participation in Infrastructure Projects"), we consolidate technologies such as information, communication, electronic, control, and management into various transportation infrastructure. This aims to promote transportation efficiency, quality, and safety, thereby realizing environmental protection and the development of green transportation.



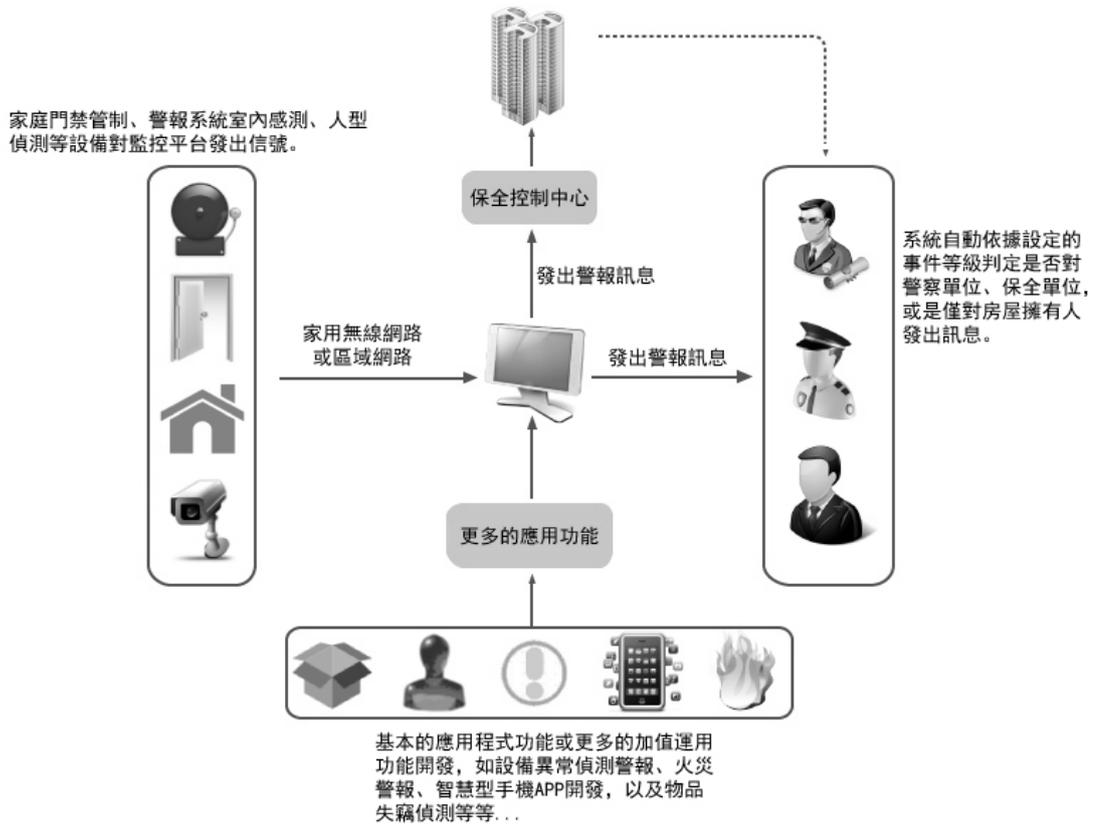
B. Intelligent Security Management

Implementing centralized monitoring and management for all equipment and environmental aspects of the data center, it is going to monitoring the operational status and parameters of different system. In the event of any abnormal incidents, the notification are sent to the administrators immediately, facilitating remote monitoring and enabling prompt responsive measures to be taken.



C. Smart Home

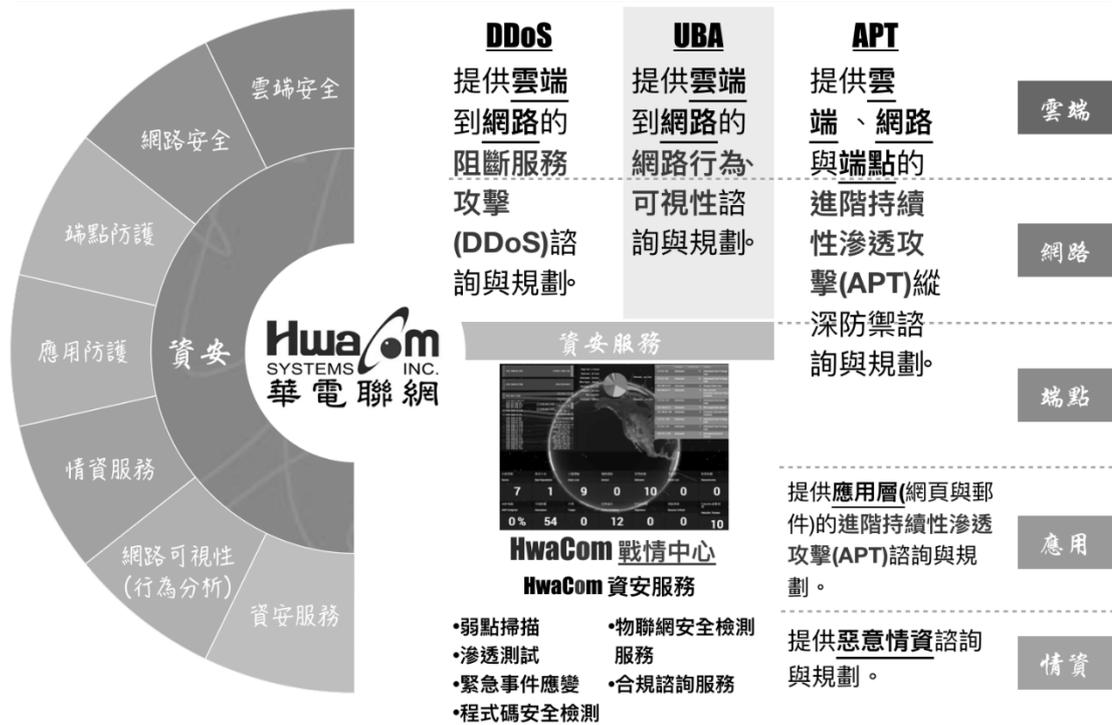
By integrating automation and intelligent technologies with safety, IT, network, and service-related industries, technology is seamlessly incorporated into the realm of architecture, enhancing the safety, convenience, and comfort of everyday in life.



(4) Cybersecurity Management Solution

A. Proactive Defense Approach to Address Cybersecurity Challenges in the Era of IoT

With the advent of the IoT era, cybersecurity issues have transcended the realm of IT (MIS) and have become a "business risk," subjecting enterprises to significant losses in revenue, competitiveness, and reputation. However, effectively protecting against these threats poses immense challenges. The proliferation of IoT devices not only do increase potential vulnerabilities and expands defense boundaries but it also presents difficulty in firmware updated and management, and the lack of cooperation among existing cybersecurity devices. The lack of security visibility hinders enterprises from properly prioritizing their defense measures. In light of the escalating vulnerabilities within IoT devices, it is crucial for enterprises to evolve their defense mindset. Merely relying on traditional approaches of deploying multiple devices and developing numerous regulations without proper implementation review is no longer sufficient. Instead, enterprises should start by defining their critical assets and gaining a comprehensive understanding of the background of key assets and services. This knowledge forms the basis for establishing effective monitoring mechanisms, enabling precise identification of normal and abnormal patterns. Ultimately, this process cultivates the strength of proactive defense. Proactive defense entails a management cycle similar to the PDCA approach. Enterprises first establish KPIs, and based on two main aspects—proactive engagement and reinforced measures—they utilize SIEM and deep packet analysis systems to detect suspicious activities. They then employ tactics such as counterattacks and slowing down the adversary's progress, effectively impeding hackers' advancements. By continuously identifying indicators and allocating resources for customized defense strategies, enterprises strengthen their defensive measures through this iterative process.



B. AI-driven Analysis for an Advanced Defense Architecture System

Cybersecurity issues have been prevalent throughout history and have evolved significantly. Initially, protection focused on single-point solutions such as antivirus, firewalls, web, and email gateways. However, as malicious attack techniques advanced and the proliferation of interconnected devices in the era of IoT increased the attack entry points, relying solely on single-point defenses became inadequate. This led to the emergence of the concept of collaborative defense, where different types of gateway devices exchange information and work in tandem with cloud and endpoint protection mechanisms to form a unified defense network. To address this challenge, our company has leveraged a big data platform for value-added development, giving rise to a comprehensive Security Operations Center (SOC) that meets the needs of most enterprises and empowers organizations to have real-time visibility into their cybersecurity posture. In the event of an incident, alerts are immediately issued through channels like SMS messages, push notifications on an app, or emails, enabling management personnel to stay informed about the security situation and take appropriate actions. Additionally, custom commands tailored to specific threat types and policies can be sent to relevant security devices, proactively thwarting attacks.

In the IoT era, an increasing number of devices have IP addresses and internet connectivity. In an office environment, devices like PCs, IP phones, printers, IP cameras, and even time clocks are connected to the network, making each of them a potential entry point for malicious programs or facilitators of lateral spread infections. Therefore, in addition to network (north-south) protection, enterprises must also prioritize the defense of physical devices and internal network behavior by establishing an east-west defense network. The emergence of HwaCom's next-generation SOC assists businesses in resisting persistent malicious attacks and safeguarding their digital assets. In order to stay up-to-date with the evolving landscape of cybersecurity and promptly establish corresponding capabilities in cybersecurity service provision, the Company have collaborated with several AI analysis solution providers specializing in networking and endpoints, combining their expertise with our intelligent SOC to create a robust fortress of cybersecurity defense.

自主研發 與 資安服務



HwaCom 戰情中心

- 協同式的巨量分析平台
- 集中式的中央管理
- 數據分析的能力
- 快速回應問題的能力

- 弱點掃描
- 滲透測試
- 緊急事件應變
- 程式碼安全檢測
- 物聯網安全檢測服務
- 合規諮詢服務
- 資訊安全整體規劃服務

(5) Home+ Smart Community Services

The outstanding services provided by our Home+ Smart Community have been adopted by the New Taipei City Government. Customized for their needs, the "New Taipei Smart Community" solution is offered to over 8,000 communities of New Taipei City. It facilitates seamless communication among the city government, residents, and communities, while introducing the following functions:

A. Government Announcements

Stay up to date with government policies, event information, weather updates, and more, ensuring nothing is missed!

B. Reporting to the Government

Bridge the gap between the government and the citizen through technology. New Taipei residents can directly express their opinions to the Mayor using their mobile phones!

C. Community Management Committee Feedback Box

Residents can easily contact the community management committee at any time, and the committee can promptly respond to their inquiries, ensuring smooth communication channels!



ii. Industry Overview

1. Industry Status and Development:

(1) Industry Status:

The Company is a system integration provider in the telecoms media, and internet information field, offering comprehensive broadband solutions. Our business development is closely related to the telecommunications industry. In recent years, with the trend of telecom liberalization in the domestic market, there has been a high demand for broadband infrastructure, providing a platform for our expertise in broadband technology integration. The following analysis focuses on the current state of the telecom industry, illustrating the industry landscape in which the Company operates.

A. Telecom System Integration Services

Telecom service providers have been actively promoting smart phones, value-added services, and broadband network solutions to target high-consumption groups and the household market. With the advent of the 5G era, telecom operators continue to introduce competitive pricing plans. In addition to enhancing their infrastructure and value-added services, they are also increasing their investments in network infrastructure. On the other hand, Cable TV operators are also actively digitizing their services, as required by the regulatory authority, NCC. New cable TV operators are enhancing their fiber internet and voice services, while actively involved in planning the deployment of fiber networks. These developments are creating opportunities in the digital set-top box and fiber network markets.

However, the traditional telecom service market in Taiwan has reached maturity, with saturated voice market and limited growth prospects. The widespread adoption of the internet, emergence of new broadband service providers, and rise of social media services have eroded the market share of existing fixed-line and mobile communication services. As a result, revenue from fixed-line services continues to decline, and mobile revenue growth is lower than expected. Unless new services, such as value-added services and IPTV, can effectively drive revenue, telecom operators will experience only slight growth.

Furthermore, major telecom operators have begun extensive construction of 5G base stations since the second quarter of 2020. With the high bandwidth and low latency characteristics of 5G, services previously offered through fixed-line and internet networks is gradually expanding onto mobile networks. The development of private 5G networks is also a noteworthy topic. Enterprises or organizations can establish their own 5G networks without relying on telecom operators. However, the services for private networks are still being explored worldwide, indicating their immense potential. The high bandwidth of 5G will further contribute to the trend of utilizing mobile phones as mobile offices and entertainment platforms; in particular, the demand for image enhancer apps creates a new industry, with low entry barriers attracting numerous companies and individuals to participate. Therefore, telecom operators must continuously introduce innovative value-added services to meet the needs of consumers. In the future, the revenue from mobile services will increasingly replace fixed-line services. The emergence of internet telephony services such as Skype, Line, WeChat, etc., will also affect the volume of mobile voice calls. The growth of value-added services will be driven by multimedia audio and video applications. With the increase in mobile communication transmission speed, the proportion of non-SMS mobile data services is expected to keep rising, indicating great potential in the mobile value-added services market. In the future, the profitability of telecom operators will be derived from value-added services and the enterprise customer market.

B. IP Broadband Network Services

The era of broadband networks has brought new business opportunities for system integrators. Traditional system integration projects for government or related enterprises often have lower profit margins. The traditional system integration business primarily serves the domestic market, and long-term growth prospects have been questioned due to factors such as intense bidding competition. However, in the era of broadband networks, emerging opportunities have brought significant business prospects for system integrators. For example, system integrators acting as agents for communication network equipment have witnessed substantial business growth in recent years. This is attributed to the increasing demand from Taiwanese companies for digital transformation and cloud-based solutions, as well as the extensive construction of broadband infrastructure by both public and private telecom operators.

System integration, as the name suggests, focuses on the "integration" of software,

hardware, while providing consulting services. It is also the major source of profit. Given the enormous investment in telecom, cable TV, as well as enterprise and government infrastructure projects, there are numerous business opportunities for system integration. Regarding that system integration in the telecom and network communication field involves the integration of information, communication, network, and software facilities, it is considered more challenging than traditional system integration, thus requiring higher entry barriers and fostering greater customer loyalty. Consequently, the profit margin tends to be higher. In recent years, the significant deployment and application of WiFi (such as push notifications on smartphones), as well as WiFi, 4G, and 5G integration are focal point for broadband network growth. Additionally, the Internet of Things (IoT) and smart cities are driving forces for future industry growth, and our company continues to collaborate with international giants like Cisco and Nokia to develop solutions in these areas.

C. Media Industry Services

(A) IPTV/OTT Market Continues to Grow

Due to the increasing demand for online video and audio content, the OTT IPTV market presents unlimited business opportunities for both domestic and international content providers. In terms of technology, R&D units are actively engaged in developing end-to-end solutions for OTT IPTV to reach the OIPF OTT IPTV standards.

The development of IPTV can be divided into three stages. The first stage involved closed IPTV products such as IP-STB. In the second stage, content became more diverse with open network. Open IPTV expanded from Internet TV, where users could access online video, to Connected TV, which allows users to control network media content through a remote control. OTT IPTV represents a convergence of the first and second stages, combining closed and open systems with related information services. It offers features such as an application store (Apps Store), cloud-based browsing across multiple devices (e.g., mobile phones, game consoles, and TVs), and personalized control over audio-visual services. Major OTT IPTV terminal device manufacturers include such as HwaCom, iKala, TiVo, Tecom, and Intel, who assist vendors in developing products, enhancing the added value of terminal devices, and expanding the scope of mobile device applications. Network providers such as Taiwan Mobile, Kbro, Homeplus, and Chunghwa Telecom aim to attract users and increase network traffic and utilization. Headend equipment providers such as Anevia, Thomson, and SeaChange facilitate the development of IPTV systems and services, as well as platform integration. Content and application service providers such as ELTA, Hsinyi, and United Daily News focus on helping businesses establish innovative OTT IPTV services, diversify content consumption channels and models, and expand content and service marketing channels. It is evident that innovative services of OTT IPTV creates opportunities for different players in the supply chain, including terminal device manufacturers, network providers, service integrators, and server equipment manufacturers.

The industry is currently facing a transformative environment characterized by "diverse contents" and "various platforms." The cable TV and content industries have entered a new era of cross-industry operation and digital convergence.

In cable TV operations, the number of operating areas has been reduced from 59 to 1 county or city, and with cross-area operations and open competition, each operator will compete for their respective management rights. In addition, the innovative services of OTT platforms allow traditional cable TV operators in Taiwan to position themselves as internet TV providers, promoting their transition to digital, IP-based networks, and developing cloud-based content. The Cable Broadband Institute of Taiwan (CBIT) will establish a CCTF Forum, highlighting the transformative potential and business opportunities brought by OTT services.

(B) Influence on the popularity of IPTV from European, American, and Japanese Countries

Japan was the earliest market to widely adopt high-speed broadband infrastructure, followed closely by South Korea. In recent years, European and American countries have also made significant progress in broadband deployment due to the rise of digital content and increasing demand for high-definition video. They have even reached or surpassed the earlier-developing countries in terms of bandwidth performance and infrastructure deployment. As a result, IPTV was initially launched in European and American countries and has gradually expanded to Asian countries. In countries like

Japan and South Korea with well-established internet infrastructure, the promotion of IPTV naturally gained momentum. China, which had early considerations for the application of high bandwidth, has been gradually catching up with advanced countries in terms of network infrastructure and has shown a proactive attitude towards the promotion and deployment of IPTV. In recent years, the IPTV market in Taiwan has made remarkable progress in promoting IPTV services, successfully catching up with neighboring countries, thanks to the extensive deployment of high-bandwidth infrastructure. Besides, the market size has been gradually expanding. If internet service providers broaden their vision, further increase bandwidth capacity, and lower the entry threshold, various value-added services based on broadband can be successfully pushed forward. As a result, the economic scale derived from broadband services can experience sustainable and substantial growth.

- (C) **The Key to the Success of IPTV Lies in Controlling Bandwidth Service Quality**
From the perspective of service quality control, managing streaming in IPTV networks presents significant challenges. This is because the streaming management solution must be implemented at various control levels, including the effectiveness of individual services used by specific accounts, the load on DSL links for designated users, the total number of users supported by a designated line, and the number of buses supported by a specified upstream link. To provide services of different levels, it is essential to have information streaming management classified by levels as a necessary solution.

D. Innovative Business Application Services

(A) Intelligent Transportation and Internet of Vehicles (IoV)

After the prosperous development of 3C industry, the 4C, automotive electronics industry, is rapidly growing with the joint efforts of industry, government, and academia in Taiwan. Countries like Japan, the United States, and the European Union have been utilizing mobile communication and satellite positioning technologies to provide Telematics services. This has gradually driven the application and development of satellite positioning and wireless communication technologies. With the advancement of technologies, wireless communication technologies such as WiFi, 4G, 5G, and C-V2X, and vehicle positioning services have gradually entered the market of vehicle integration services in Taiwan.

The Taiwanese government attaches great importance to this development trend and aims to innovate the domestic ICT industry by combining the technical expertise present in the automotive electronics market and mature mobile communication environment. It actively plans and promotes the integration and application of related vehicle communication and Intelligent Transportation Systems (ITS), including Advanced Public Transportation Systems (APTS), Commercial Vehicle Operations (CVO), Emergency Management Systems (EMS), and Electronic Toll Collection (ETC). The derived information and communication value-added applications will contribute to the robust growth of the domestic intelligent transportation system industry.

Currently, in-vehicle devices have become standard equipment for information and communication in automobiles. Through the diverse integration services of in-vehicle devices, including audio and video entertainment, gaming, communication, email, e-commerce, electronic tolling, automatic speed control, emergency assistance, vehicle condition monitoring, safety alerts, theft prevention, and navigation systems, human-machine interface of the in-vehicle devices provide a rich digital living space for drivers, thereby driving the development of value-added applications of traffic information in Taiwan.

The IoV platform establishes a real-time mutual communication channel between traffic managers and road users. Road users can choose the desired intelligent transportation system services based on their location and needs. For traffic managers, the IoV platform not only sends real-time information to road users but also serves as a data source for feedback to the intelligent transportation system. It collects data on vehicle types, speeds, locations, and travel times to provide functions such as traffic surveillance.

Taiwan possesses one of the world's most dense mobile telecom networks, and telecom companies have been progressively deploying 5G base stations and expanding their services. The Executive Yuan has also designated 5G infrastructure construction as a national plan. By combining wireless communication technology to establish a platform for the development of communication infrastructure., it serves

as a solid foundation for the integration and application of intelligent transportation systems. It enables communication and interaction among vehicles, between vehicles and roadside infrastructure, between the center and roadside infrastructure, and between vehicles and the center. This fully utilizes the effectiveness of the IoV. In the future, the IoV can leverage the increasingly sophisticated network equipment to act as an information platform for drivers and integrate with intelligent transportation systems to provide information reception and transmission services. The Company has established close collaborations with many leading domestic and international manufacturers in the field of smart transportation and Internet of Vehicles.

(B) Cloud Computing

Cloud computing has become an important emerging trend in the ICT industry. It provides users with access to vast computing power through the internet. Under the trend of cloud computing, there will be a reduction in the demand for PC system software and high-end processors, which could impact the revenue of computer OEMs in Taiwan. However, it also brings new opportunities for transformation, including significant business prospects in servers, routers, storage equipment, wireless and wired broadband transmission, PCs, MIDs, smartphones, and more. Major countries such as the United States, Japan, and South Korea are actively promoting cloud computing-related initiatives, and Taiwanese government has launched the "Cloud Industry Development Program" to enable domestic companies to master cloud and edge computing technologies in the global ICT industry's trends towards cloud computing, expanding future business opportunities. In addition, the increasing demand for mobile app value-added services, driven by the widespread use of smartphones, has created a new emerging industry with unlimited business opportunities. The entry barrier is relatively low, making it worthwhile for Taiwanese companies to invest in this field.

a. Global Market Potential: According to IDC's assessment, the global market for cloud services is expected to triple in the next five years, reaching \$42 billion.

b. Application Trends in Large Enterprises: Based on Gartner's analysis, 80% of the top 1000 companies listed in financial magazines are expected to purchase cloud services, with 30% also procuring cloud-related infrastructure.

c. Domestic Business Opportunities in Cloud Computing:

- In terms of "cloud" technology: Domestic companies such as Quanta, Wistron, Foxconn, Incentec, and Infortrend, collaborated with upstream component manufacturers, have established a cooperative advantage in seizing market opportunities arising from the widespread adoption of cloud computing. These opportunities include servers, large-scale storage devices, and power supply solutions.

- In terms of "end" devices: Such as desktop computers/notebooks (PC/NB), smartphones, LCD TVs, and intermediary devices between notebooks and smartphones, including Netbook, Smartbook, tablet computer (e.g., Apple's iPad), and e-Book Reader, Taiwanese manufacturers, building upon their existing foundations, are well-positioned to continue capturing related opportunities.

- In terms of "APP services": The widespread adoption of smartphones has led to an increasing demand for diverse value-added services among consumers. With low entry barriers, domestic businesses can strengthen their investment in this service sector

d. Future Directions for Domestic Manufacturers:

- In order to further master opportunities in the "end" part of cloud computing, domestic businesses have already invested in the development of 5G chipsets. They are actively leveraging the technological momentum created by Google's Android platform to usher in a new era of smartphones that function as PC/NB. Furthermore, they are considering integrating simplified computer function through wall-mount or embedded modes, combined with digital remote controls, turning into smart TV capable of direct internet access.

- The APP service sector is gradually becoming a substantial industry with no boundaries. Domestic industry players should invest resources and combine their manufacturing capabilities in the domestic smartphone market, ensuring their rightful place in the market.

(2) Industry Development

The Company aim to assist service providers and large enterprises in building high-tech system to enhance the quality of life, through comprehensive broadband application systems and efficient broadband network infrastructure, providing services to consumers. Therefore, our business services primarily focus on telecom system integration services, IP broadband network services, digital media services (IPTV), corporate client services, and smart city control services. The industry development of these five services is explained as follows:

A. Telecom Integration System Services

In Taiwan's telecommunications service and application market, the main businesses are divided into Type 1 Telecom and Type 2 Telecom services. The former includes fixed network communication services, mobile network communication services, and cable TV operators; Type 1 Telecom service providers include Chunghwa Telecom, FETnet, APTG, TstarTel, and Taiwan Mobile. Type 2 Telecom service companies include Chief Telecom and eASPNet. Cable TV operators include Kbro and Homeplus, etc. Among them, Chunghwa Telecom undoubtedly represents the domestic telecom industry.

As of now, the number of Taiwan's ADSL and fiber users has exceeded 16.5 million households, and the trend of broadband internet usage is growing. Other related deployments of telecom networks are also under planning, such as IPTV, FTTX, VOIP applications, and value-added services. Chunghwa Telecom will continue to invest capital in building the next generation telecom network to improve service quality and market competitiveness.

(A) Mobile Communications

There are six major 4G mobile network operators in Taiwan, competing with each other and continuously expanding their base stations, resulting in a coverage rate exceeding 100%. With the rapid development of the Internet, the demand and usage of wireless internet have also grown rapidly. With the construction of 4G and 5G networks by the six telecom operators, the available bandwidth has increased significantly. As a result, mobile internet access has become a trend. With personal mobile phones or tablets, people can access the internet wherever they go. It is estimated that billions of people worldwide will use mobile phones for internet access, with approximately four out of every ten internet users accessing the internet via mobile phones.

Currently, to access the internet on mobile phones, for internet services, it usually requires cooperation among ISPs, ICPs, and ASPs. The services provided include online gaming, music and movie subscription, online movie ticket booking, online news browsing, stock trading, map navigation, and more. In addition, for long-distance communication on fixed networks, there is a need to establish a new generation of fixed network infrastructure to cope with the rapid development of e-commerce. Significant investments are required in data and voice integration, backbone and access network integration, smart networks, network management systems, and other aspects.

Furthermore, the popularity of smartphones led by Apple iPhone and Android phones, have been gradually accepted by consumers. In response to the growing demand for e-commerce and value-added services of apps, mobile commerce has rapidly flourished, and the technology has become mature. With the rapid growth of cross-border e-commerce transactions, there are many supporting measures such as the establishment of cloud data centers to assist companies in engaging in e-commerce operations successfully. In the overall ecosystem, cooperation between system integrators and providers capable for service or equipment is essential for joint promotion.

(B) Fixed Network Infrastructure

Currently, the three major fixed network telecommunications operators in Taiwan are Chunghwa Telecom, Taiwan Mobile (Taiwan Fixed Network), and FET Telecom (New Century InfoComm Tech). In recent years, these operators have been continuously integrating their telecom network resources, including fixed networks, mobile networks, and the internet, to meet the trend of network convergence. As the voice market reaches saturation and has limited capacity, the shift towards the growing data services market is an inevitable trend. Therefore, telecom operators are actively seizing the broadband internet access opportunities to compete in the Taiwanese broadband market. The NCC has also allowed cable TV operators to expand their operations across regions, and both existing and new operators are actively investing in bandwidth to capture more business opportunities.

Looking ahead, the trend will be towards fiber broadband communications.

Although the telecom operators have made significant progress in telecom infrastructure, to meet the demand for fast and evolving information and broadband applications, it is expected that companies will continue to invest in optical communication networks in the coming years. Therefore, the fixed network market is to offer the most business opportunities and market potential in three areas:

- Value-added/innovative services.
- Broadband network access products.
- System integration.

(C) Cloud Computing

Cloud computing has become an important emerging trend in the ICT industry. It provides users with computing resources through the internet. Under the cloud computing trend, the demand for personal computer system software and high-end processors may decrease, which could impact the revenue of Taiwan's computer OEM industry. However, it also brings new opportunities for transformation, including server, router, storage device, wireless and wired broadband transmission, PC, MID, smartphone, and other significant business opportunities. Major countries such as the United States, Japan, and South Korea are actively promoting cloud computing-related initiatives. The Taiwanese government has launched the "Cloud Industry Development Program" helping domestic companies can grasp the "cloud" and "edge" technologies in the global ICT industry trend towards cloud computing, expanding future business opportunities.

■ Global business opportunities in cloud computing

- a. Global Market potential: According to IDC, the market for cloud services is expected to triple in the next five years, reaching \$42 billion.
- b. Adoption trends among large enterprises: Gartner's analysis indicates that by 2019, 87% of the Fortune 1000 companies will purchase cloud services, and 40% will invest in cloud-related infrastructure.
- c. Potential application in government sectors: According to Market Research Media, cloud investments will increase by over 40% annually.

■ Domestic business opportunities in cloud computing

- a. In terms of "cloud" technology: Domestic companies such as Quanta, Wistron, Foxconn, Incentec, and Infortrend, collaborated with upstream component manufacturers, have established a cooperative advantage in seizing market opportunities arising from the widespread adoption of cloud computing. These opportunities include servers, large-scale storage devices, and power supply solutions.
- b. In terms of "end" devices: Such as desktop computers/notebooks (PC/NB), smartphones, LCD TVs, and intermediary devices between notebooks and smartphones, including Netbook, Smartbook, tablet computer (e.g., Apple's iPad), and e-Book Reader, Taiwanese manufacturers, building upon their existing foundations, are well-positioned to continue capturing related opportunities.
- c. In terms of "end" devices: Such as desktop computers/notebooks (PC/NB), smartphones, LCD TVs, and intermediary devices between notebooks and smartphones, including Netbook, Smartbook, tablet computer (e.g., Apple's iPad), and e-Book Reader, Taiwanese manufacturers, building upon their existing foundations, are well-positioned to continue capturing related opportunities.

B. Media Industry Services

Television Channel Media Industry

The TV channel media industry has three major categories: terrestrial television, cable television, and emerging satellite television. The TV channel media industry transmits audiovisual signals to each household TV in different ways, providing users with direct visual information. Currently, its primary content includes the following key aspects: providing TV programs, broadcasting news information, offering advertising services, TV shopping services, and financial information services. In the future, they will provide following services: offering digital TV programs, providing VOD services through Set-Top Boxes, delivering internet content, online shopping, advertising, news, and information services, and more.

Currently, the user market penetration rate for terrestrial TV has reached a high of 98%, while the user market rate for cable TV has also reached 80%. Almost all cable TV users no longer rely on antennas to receive terrestrial TV programs. Channel connection rates and program viewership serve as benchmarks for evaluating channel operators. However, due to government policies, the channel connection rate for the country's five major terrestrial television is 100%. Under fierce competition, some operators with inherent weaknesses are either facing channel shutdown or financial crisis, or even closure. The future market development and conditions are as follows:

- Once digital television matures, cable television channels or system operators are expected to follow suit.
- As broadband networks gradually mature, forming cross-industry alliances with ISP/ICP operators or establishing their own websites to provide users with alternative viewing options will be an inevitable trend for all TV stations in response to future Internet developments.
- The rise of satellite television and OTT operators will offer the public another choice for television viewing

Furthermore, as broadband network continues to mature, TV stations that focus on rich Content are poised to become sought-after cross-industry alliance partners for ISPs/ICPs. Whether through cross-industry alliances or independent website setups, offering users alternative viewing options will become an inevitable trend for all TV stations in response to future Internet developments. This trend opens up boundless opportunities in parallel with the flourishing Internet landscape.

■ Integration of Television Broadcasting and Telecommunications

The development of interactive TV and Video on Demand (VOD) has expanded the role of TV broadcasting beyond providing daily life information and news. It has extended to education, entertainment, and even guiding people in their daily lives, tightly intertwined with their lifestyles. At the same time, the technologies and transmission networks possessed by satellite and cable TV allow for easy conversion and provision as telecom services, making them more competitive.

■ Integration of Media and Information Industries

Due to the development of the multimedia industry, the information industry has begun producing high-value-added products, including music and animation, blurring the boundaries between two industries. Our company will provide a broadband multimedia integration platform that combines movies and television to offer consumers diversified audiovisual services.

C. Corporate clients and others

In the increasingly networked business environment, the development of e-commerce and cloud computing has been growing steadily. The demand for enterprise digitization and cloud adoption is also expanding. The development of e-commerce and cloud computing can be attributed to the following reasons:

(A) Advancement of broadband networks and innovation in various Internet-connected devices

Today, high-speed broadband Internet is prevalent, with technologies such as FTTX, xDSL, and CABLE MODEM provided by CATV system operators reaching the scale of broadband cities. This development of broadband networks directly contributes to the increasing number of internet users in our country.

(B) Proliferation of information appliances and smart terminal devices

In the past, accessing the internet and retrieving information was mostly limited to PCs. However, thanks to advancements in electronic chip technology, IAs like Set-top Boxes, iPads, and smartphones have emerged, increasing in information extraction opportunities. This, in turn, attracts more diverse and rich content for business activities.

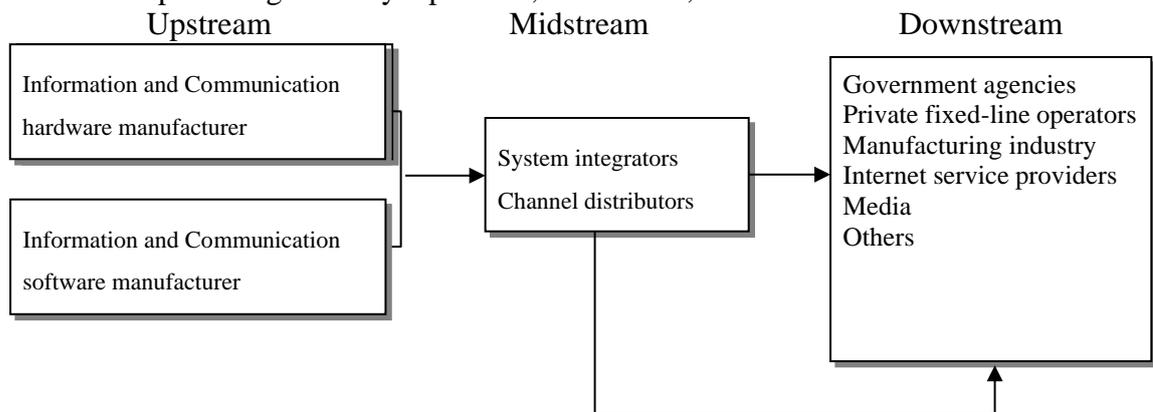
(C) Breakthroughs in security and confidentiality technologies

The lack of security in internet transactions was a major concern in the past. However, breakthrough inventions have addressed this issue. Along with the transmission security similar to traditional bank ATMs (SSL), comprehensive data encryption technologies like RSA are now significantly enhancing the feasibility of electronic transactions.

(D) Maturity of cloud computing technology

In recent years, the environment and implementation technologies of cloud computing have matured. The cost of deployment has decreased compared to the past, and there is a wider range of options available. This assists enterprise customers in strengthening their competitiveness.

2. Relationships among Industry Upstream, Midstream, and Downstream:



Our company is a professional service provider specializing in the integration of broadband application systems. It belongs to the information service industry: system integration, category defined by the Institute for Information Industry. The upstream sector of this industry primarily consists of various communication, network, and computer hardware manufacturers, as well as communication, network, and computer software suppliers. After directly sold to system integrators or selling through channel distributors in the midstream, they develop application software and complete hardware and software system integration based on the functional requirements of downstream customers. The integrated systems are then sold to telecom companies, network providers, media companies, and enterprises with electronic mobile demands. For upstream software and hardware manufacturers, the application software development by midstream information service providers enhances the added value of their products. For downstream customers, the improved functionality of the integrated systems enhances service efficiency and effectiveness. The Company plays a dual role as both a midstream channel distributor and a system integrator, providing value-added integration and distribution functions within the industry chain.

3. Various trends in product development:

The main products we offer are telecom system integration services, IP broadband network services, media industry services, and other communication network infrastructure and application solutions. The trends in product development are as follows:

(1) The trend of broadband internet usage and strong demand for broadband network infrastructure.

Broadband internet services have been widely accepted by global home network users. This is partly due to telecom service providers reducing the cost of internet services to an affordable level, and also thanks to software companies continuously developing online content, increasing users' demand for broadband networks.

In terms of broadband internet technology, the number of users in our country utilizing FTTX, GPON, and XDSL has exceeded 15 million. The penetration rate of fiber networks has surpassed 80%. Commercial wireless internet services have been introduced in many places, especially the largest scale Wifly WiFi service established by the Taipei City Government, which covers 100% of the city area. Looking ahead, there is still considerable room in the demand for broadband network infrastructure in the coming years. In addition to telecom companies such as Chunghwa Telecom, Taiwan Fixed Network, and FET Sparq expanding their fiber optic networks, cable TV operators have also joined the competition by launching fiber internet services. Furthermore, the Taipei City Government's BOT operator, Taiwan Intelligent Fiber Optic Network, has extensively built fiber networks in Taipei City, offering affordable fiber internet services to citizens. The widespread adoption of broadband networks is expected to increase rapidly in the future.

The Company is a domestic leading provider specializing in broadband system integration. We have extensive experience in providing comprehensive system integration solutions for cable television systems (CATV), including copper cable, Cable Modem, ADSL, and fiber FTTX network. We have also assisted in the deployment of Chunghwa Telecom's 4G backbone networks, and 4G network for Taiwan Star, New Asia-Pacific. This year, we will actively invest in the infrastructure and application services for 5G networks.

(2) With maturation of broadband environment, the extensive application of audiovisual multimedia.

Online Media content relying on transmission technologies are crucial for delivering stable network quality, which encourages consumers to access services online. Looking at the current development of broadband networks in our country, GPON, ADSL, and cable are the primary broadband access methods, and the number of broadband users is expected to increase significantly. As the broadband environment matures, the range of broadband multimedia services diversifies, including services such as VOD(Video on Demand), PPV(Pay Per View), and PVR(Personal Video Recorder), which will gradually penetrate into every household in the future.

In terms of broadband content, broadband audiovisual multimedia, online gaming, and e-commerce are areas of focus, with the online gaming market currently experiencing success. Broadband content services will highlight the differentiation of service providers and play a key role in retaining users. Rich content also serves as a powerful tool for increasing the value for users.

Our company has obtained the contract for Multimedia On Demand (MOD) services of Chunghwa Telecom, which is their response to the challenges posed by fixed-line and cable operators in the broadband multimedia service market. MOD utilizes existing telephone lines and adds ADSL to provide users with simultaneous services such as phone calls, TV, movie streaming, karaoke, and high-speed internet access in on-demand mode. The backbone network of this service adopts GPON fiber transmission technology and Internet Protocol (IP). As the first company in our country to establish this type of service, the Company have set a leading benchmark in the field of broadband content service system construction, which will contribute to capturing expanding opportunities in the broadband system service market.

- (3) Under global digitization and the prevalence of cloud computing, the growth of the enterprise cloud market.

In recent years, with the wave of e-commerce and cloud computing, utilizing information technology to manage business and establish competitive advantage has become a common consensus among enterprises. Looking back at the development of our country's project integration, it has shifted from simply Tailor-made application software to emphasizing the industry Know-how and software development capabilities of project integrators. Therefore, the continuous pursuit of optimal enterprise processes has become the mainstream value of project integrators in assisting enterprise digitalization. In the future, expanding from the back-end to the front-end, effectively utilizing and integrating popular system software such as Enterprise Resource Planning (ERP), Supply Chain Management (SCM), and Customer Relationship Management (CRM) will be essential for project integrators to provide customized services to clients and establish the core advantages of enterprise digitization. Additionally, the establishment of cloud computing environments has also become an opportunity for system integration vendors in recent years, with private cloud and hybrid cloud configurations gaining acceptance among enterprises.

The Icon IT Trend Index indicates that the key to future development in the internet-related industries lies within the enterprises themselves, with the development of e-commerce being of secondary importance. IT spending can generate greater profits for businesses, leading them to adopt more practical operational models and enhance productivity in the B to B realm. It is expected that top-performing companies will continue to invest in B to B initiatives to save costs, increase revenue, and improve sales. Research shows that the market for internet projects, such as website design, will gradually shrink, while project types will become more specialized. The scope of enterprise operations will encompass areas such as Big Data analytics, artificial intelligence (AI) analysis, and workflow systems, these data analysis is important in business management.

4. Product Competing Condition:

The Company's products are categorized based on communication network architecture, providing customers with best solutions from the underlying communication network infrastructure to broadband applications. The competing condition of the products we represent is as follows:

(1) Communication Network Infrastructure

The products the Company introduce are world-class telecom and communication equipment, including Nokia, ZYxel, CISCO, Harmonic, Extreme, etc. These brands are leaders in their respective product domains, making them highly competitive. As our company specializes in the integration of communication and information systems and is the most dedicated broadband system integrator in the country, we have accumulated experiences in telecom infrastructure deployment, including GPON equipment system installation, CE IP backbone network, 4G IP backbone network, IP microwave communication, G.fast, VoLTE, and other project implementations.

(2) Servers and Storage

We offer HP and DELL products as server clusters, Oracle for database systems, and NetApp as a global leader in enterprise network storage and backup. These products are the foundation of network systems and have a significant impact on network efficiency. With years of experience in serving major network users, we can provide customers with a wide range of configuration options that meet high requirements for application, scalability, and security.

(3) Network Systems, Network Security, and Network Management

The products we sell include Cisco, Fortinet, Symantec, Splunk, Palo Alto, etc. Splunk, a new agency product in our portfolio, its primary function is assistant of network service quality and the management of cybersecurity big data, thereby enhancing service levels. These products are essential components for improving network service efficiency and quality.

(4) Broadband Applications and Telecom Value-Added Services

The products we sell include OpenCloud and Oracle (Tekelec, Acme). Oracle is a leading global technology provider of telecom value-added service platform, with professional and scaled R&D teams making next-generation telecom value-added applications easy and feasible.

(5) Cloud Computing:

The company represents products such as VMware, Citrix, Dell, and other virtualization solutions, combined with network, server, and storage solutions from CISCO, NetApp, etc., to assist customers in building cloud computing environments.

(6) Intelligent Transportation Service Systems

In recent years, the Company has actively entered the market of intelligent transportation services, assisting agencies such as the Directorate General of Highways, National Expressway Bureau, and Taiwan Railways in establishing intelligent transportation control and monitoring systems. The products we sell include smart sensor, CCTV, CMS, LED display board, intelligent video analysis system(IVS), and we have developed highway traffic conditions mobile app, providing real-time traffic services to road users.

(7) Broadband System Integration Experience:

In addition to selling globally renowned communication network products, the company's value lies in system integration services, providing customers with user-friendly interfaces to enhance network utilization efficiency. With our long-accumulated technical expertise and system integration capabilities, we offer authentic overall solutions from system infrastructure to application. The services and system deployments we provide to customers are based on several core technologies, widely recognized by the industry.

iii. Technology and R&D Overview:

1. Technological Advancements in Business Operations:

In recent years, with the trend of telecom liberalization in the domestic market, there has been a high demand for broadband infrastructure. This provides an opportunity for our company to showcase our expertise in broadband technology integration. We have assisted major telecom operators such as Chunghwa Telecom, FET Sparq, Taiwan Fixed Network, and cable TV providers in building fiber-optic broadband networks as well as wireless mobile broadband networks like wifi, 4G, and 5G. Additionally, in the IPTV system domain, we have strengthened Chunghwa Telecom's Large TV MOD service system and value-added services. According to media reports, the number of users has exceeded 2.5 million households until now, making it one of the leading IPTV service platforms in Asia and unmatched by any other system integration provider in Taiwan or even the Greater China region. The Company possesses a dedicated IPTV system R&D team and leverages the extensive experience of our various departments in telecom network, cable network, the internet, digital head-end, and IT system. This gives us a competitive advantage in IPTV deployment and service promotion. Furthermore, through years of collaboration with companies like Chunghwa Telecom and other vendors, we have gained comprehensive knowledge of the IPTV market trends and technologies. We actively collaborate with research institutions for technology transfer and research projects, harnessing the collective power of industry, government, and academia to drive technological advancements. We have a firm grasp of the entire IPTV technology development process and can meet the future market demands and trends. With our products and services, we provide complete solutions, enhance competitiveness, and have successfully exported entire systems to overseas markets, demonstrating technological capabilities.

2. Research and Development

(1) Broadband Network Management System

In recent years, as telecom companies' backbone networks become increasingly complex, and heterogeneous network management has become a crucial challenge. Network management systems provided by single network equipment companies no longer meet the daily operational management needs of customers. To address this, the Company has established a dedicated project development team to develop a comprehensive, single-interface network management system. This system enables network administrators to easily manage network equipment and ensure the delivery of high-quality network services to end-users.

(2) Media Industry Services

Multimedia MOD/IPTV/STB Project

(A) Multimedia Terminal Development Project

The Company has accumulated a wealth of experience and past project achievements in the Consumer Electronic Device market, specifically in IP_STB, Hybrid STB, and OTT media players. We have successfully developed multiple HC-Xseries set-top boxes.

In addition to supplying HC-Xseries set-top boxes to major IPTV service providers, such as Chunghwa Telecom, we have also gained recognition from international networking giants such as Nokia Siemens, Ericsson, and Alcatel. This has positioned us as one of the strategic product suppliers for global set-top box solutions. We are actively integrating and promoting our products, aiming to further expand into the international market.

Considering the thriving development of Connected TV and Smart TV, HwaCom Systems is committed to continuous innovation. We are actively collaborating with chip platform suppliers such as Intel and Broadcom to develop the next-generation high-end set-top boxes. By porting Google's open embedded operating system, Android, the Company aim to elevate the functions and user experience of digital set-top boxes to meet the expectations and imaginations of consumers and IPTV service providers for Smart TVs. The development of Android set-top boxes and applications suitable for Smart TV scenarios is a key product for the Company

(B) Multimedia Value-Added Service Platform

Drawing upon great amount of experiences in terminal deployment and value-added service development, HwaCom will continue to focus on managing the value-added service platform and developing business promotion functionalities. This includes services such as the Game Portal, E-Learning Portal, and Flash UI Portal.

(C) Media Cloud Service Platform

With the rapid advancement of cloud technology and infrastructure in recent years, HwaCom has formed alliances with international technology giants to launch a media cloud platform. This platform will benefit enterprises and the media industry by providing efficient and cost-effective access to internal media resources and enabling the launch of media products.

(3) Innovative Application Business Services

Smart Digital Signage

Building on years of experience in multimedia digital content and embedded terminal devices, as well as project expertise in information display and multimedia signage in transportation system, Hwacom foresees a significant demand for electronic signage applications in various real-life scenarios. As a result, we are investing resources to develop a smart digital signage system as a new business opportunity.



The developed products are as follows:

(A) Android Terminal Player:

A hardware terminal based on the Android platform, equipped with advertisement broadcasting app, information broadcasting app, smart navigation app, etc. It can output HD audio and video to display screen, providing various information display services, and also digital dynamic advertisement broadcasting.

Multi-function Advertising Display Solution

可支持多樣化的應用情境



(B) Touchscreen Query Machine (Kiosk):

Paired with a customized design touchscreen and stand, the aforementioned Android terminal player can serve as a smart navigator/Kiosk. Currently, it has been deployed in highway rest areas and communities in the Greater Taipei area, providing interactive information such as traffic conditions, driving information, local attraction guidance, shopping malls, restaurants, stations, and tourist spots.

(C) Cloud-based Smart Digital Signage Management System:

Utilizing the expertise of HwaCom in IT and application development, the Company have developed a management system that effectively manages the deployed terminal players/Kiosks across multiple locations. The system handles processes such as content distribution and production, and is designed with a Cloud-based architecture. All management actions can be performed through the internet and web browsers.

The Company also provide a comprehensive functionality designed for the entire process and operations, specifically tailored for the B to B to C business model. This enables enterprises to scale their business operations which adopted this system and its services.

■ 直覺式的使用者介面,易於操作的工作流程



■ 可視即所得的顯示畫面設計編輯器,以及方便發佈派送機制



■ 可部署於雲端 IDC,採取網頁瀏覽器方式的後端管理系統,具備高度效能擴充性。



(4) Smart City Management Services

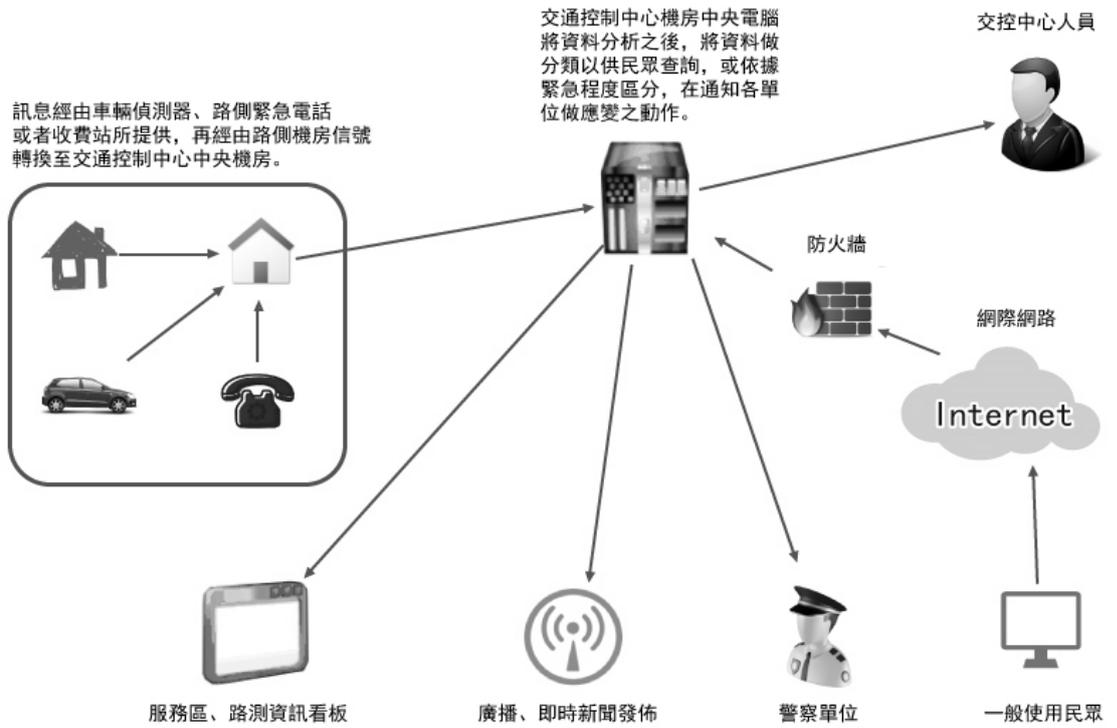
With the rapid development of digital networks and the improvement of network infrastructure, coupled with the maturity of IoT technologies, a diverse range of systems, platforms, and devices have emerged. This has unlocked boundless possibilities for expansion in the applications of smart cities. Starting from basic access control systems, alarm systems, video surveillance, and environmental monitoring systems, the Company has further expanded its offering to smart image recognition, intelligent detection, and integrated systems that enable seamless collaboration among different subsystems. The goal is to provide citizens with a safer, more convenient, and comfortable living environment.

The Company specializes in the design and implementation of various network systems. In recent years, Company have dedicated ourselves to the field of smart city integration solutions, including the development of personalized home system as well as large-scale security control system for professional environments. Company provides customized design and implementation solutions to address the security requirements of different industries. The overview of our security control solution is as follows.



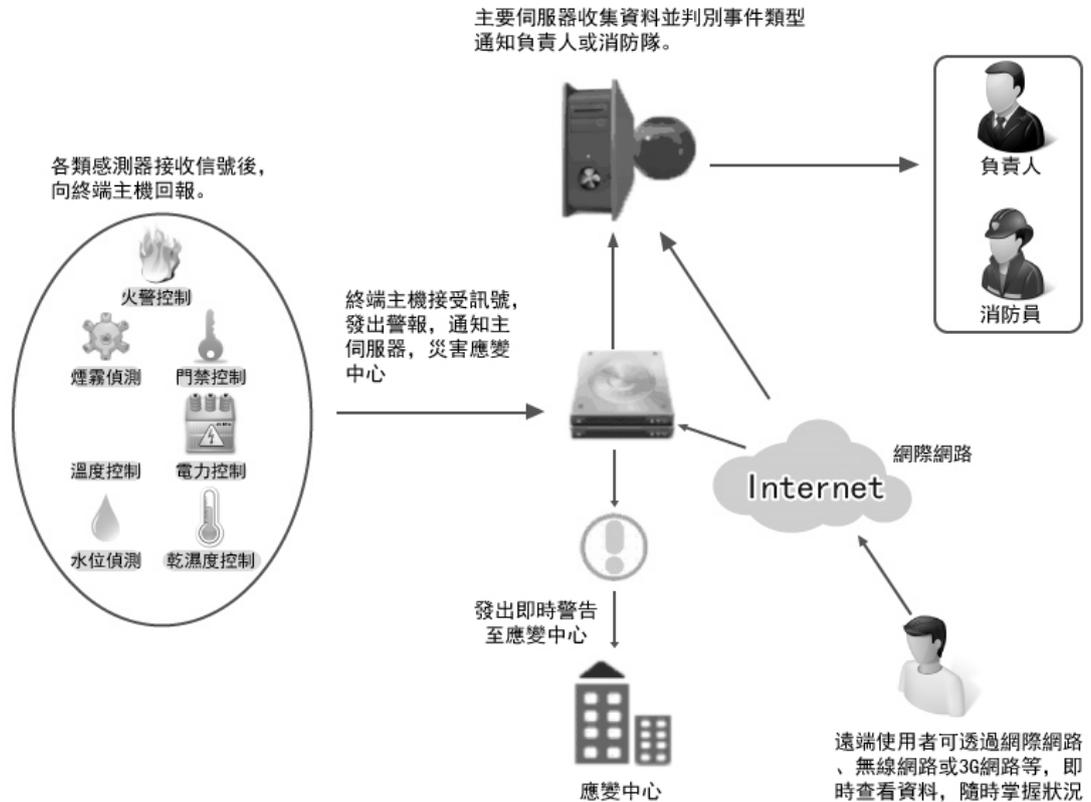
A. Intelligent Traffic Control

Combining technologies such as information, communication, electronics, control, and management into various transportation infrastructure, in order to automate the overall operational management of transportation and enhance the quality of transportation services (excerpted from Article 2 of "Act for Promotion of Private Participation in Infrastructure Projects"). This aims to promote transportation efficiency, quality, and safety, thereby realizing environmental protection and the development of green transportation.



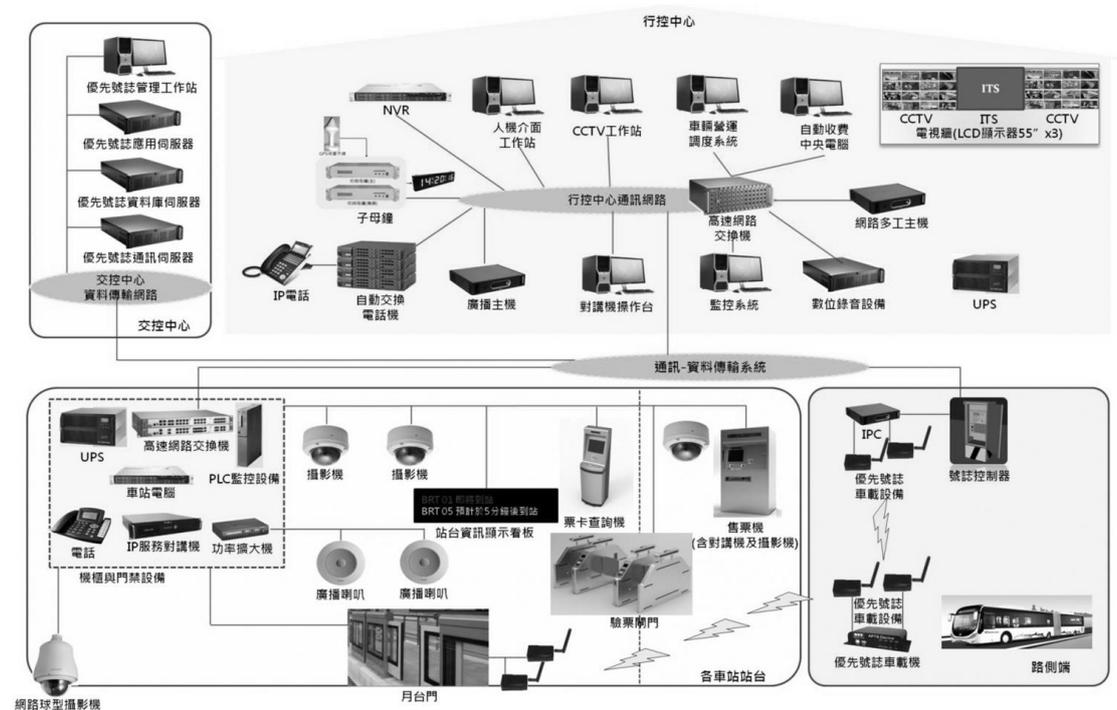
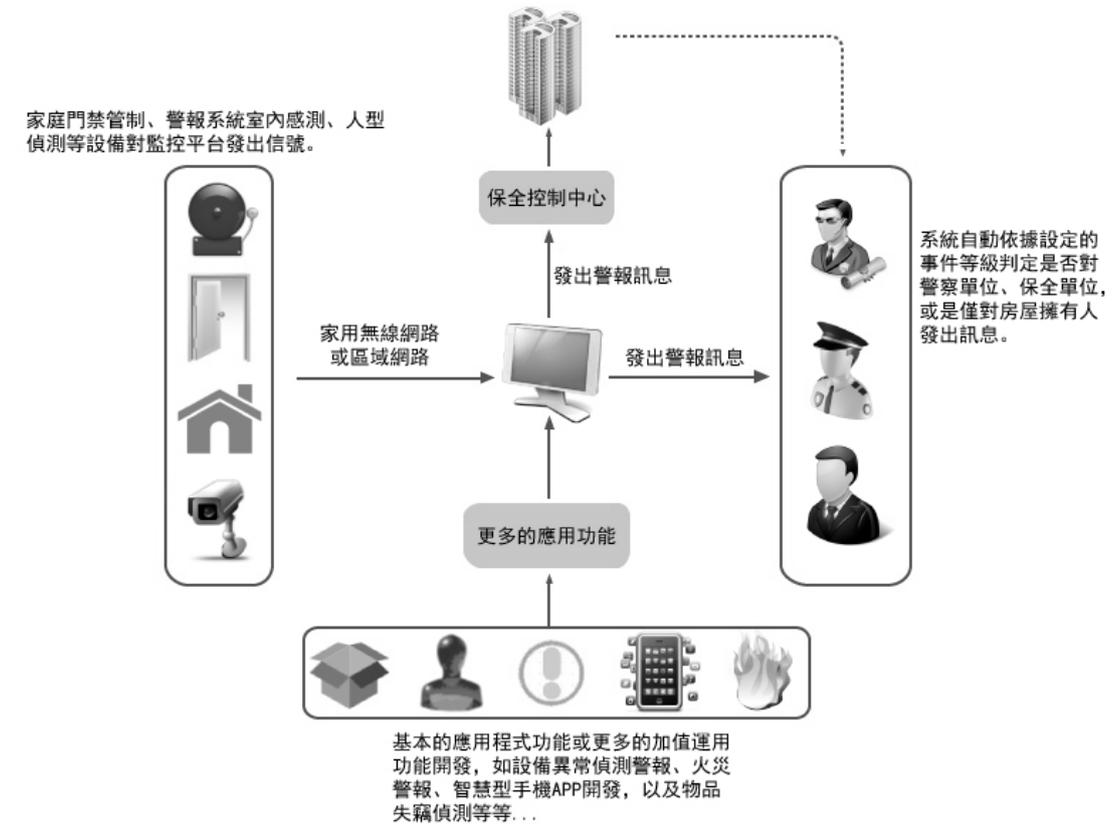
B. Intelligent Security Management

Implementing centralized monitoring and management for all equipment and environmental aspects of the data center, monitoring the operational status and parameters of different systems. In the event of any abnormal incidents, immediate notifications are sent to the administrators, facilitating remote monitoring and enabling prompt responsive measures to be taken.



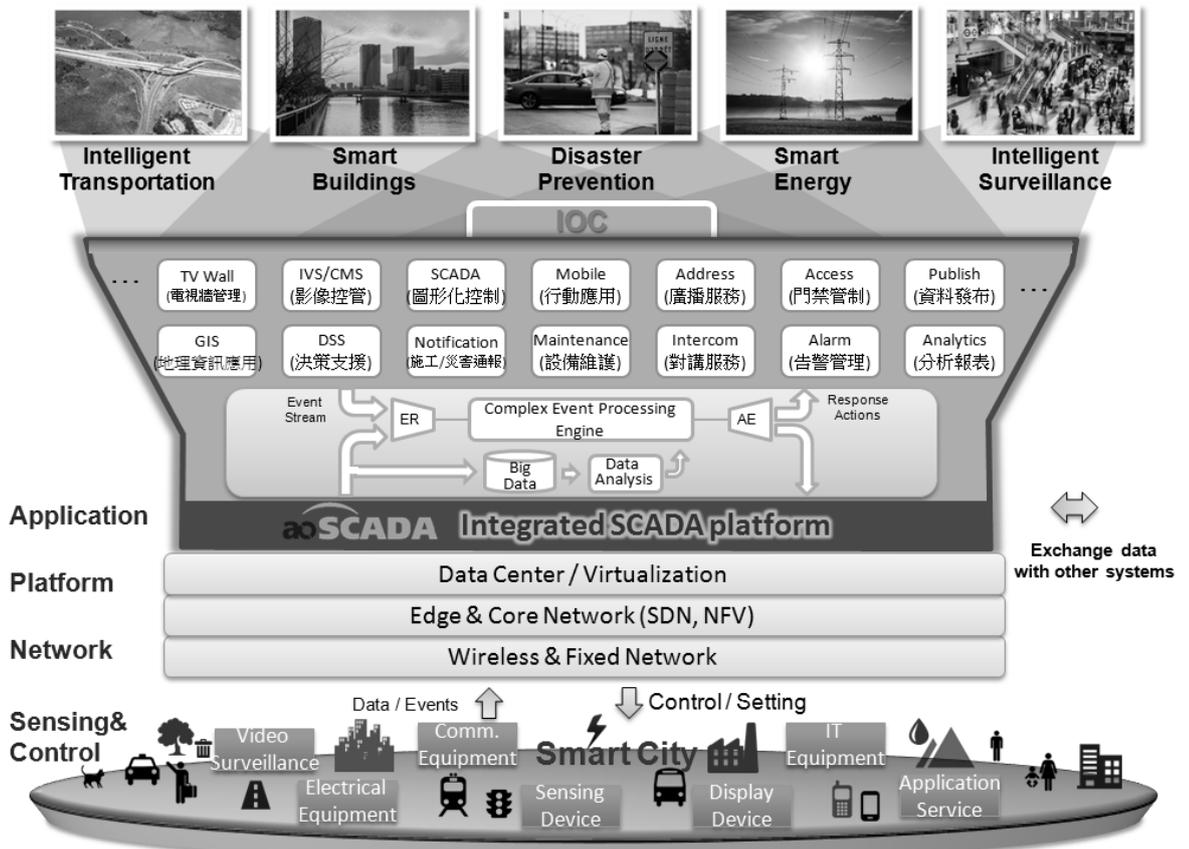
C. Smart Home

By integrating automation and intelligent technologies with safety, IT, network, and service-related industries, technology is seamlessly incorporated into the realm of architecture, enhancing the safety, convenience, and comfort of everyday life.



D. Surveillance System

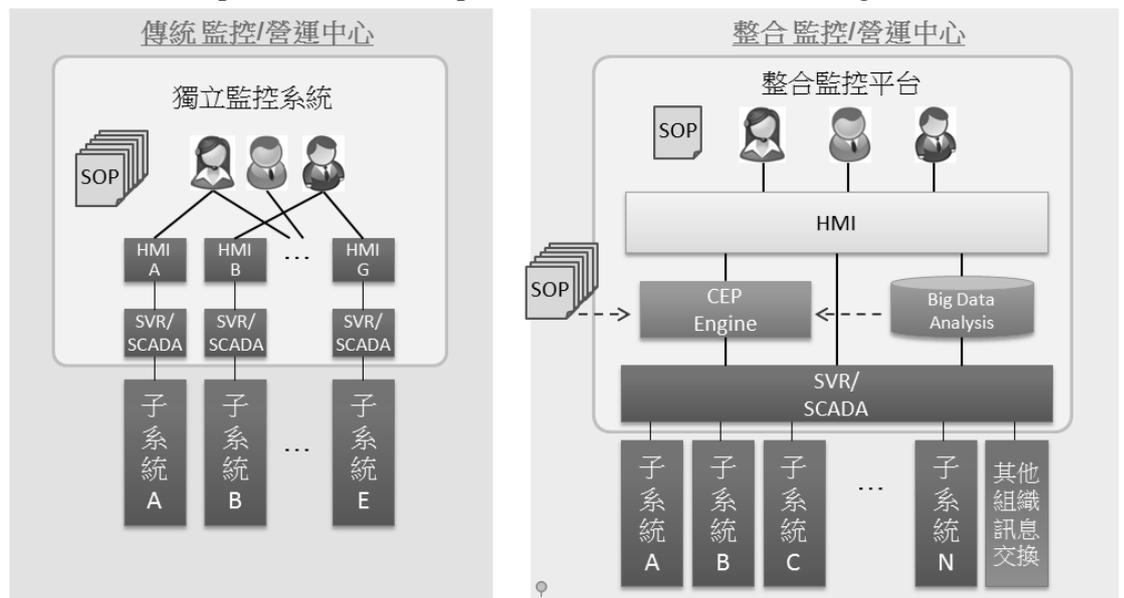
The Company developed an integrated monitoring platform known as aoSCADA (aspect oriented SCADA) for the operation center of smart cities, which will facilitate various intelligent monitoring and management services in an IoT environment.



(A) Integrated monitoring platform

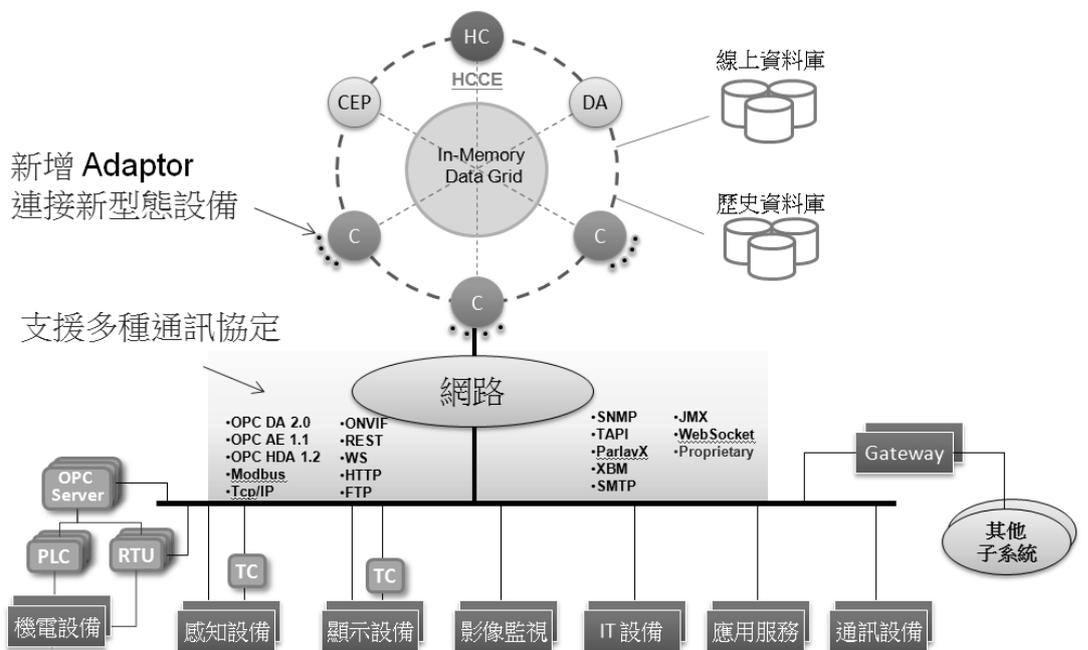
Traditional monitoring/operation centers operate independently with each system, requiring administrators to deal with separate interfaces provided by each system. Furthermore, the information and operations of these systems cannot be horizontally integrated. The integrated monitoring platform consolidates various systems in smart cities and incorporates complex event processing and big data analytics capabilities. It possesses the following features:

- Unified collection of information to reduce event latency
- Rapid decision-making and response to enhance processing efficiency
- Prediction of potential issues to prevent disasters from occurring



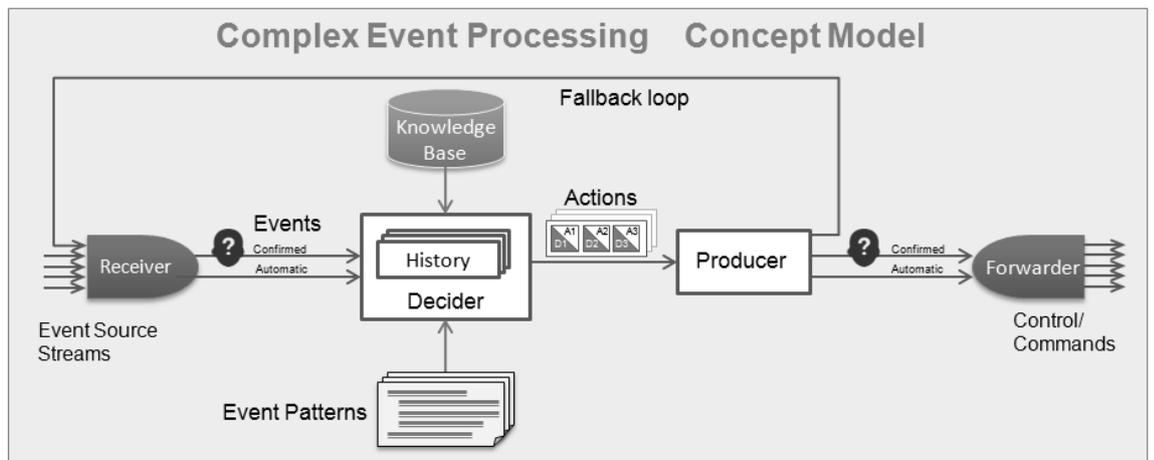
(B) Multi-domain equipment monitoring

Supports multiple communication protocols and can add Adaptors to connect with new types of equipment. It is capable of monitoring facilities in six major domains: mechanical and electrical, sensing, display, surveillance, telephone, network, IT, and application services.



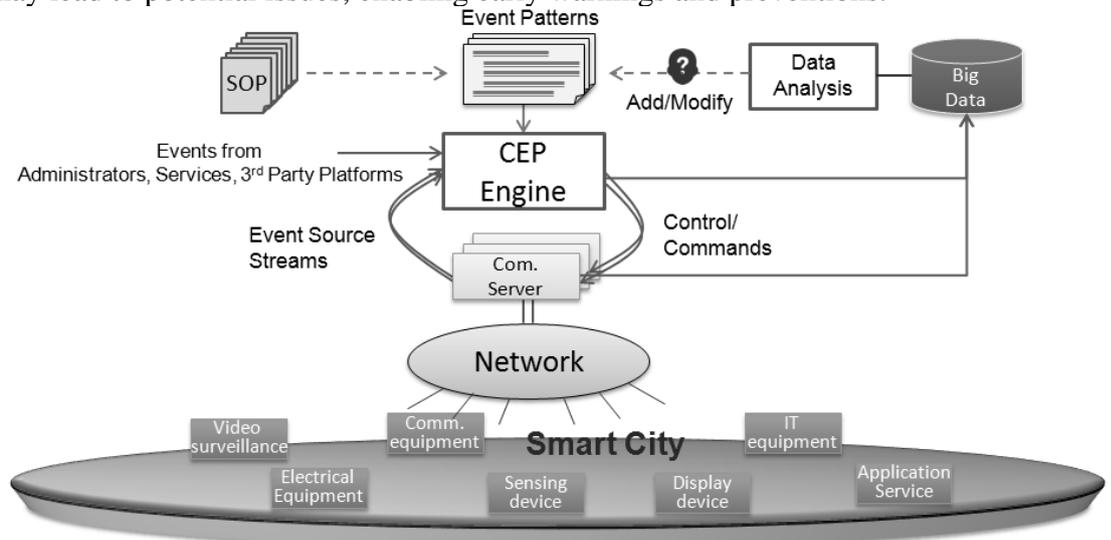
(C) Complex Event Detection

By utilizing Complex Event Processing (CEP, Complex Event Processing) technology, the system can process a large volume of event streams generated by smart city services/monitoring systems in real-time. It detects complex events and accurately triggers response plans, enhancing the automation and intelligent management capabilities of the operation center.



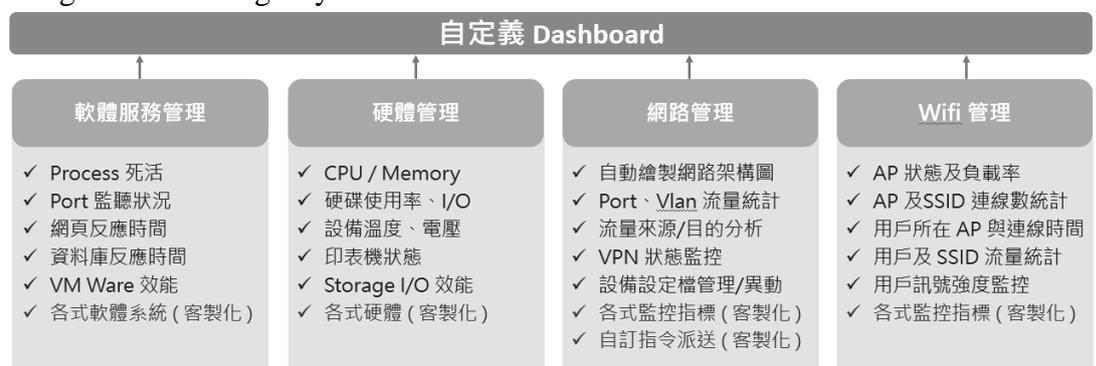
(D) Reaction Plan

The "Event Handling SOP" is transformed into event-triggering conditions and execution actions using an event processing language, forming a reaction plan. The integrated monitoring platform consolidates all event streams from subsystems, services, and administrators, accurately driving the reaction plans. The system continuously collects data from all systems and utilizes big data analytics techniques to identify conditions that may lead to potential issues, enabling early warnings and preventions.



E. Smart Network Management System

(A) We offer a wide range of management capabilities, including wired/wireless networks, various hardware, various software systems, and virtual environments (cloud platforms), with unlimited management authorization. The server supports horizontal scalability, allowing for expansion of the managed scope in the future, achieving comprehensive management in a single system.



(B) Traditional Chinese User Interface and Instruction

We provide the Web GUI supporting traditional Chinese translation. All relevant network management settings are with Chinese explanations, making it easy for users to get started.

(C) Early Warning of Unusual Changes

Automatic analysis of historical trends enables the detection of sudden increases or decreases in data, triggering proactive notifications to inform operators of significant environmental changes. Users can also define custom Threshold values.

(D) Real-time Fault Notification and Correlation Analysis

In addition to email notifications, the system supports push notifications through mobile app, accompanied by distinctive sound effects, for more immediate alerts when faults occur. Correlation analysis assists users in quickly identifying the Root Cause.

(E) Real-time Monitoring of Configuration Changes in Network Devices

The system offers automatic backup of configuration files and real-time change logs, allowing users to promptly grasp who made changes, when they were made, and which

devices were affected. The version comparison feature helps audit the content of the changes.

(F) Rich API for Flexible Integration

PRTG comes with a comprehensive REST API that allows third-party systems to access real-time data, historical data, network management settings, and more. It also supports generating shared web links, enabling third-party systems to directly retrieve graphical data such as dashboards or network topology maps.

F. Mobile Application Services

(A) ITSGood Traffic Information Service

The Company have established the "ITSGood Traffic Information Cloud Service," which combines government Open Data traffic information with vehicle movement data collected through ITSGood GVP (GPS-Based Vehicle Probe) technology. This service provides more real-time and accurate traffic information.



Currently, the ITSGood app has been downloaded over 1.2 million times, and it has more than 30,000 followers on Facebook. The integrated traffic surveillance camera system comprises approximately 5,000 cameras.

(B) Disaster Monitoring Camera App

- Provides approximately 1,000 real-time cameras in six categories: rivers, harbors, landslides, air quality, national parks, and ecological environments. Users can view the current field conditions.
- Offers a "Map Mode" that allows users to view real-time images of specific areas, enabling quick overview of the surroundings.
- Includes a "Popular Cameras" feature, where users can access real-time cameras in areas of public interest.
- Provides a "Favorites" function for users to save the locations of frequently viewed cameras.



(C) Construction Entry Notification and Monitoring App

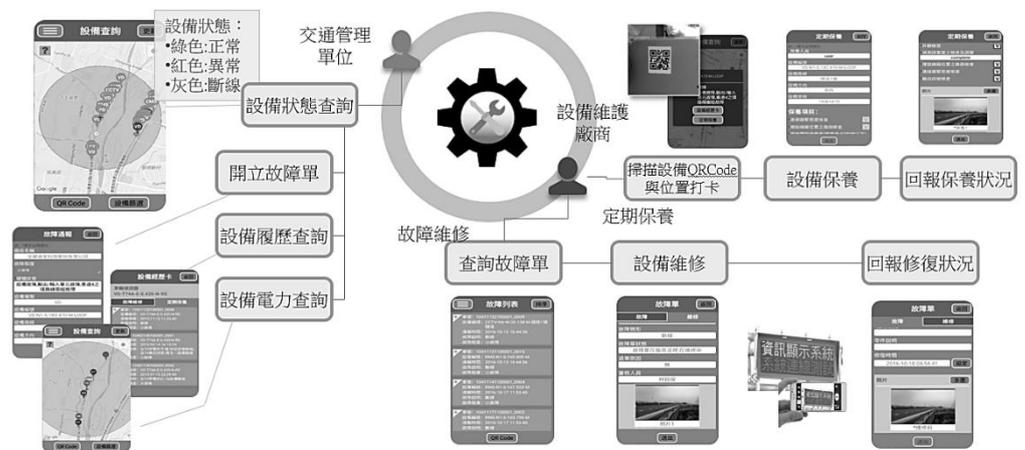
- Provides user interfaces and functions for construction companies, engineering sections/traffic control centers, and National Highway Police.
- Construction companies can select a construction notification form and instantly submit construction information, including location coordinates, time, company name, form number, construction type, and entry/exit status.
- Engineering sections/traffic control centers can perform queries on construction companies' current locations and display their construction sites on a map.
- The app generates construction QR codes, which can be scanned by National Highway Police using barcode scanning software for verification.



(D) Equipment Monitoring and Maintenance Management App

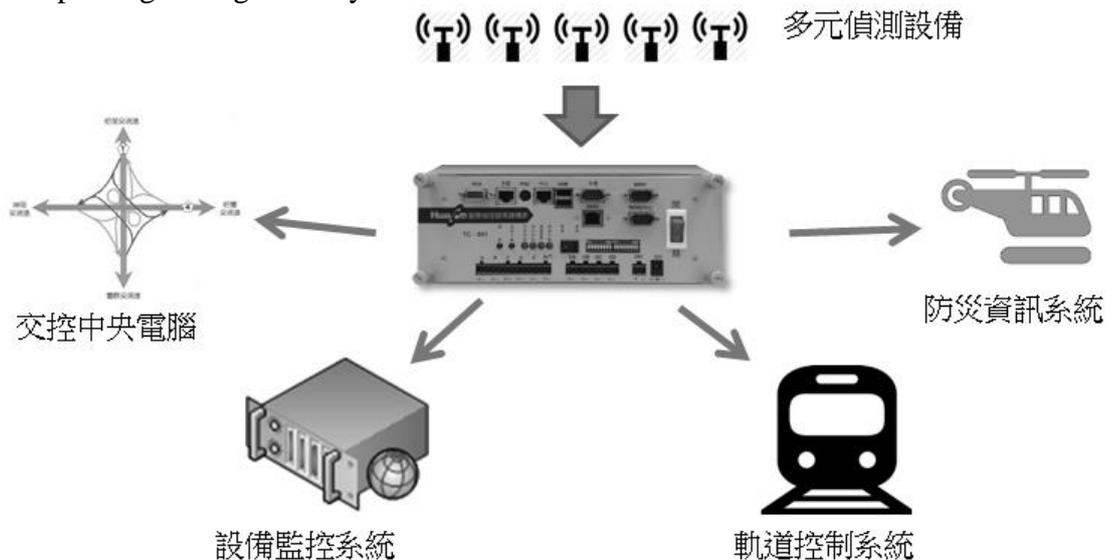
- Fault Reporting: Traffic control centers can use the app to query equipment, view equipment status on a map, and generate equipment fault reports.
- Equipment Maintenance: Maintenance vendors receive real-time fault reports through the app, and can immediately access the location and status of the faulty equipment and proceed with repairs. After completing the repairs, they promptly provide feedback on the repair status.
- Scheduled Maintenance: Maintenance vendors use the app to scan equipment QR codes to access maintenance schedules. They perform maintenance tasks according to the scheduled items and record the results. After completing the maintenance, they promptly submit the report.
- Equipment History: Users can retrieve the maintenance and repair history of equipment through the app.

Hwaom 設備監視維護 App



G. Endpoint Control Devices

The Company develop a multifunctional endpoint controller that offers flexible integration with various detection devices and central system. It supports systems such as, highway traffic control system, area traffic control system, disaster prevention system, equipment monitoring system, and centralized parking management system.



(A) Integration of Various Peripheral Detectors

The integrated detection devices include eTag, microwave side-mounted VD, video-based VD, Magnetometer VD, wind sensors, dense fog detectors, congestion detectors, and more.

(B) Integration of Multiple Central Management Systems

The integrated central management systems include the highway traffic control systems for the northern, central, and Pinglin Districts, the urban traffic control systems for Taipei City, Miaoli County, and Chiayi City, as well as the traffic control systems for the fourth district engineering offices of the Directorate General of Highways.

H. AI Application Services

Artificial intelligence (AI) technology and resources have almost matured, and organizations can derive business values by making the right investment and development in AI. HwaCom System adopts the following AI development strategies:

- Utilizing AI technology to innovate and enhance existing application areas, thereby improving the efficiency for customer's service systems.
- Assisting customers in leveraging existing equipment and accumulated data to create extended value.

(A) License Plate Recognition

LPR Engine is a license plate recognition software that utilizes AI-based image recognition technology. It is capable of recognizing types of vehicle license plates in Taiwan, including those used for bus, sedan, heavy/light truck, scooters, motorcycles, electric vehicles, as well as military, foreign, and diplomatic vehicles, including a wide range of plate styles both old and new. LPR Engine can instantly identify license plates within video footage, whether from stationary or moving cameras, and is designed to operate in both daytime and nighttime scenarios. It can accurately recognize plates even the plates are captured at different angles or when there is camera shake, achieving an accuracy rate of over 90%. LPR Engine is available in the following versions:

- Standard Version: It can recognize license plates for 1-2 lanes and is suitable for scenarios such as, entrances, exits, ramps, and other specific areas where middle/short-range video footage is captured.



- Professional Version: It can recognize license plates for 1-4 lanes and is suitable for scenarios with free-flowing traffic, plazas, and other wide-angle, long-range video footage situations.



The planned testing scenarios include:

- Parking lots: Characterized by slow movement and low quantity of vehicles.
- Roadside cameras: Characterized by medium-speed movement and capturing footage at an angle.
- On-the-go recording: Characterized by capturing footage from various angles and expecting camera shake.
- Dashcams: Capturing footage at medium to high speeds with a wide-angle view.
- Tollgate cameras: Capturing footage at high speeds, congested areas, and from a high angle.

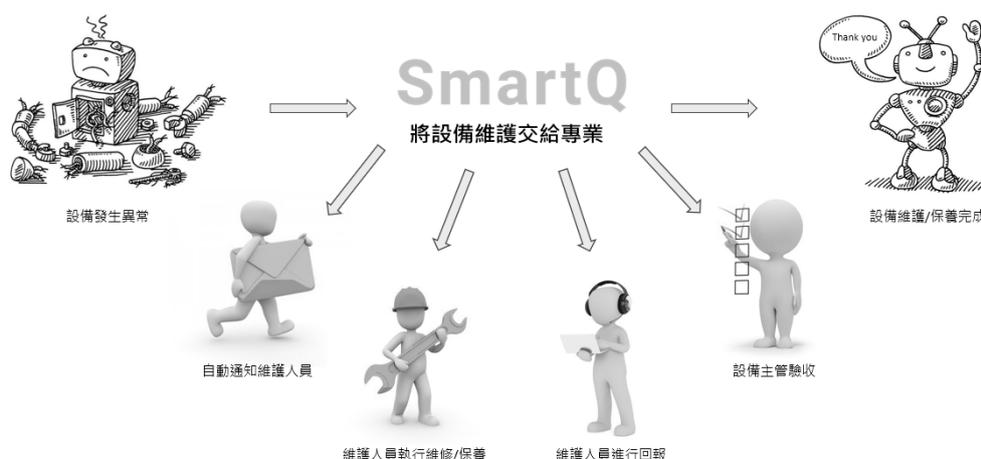
I. Energy Storage Management Services

- With the government's active development of renewable energy, the high proportion of green energy has an impact on the stability of the power grid. Auxiliary services are needed to ensure a stable power supply, and energy storage is one of the important solutions.
- Energy storage is one of the four options under the government's regulations for energy-heavy industries.
- Renewable energy sources such as solar and wind power are limited by sunlight hours, wind intensity, and unpredictable wind direction, making it challenging to generate power consistently. In the future, Taiwan Power Company will require energy plants to ensure stability in their power generation, and energy storage is the optimal solution.
- To enable timely regulation of power supply and demand, comprehensive monitoring of the entire power grid is necessary, requiring grid intelligentization.
- The liberalization of the electricity market and the establishment of open electricity trading platforms, innovative power operation models require support from energy management systems.

In response to the opportunities presented by the energy transition and smart grid, collaboration among energy equipment manufacturers, Advantech, and existing market partners is planned to integrate HwaCom's expertise in ICT and its experience in engineering management in transportation and telecom. The aim is to develop new business ventures and enter the energy market, initially focusing on the energy storage market and automation of substations.

(A) SmartQ Equipment Maintenance Management System

Distributed energy facilities require management of numerous and various equipment, which are often deployed in dispersed locations. Equipment owners often lack the capability to manage these devices themselves. After outsourcing the maintenance work to external vendors, effective management and tracking of the maintenance processes become crucial. SmartQ provides a comprehensive equipment maintenance and repair lifecycle management system, allowing organizations to track the current maintenance status of their equipment and monitor vendor repairs and efficiency, ensuring the equipment remains in great condition.



SmartQ 為您解決的問題

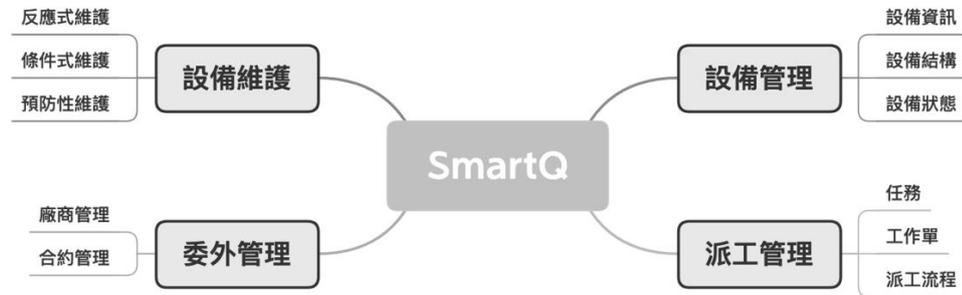
發現無預警停機
主動檢查設備狀態，可發現設備無預警的故障或停機，讓設備管理員能對設備異常快速實施反應計畫。

設備故障後快速反應
設備發生故障時，以最快速時間發出工作單，並提供維護人員工作 SOP 以提升工作效、減少工安意外，使設備能於最短時間內恢復正常工作狀態。

降低營運成本
透過定期維護機制自動化，可依條件自動建立工作單，簡化以往較複雜的作業流程，降低成本，提升作業效率。

強化企業競爭力
幫企業減少年度維修成本、設備檢查成本、減少停機時間，並大幅提升設備妥善率與稼動率，強化企業競爭力。

The product functions of SmartQ are as follows:



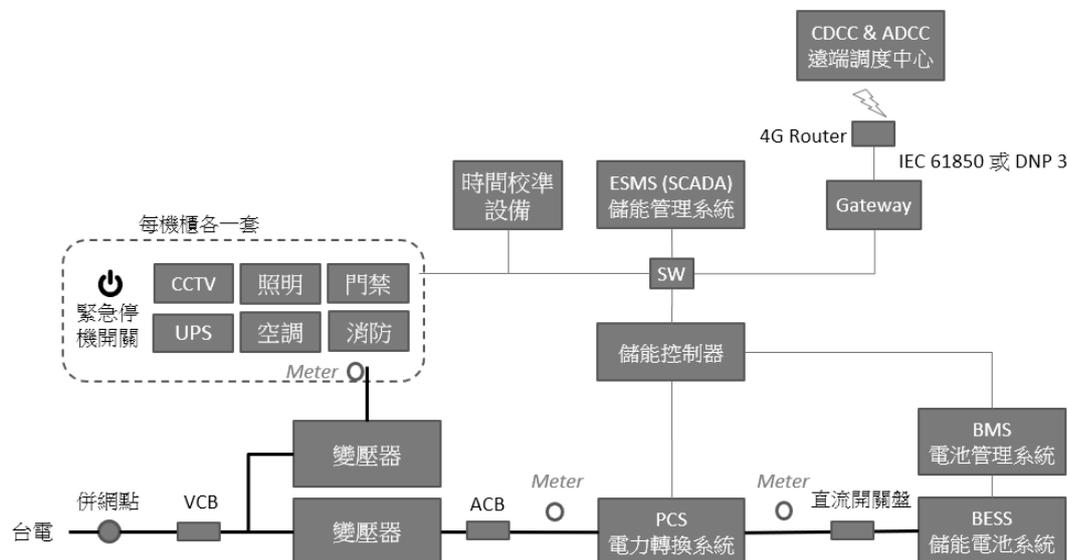
SmartQ adopts a Microservice architecture and utilizes Kubernetes for container management. It can be deployed on Advantech's WISE-PaaS as well as Google's GKE platform. The system architecture is as follows:



(B) AFC Energy Storage Service

In line with our country's energy policy goals, the installed capacity of renewable energy devices is targeted to reach 27 GW by 2025, with renewable energy generation accounting for 20% of the total. The integration of a large amount of renewable energy into the traditional power system poses challenges in terms of stability. To address this, the introduction of new technologies is necessary to electrical grid for stable electricity supply. One such emerging technology is Automatic Frequency Control (AFC) for energy storage, which offers fast charging and discharging capabilities. By actively adjusting the charging and discharging actions to regulate the power system frequency, AFC can help mitigate frequency deviations caused by load fluctuations, making it an ideal solution for ensuring system stability in the presence of a high proportion of renewable energy.

Our company plans to deploy a 1 MW AFC energy storage system to participate in Taiwan Power Company's auxiliary services. In addition to earning service revenue, this initiative aims to build experience, develop software capability for energy storage management and control, and lay the foundation for future energy system integration and application development. The diagram below illustrates the planning energy storage system:



3. R&D expenditures invested for the Most Recent Year up to the Publication Date of the Annual Report:

Unit: NT\$ thousands

Account \ Year	2022	May 2, 2023
R&D Expenditure	58,957	12,464

4. Successfully developed technologies and products for the Most Recent Year up to the Publication Date of the Annual Report:

- (1) Integrated Monitoring System aoSCADA V2.0
- (2) Traffic Control Central Computer System NGTMS V2.0
- (3) Free Traffic Flow License Plate Recognition System FT-LRP V1.0
- (4) Environmental Monitoring Management System
- (5) Family+ Health Internet
- (6) SmartQ Equipment Maintenance Management System

iv. Long- and short-term business development plans:

The Company's guideline for management is as follows:

1. Continuously focus on the industry of "broadband application value-added service integrator", while strengthening our R&D capabilities in AI, big data technology, and application system integration.
2. Development of innovative services: Looking forward to the diverse development trends in the IoT, ICT, and mobile markets, the company will move towards five major directions: telecom integration services, information network services, digital media services (IPTV), integrated application of cybersecurity, and smart city control services. Gradually transforming into a value-added application and innovative integration service company to meet customer needs and establish our core value.
3. Promoting digital transformation by adjusting internal organization and linking external resources. Through technological integration capabilities, software development promotion, service platform advancement, and project management digitization, we establish comprehensive solutions, aim to become an integration service provider.
4. Fulfilling our corporate responsibility as good citizens: Guided by the spirit of giving back to society, we will collaborate with partners and customers to actively participate in social welfare activities, fulfill our obligations as good citizens, and contribute to society and care for the community.

1. Short-term Business Development Plan:

(1)Operational Strategy

- A. Focus on target market and integrate niche products.
- B. Implement responsibility performance system and carry out objective management through responsibility center.
- C. Deepen broadband technology field and innovate value-added services.
- D. Actively participate in social welfare activities and fulfill social responsibility as a citizen.

(2)Product Service Strategy

- A. Emphasize both product sales and self-owned product research and development
In addition to providing integrated services to customers by representing multiple products, we continue to invest in R&D resources to develop related products such as set-top boxes, intelligent transportation service systems, cloud computing services, and broadband network management service systems, in order to strengthen our technical capabilities and competitiveness in broadband network and IoT cloud service applications.
- B. Enhance technical service capabilities
Our company is dedicated to developing business solutions based on customer needs and solutions. As a complete system integrator, we need to have expertise and independent capabilities in various aspects. Therefore, we spare no effort in cultivating professional knowledge for all employees, actively pursuing various professional certifications and developing new technologies to enhance technical capabilities. The focus is as follows:
 - (A) Strengthen the ability to control large-scale projects; reduce fines due to project delays.
 - (B) Enhance broadband technology capabilities such as FTTX, VDSL, GPON, NGN, etc.
 - (C) Innovative services for broadband applications such as video services, intelligent transportation service systems, etc.
 - (D) IPTV digital multimedia-related services.
 - (E) Provide differentiated services for VIP and strategic customers.
 - (F) Strengthen the customer service platform and improve the customer service mechanism to enhance satisfaction.
 - (G) Proactively propose customer system optimization suggestions to create business opportunities.

(3)Marketing Strategy

- A. Establish the company's positioning image as a "broadband service application integrator"
- B. Actively participate in related industry marketing activities to establish a professional brand.
- C. Attract upstream and downstream strategic alliance manufacturers and make good use of various marketing resources.
- D. Strengthen interactive relationships with the media.

(4)Sales Strategy

- A. Committed to enhancing profitability and focusing on high-profit projects; enhance business sales capabilities and shift from Product Sales to Solution Sales that are oriented towards customer needs (Business Solution).
- B. Strengthen industry chain partner relationships and use strategic alliances with foreign giants such as Intel, BroadCom, Cisco, VMware, NetApp, Nokia, DELL, etc., to improve the company's market marketing capabilities in the Asia-Pacific market.
- C. Comprehensively promote the execution plan of sales work by all employees.
- D. Continue to invest in self-owned R&D products and establish effective market sales plans.
- E. Continuously develop innovative broadband application business models.

(5)Financial Strategy - Improving Accounts Receivable Turnover Ratio and Inventory Turnover Ratio

The products sold by our Company are mainly products of Cisco, VMware, NetApp, Nokia, DELL, and are primarily purchased by major privately-owned telecommunication companies, government, high-tech, and media service providers. Most of these purchases are for large-scale or specialized projects, which require a longer acceptance period and involve high-priced equipment that our customers often need to loan for testing purposes beforehand. As a result, our company's accounts

receivable turnover ratio and inventory turnover ratio are slightly lower than those of our peers. To address this issue and improve our accounts receivable turnover ratio and inventory turnover ratio, we will enhance our professional training and strengthen our after-sales service capabilities. We hope to increase customer satisfaction, earn their trust and recognition in our professional expertise, so as to shorten the acceptance period, reduce the need for borrowed equipment, and make our company's financial management more flexible.

2. Long-term Business Development Plan:

The key areas of our company's long-term operations are as follows:

Continue to develop broadband application services, strengthening our self-research and development capabilities, realizing the vision of AnyService, AnyDevice, AnyWhere, strengthening our operational structure, focusing on niche markets, implementing a responsibility center, and then implementing profit centers, expanding into overseas markets, and promoting the Hua Electric brand.

(1)Product and Service Strategy - Providing Professional Consulting Services

By using our experience in customer planning and service, Hua Electric can provide high-value professional consulting services to offer technical and professional consulting services to more customers.

(2)Marketing Strategy - Expanding Overseas Markets

With the booming development of the telecommunications market, coupled with the rise of the Internet of Things and rapid advances in information technology, the integration of telecommunications, media, and networks has been promoted. Our company has a professional technical team and complete system integration related experience, which can package existing related broadband service management software for sale abroad, and develop overseas markets to expand our business scale.

(3)Operational Strategy - Providing Comprehensive Maintenance Services

In terms of system services, due to the rise of the Internet, it has promoted professional division of labor. Our maintenance system provides major customers with 24-hour professional maintenance services and system integration. We hope to improve the quality of service to meet customer needs through professional technical capabilities, increasing customer satisfaction and support for our company.

(4)Financial Strategy - Establishing Profit Centers

As the company grows to a considerable size, the organization will inevitably expand, and even the business strategy will tend to diversify. At this time, management work will become more complex and heavy. Therefore, we adopt an individual profit center system, where the profit center manager is responsible for their own business decisions, and their performance is evaluated by the headquarters to measure the profit results of each profit center. This can make the goals clearer, the responsibilities more divided, and help us control expenses while creating profits.

II. Market and Production Overview:

i. Market Analysis:

1. Sales and Service Regions for Main Products: Currently, Hwacom's main products are primarily sold domestically, with no major sales with overseas clients.
2. Market Share:

The Company's main products hold important positions in the market, based on infrastructure and key network hardware, the product line can be classified into three categories: backbone equipment, host equipment, and peripheral equipment:

(1)Backbone and Last-Mile network demands have significantly increased, and the Company has introduced famous brands such as Cisco (the No.1 network share) and Nokia as leaders in their respective fields. Zyxel for last-mile network solutions, Cisco, Ruckus for wireless LAN access points, and other providers offer comprehensive and unique solutions for customer environments.

(2)Host equipment: Since network computing and fault-tolerant systems become trends, the Company partners with leading companies such as HP and Dell.

(3)Peripheral equipment: Due to the proliferation of internet data, there has been a significant rise in demand for internet storage devices, with Network Appliance being the top brand (holding the largest market share for Network-Attached Storage).

In terms of software, the market trend is databases, multimedia management systems, network and system management software, and e-commerce. In addition to self-developing Multimedia-On-Demand software, the Company is a co-marketing partner for leading database software brand, Oracle (No.1 market share) that offers internet server and management software. In response to the rise of cloud computing, the company has collaborated with renowned virtual management software providers such as VMWARE, Citrix, and BMC to provide planning and deployment services.

In terms of system services, the rise of the internet has led to specialization. Hwacom provides 24/7 professional maintenance services and system integration for our main clients. The company is also an authorized maintenance provider for major manufacturers such as Cisco, Network Appliance, HP, Dell, and Nokia, with the best conditions for establishing a professional operation and maintenance company in the future.

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

The liberalization of telecommunications in Taiwan has led many mobile communication providers to enter various telecommunications value-added services, in addition to traditional communication services. In response to the coming of the broadband era, demand for value-added services in various broadband services is expected to increase significantly with the opening of 5G network operations this year. It is expected that these telecom operators will invest heavily in network and information equipment construction costs in the future. In addition, the China Telecom Interactive Television System (MOD) built on the basis of broadband networks has been promoted by China Telecom with high-definition (4K) broadcasting, which has created a wave of enthusiasm. MOD has successively launched high-definition content such as Major League Baseball and National Geographic channels, which is expected to drive a wave of enthusiasm and increase service activation rates. At present, MOD has reached a scale of 2 million users this year. In addition to the platform construction, service development, and Set-Top-Box procurement opportunities arising from this, the expansion of various types of network exchange equipment on the operation network will also be a business opportunity for the company's future business expansion.

4. Competition advantages:

- ❖ Industry: Being the only company possessing professional knowledge and technical capabilities for multiple cross-industry integrations in communication, network, broadband multimedia, and cloud IoT.
- ❖ System: Possessing integration technology and subsequent service capabilities for network systems, computer platforms, network and system management, and even professional software systems.
- ❖ Market: Focusing on the rapid growth of system integration in internet and broadband technologies alongside target industries.
- ❖ Product: Representing products synchronized with target industry demands, possessing an economic scale of product agency, and leading market demand by planning for future star products.
- ❖ Technology: Employing professional technical engineers with high value-added core technology research and development capabilities to provide telecommunication-grade engineering design services.
- ❖ Management: The management team consists of professional managers with an international perspective and a background in both local and foreign enterprises, enabling the company to have greater growth potential.

5. Favorable and Unfavorable Factors to the Development Prospects and Response Strategies:

(1)Favorable Factors:

- A. In terms of industry: the Company is the only one with expertise and technological capabilities in multi-cross-industry integrations such as communication, network, broadband multimedia, and cloud IoT.
- B. In terms of systems: the Company has integration technology and follow-up service capability for network systems, computer platforms, network and system management, and even professional software systems.
- C. In terms of the market: the Company focuses on the integration of Internet and broadband technologies and the rapid growing with target industry.
- D. In terms of products: the products the Company represents are synchronized with the needs of the target industry, with an economic scale of product agency, and can lead the market demand in planning for future star products.
- E. In terms of technology: the Company has professional technical engineers with high value-added core technology R&D capabilities, providing telecom-grade engineering design services.
- F. In terms of management: the management team consists of professional managers with international perspectives from both local and foreign backgrounds, allowing the Company to have greater room for growth.

(2)Unfavorable and countermeasures:

- A. Many domestic telecom equipment manufacturers and other system integrators have begun to pay attention to this market and may invest in production, increasing competition among industry peers and shrinking profits.

※Countermeasures:

To face the highly competitive business environment, apart from expanding and introducing various renowned global brands' products to maintain a complete product line to meet customers' one-stop shopping needs, the company also establishes good strategic alliance relationships with the original manufacturers and actively integrates efficiency combinations between different brands' products to provide customers with complete solutions. This will increase the added value of products and strengthen customer service; enhance Company's value-added service through high-reliability products, superb network integration technology, and delightful after-sales and maintenance services, which can avoid price competition.

Additionally, Company actively invests in R&D resources to develop self-made products, build our own technical team, and improve competitiveness and barriers to entry, while also establishing good operating systems to build the foundation for sustainable management.

- B. With the rapid development of communication networks, introduction of various standards and protocols, as well as new generation products keep coming up. Despite such continuous development of technologies, there is still a shortage supply of professional talents.

※Countermeasures:

The company actively recruits outstanding talent and conducts intensive internal and external education and training to cultivate a professional technical consulting team. Meanwhile, the company encourages employees to obtain professional certification to enhance their professional abilities and technological levels. The Company also offers employee stock option and dividends to increase employee engagement, strengthen the performance evaluation system and create a fair and transparent reward system to improve employee quality.

ii. Major Application of the Main Products: (Production Process of Main Products: None

Product Name	Major Application
Telecom System Integration Services	PRBT system, the next-generation UMS super mailbox system, the multifunctional SMS service system, the regional message notification platform, the EAP-SIM authentication platform, remote backup storage system, mobile voice access platform, 4G LTE/5G network core system, mobile payment service, video multimedia terminal equipment, and more.
IP Broadband Network Services	The Company collaborate with fiber broadband equipment manufacturers such as Nokia (Alcatel Lucent), Cisco, ZyXel, etc. to provide broadband network infrastructure solutions to service providers. The solutions cover VDSL, MSAN, GPON access solutions for both copper and fiber cables, as well as IP networks including Metro Ethernet and IP Transport. As to transmission systems, the Company offer NG-SDH, PTN, OTN, etc. In addition, the Company provide a wide range of broadband solutions for home area networks, including STB, Home Gateway (GW), Meshed WiFi Routers, Small Cell Gateway, etc. Over the past few years, the Company have assisted telecommunications and cable TV service providers in deploying countless broadband solutions to meet customers' various needs for broadband network infrastructure.
Media Industry Services	Digital conversion systems for SD/HD and 4K2K content, Transcoder for multi-format audio and video, equipment for filming, broadcasting, master and sub-control systems, digital cable TV head-end systems, cable TV VoD systems, high-definition multimedia video set-top boxes and servers including OTT set-top boxes, fiber or telecom equipment, data terminal systems, network application services, 3D games, and interactive multimedia services such as MOD.
Corporate Clients	Central system for general enterprise data centers, enterprise virtualization, cloud computing projects, VDI desktop cloud, cybersecurity system services, big data analysis, EMC bidding, SWRD NETAPP expansion, MTK new data center relocation projects, and more.
Intelligent Transportation Services (ITS)	Real-time traffic information service is an important part of ITS. Using smartphone to provide users with real-time traffic information services, and utilizes Facebook social networks to expand the service coverage to more users. Meanwhile, it also plays the role of a GPS-Base Vehicle Probe, providing position, direction, and speed information through GPS/4G and receiving and calculating the average speed of road sections on the cloud, thereby enriching the database and expanding traffic information. This extends the traffic data from "real-time" to "analysis and prediction" and further establishes B2B or B2C business models, creating a more comprehensive and sophisticated ITS.
Intelligent Operation Center (IOC) Integrated Monitoring Platform	Integrated Monitoring Platform of IOC: aoSCADA provides diversified intelligent monitoring and management services in an Internet of Things (IoT) environment.
Innovative Business Application Services	Based on the professional expertise, experience, and resources accumulated in the aforementioned six application domains, the Company plans to develop a wide range of innovative applications and services, including intelligent transportation, smart digital signage system, and WiFi O2O service application platforms. These will serve as the Company's development direction in the next decade.

iii. Supply of the important materials:

Major Material	Suppliers	Condition of supply
Network communication equipment	CISCO, F5, ALU, Palo Alto, Juniper, Unizyx, MetaAge, Zerone, Unicomp, Netfos, Elumax	Good
Server workstations	DELL, HP, SuperMicro, Adventech, Acer, Asus, Unitech, BestCom, Genuine, Synnex, Compuware, JJnet, Dawningtech, Lealea	Good
Software	Metaswitch. Celltick. Splunk. Dialogic. VMware. Paessler, Zerone, Bestcom	Good
Network management system	HP, Axiomtek	Good
Storage devices	NetAPP. DELL. HP	Good
Set-top boxes and Optical fibers.	Mytech. OVT. Sumitomo. Fujikura. Evertop	Good
ITS engineering.	AXIS, Panasonic, Lmico, Sinli, Vipin, Jing-Yi, Glory, Lilin, Hipower, Boeing, Alerex, Evertop, Ares, 24erplus, YUAN SHUO, BrightLed, Kuang Lin, Dacoms, Kaite, Ting Kai, UFOC, Tmedia, Shanxing, Jin Yuan Tong, S-Link	Good

(4) Major Suppliers/Customers Accounting for above 10% (inclusive) of Purchases / Sales in most recent 2 fiscal years

1. Major Customers Accounting for above 10% of Sales in the most recent 2 fiscal years

Unit: NT\$ thousands

Item	2021				2022				2023 Q1			
	Name	Amount	Ratio of Total Sales(%)	Relationship with Issuer	Name	Amount	Ratio of Total Sales (%)	Relationship with Issuer	Name	Amount	Ratio of Total Sales (%)	Relationship with Issuer
1	MEDIATEK	2,068,298	33.40	None	Chunghwa Telecom	1,348,271	22.12	None	MEDIATEK	337,256	24.53	None
2	Chunghwa Telecom	1,657,847	26.77	None	NCSIST	855,981	14.05	None	Novatek Microelectronics	317,799	23.11	None
3	Freeway Bureau, MOTC	574,183	9.27	None	Freeway Bureau, MOTC	413,159	6.78	None	Chunghwa Telecom	132,054	9.60	None
	Others	1,892,404	30.56	None	Others	3,477,038	57.05	None	Others	587,769	42.76	None
	Total Sales	6,192,732	100.00		Total Sales	6,094,449	100.00		Total Sales	1,374,878	100.00	

Major reasons of the changes: The company's revenue is mainly recognized from the completion of bidding projects. Due to the large number of completed projects and the diverse nature of each projects, it is difficult to conduct comparative analysis.

2. Major Suppliers Accounting for above 10% Purchases in the most recent 2 fiscal years:

Unit: NT\$ thousands

Item	2021				2022				2023 Q1			
	Name	Amount	Ratio of Total Purchases(%)	Relationship with Issuer	Name	Amount	Ratio of Total Purchases(%)	Relationship with Issuer	Name	Amount	Ratio of Total Purchases(%)	Relationship with Issuer
1	Zero One Technology	2,139,707	41.09	None	Zero One Technology	982,415	23.68	None	Zero One Technology	523,243	44.28	None
2	TAIWAN INTERNATIONAL STANDARD ELECTRONICS	407,181	7.82	None	TAIWAN INTERNATIONAL STANDARD ELECTRONICS	289,499	6.98	None	Quanta Cloud Technology	131,504	11.13	None
	Others	2,660,464	51.09	None	Others	2,877,266	69.34	None	Others	526,983	44.59	None
	Total Purchases	5,207,352	100.00		Total Purchases	4,149,180	100.00		Total Purchases	1,181,730	100.00	

Major reasons of the changes : The company's purchases are based on the progress of the ongoing projects. Due to a large number of completed projects and the diverse nature of each project, it is difficult to conduct comparative analysis.

(5) Production in the most recent 2 fiscal years: Not applicable as the company is not a manufacturing company.

(6) Net Revenue in the most recent 2 fiscal years :

Unit: NT\$ thousands

Products Category	FiscalYear		2022				2021			
	Net Revenue		Domestic		Export		Domestic		Export	
	Volume	Amount	Volume	Amount	Volume	Amount	Volume	Amount		
Telecommunications system integration services	-	1,721,484	-	1,311	-	2,115,382	-	0		
IP Broadband Network Service	-	370,287	-	0	-	295,328	-	0		
Media Industry Service	-	318,377	-	120,016	-	298,975	-	14,035		
Enterprise Customers and others	-	2,828,190	-	93,394	-	2,833,695	-	232,031		
Smart City Application Service	-	641,390	-	0	-	403,286	-	0		
Total	-	5,879,728	-	214,721	-	5,946,666	-	246,066		

※ Analysis of changes: Due to a large number of completed projects and the diverse nature of each project, it is difficult to conduct comparative analysis.

iii. Human Resources for the Most Recent 2 Years up to the print date of the annual report:

Year		2022	2021	May 2, 2023
Number of Employees	Sales Employees	61	64	61
	Technical Employees	510	491	524
	Administration Employees	124	112	115
	R&D Employees	56	55	57
	Total	751	722	757
Average Age		40.69	40.59	41.23
Average Year of Service		5.67	5.71	5.61
Degree Distribution Ratio(%)	Ph.D.	0.93%	0.55%	0.92%
	Masters	20.24%	20.36%	20.48%
	College	75.77%	74.52%	75.69%
	Senior High School	2.93%	4.29%	2.77%
	Under Senior High School	0.13%	0.28%	0.13%

iv. Environmental Expenditure Information:

1. Recent fiscal year and up to the publication date of the annual report, the total amount of losses (including compensations) and disposals due to environmental pollution: During the assembly process of the Company's information system, communication system, and internet service, no pollution issues have occurred.
2. Due to the nature of the industry, the Company are not subject to the European Union's Restriction of Hazardous Substances Directive (RoHS).

v. Cyber Security Management:

1. Framework for managing cyber security risks:

A. Corporate cyber security governance organization:

To enhance the overall information and personal data security of HwaCom System Inc., its subsidiaries, and affiliated companies (referred to as the "Group"), and to integrate organizational and internal control, the Company established the "Cyber Security and Personal Data Protection Committee" (referred to as the "Committee") in July 2020. This demonstrates the Group's emphasis on and support for cyber security and personal data protection, enabling continuous improvement of the security management system.

- Committee: Composed by task, it includes one Chief Information Security Officer and one Personal Data Protection Officer (hereinafter referred to as the CISO), with the President serving as the CISO, and first unit-level managers from various departments within the Group serving as committee members.
- Chief Information Security Officer: Appointed by the President or authorized personnel.
- Committee members: Unit-level managers from various departments within the Group serving as committee members.
- Management Representative: Appointed by the CISO, a designated manager at the first unit level.
- Management System Team: Composed of personnel assigned by the Management Representative.
- Risk Management Team: Composed of personnel assigned by the management representative.
- Incident Response and Business Continuity Team: Composed of personnel assigned by the management representative.
- Audit Team: Composed of personnel with auditing functions assigned by the Committee.
- Cyber security personnel in each unit: Composed of personnel assigned by each unit.

B. Cyber Security Organization Structure



2. Cyber Security Policy

(1) Enterprise Cyber Security Management Strategy and Framework

HwaCom System Co., Ltd., its subsidiaries, and affiliated companies (hereinafter referred to as "the Group") are committed to strengthening cyber security and personal data protection management. This is to ensure the confidentiality, integrity, availability, and compliance of information assets (including personal data) related to the Group, customers, and other stakeholders. The objective is to provide an information environment that supports the continuous operation of the Group's businesses and meets the requirements about customer contracts regarding cyber security and personal data protection in laws and regulations. This is to protect against intentional or accidental threats from internal and external sources. As a result, the "Cyber Security and Personal Data Protection Policy" has been established.

Personal data and information are valuable assets of the Group. To emphasize the Group's commitment to personal data protection and the implementation of effective cyber security management, a policy statement has been formulated based on the principles of simplicity, easy memorization, and alignment with cyber security and personal data management objectives: "Enforcing cyber security and personal data protection is everyone's responsibility."

HwaCom System Co., Ltd. (hereinafter referred to as "the Company") has developed, maintained, and continuously improved its cyber security management system in a "Plan-Do-Check-Act" cycle to ensure the confidentiality, integrity, availability, and compliance of critical information assets. In line with this, the "Cyber Security Maintenance Plan" and the "Personal Data Security Maintenance Plan" have been established.

(2) Risk Management and Continuous Improvement Framework of Enterprise Cyber Security



(3) Specific Management Plans and Allocation of Resources for Cyber Security Management

System Aspects	Implementation Items	Specific management plans and allocation of resources for cyber security
Management	Classification and Protection Standards of information and communication systems	The systems developed internally or outsourced by the Company are classified into high, medium, and general levels based on the "Information System Classification" in Attachment 9 of the Regulations Governing the Implementation of the Personal Data Protection Act (PDPA). The Company conducts audits and implements improvements in accordance with Attachment 10, "Checklist for Information System Security Standards".
	Implementation of cyber security management system and verification by an independent third party	The entire organization has achieved ISO/IEC 27001 (TAF) and ISO/IEC 27701 certifications, and continues to improve to maintain the effectiveness of the certifications. The verification process was completed in 2022, and the certifications remain valid.
	Dedicated cyber security personnel	The Company has distributed 4 dedicated personnel, and a total of 53 cyber security personnels distributed across various units: 1 personnel for strategic tasks, 1 personnel for managerial tasks, 2 personnel for technical tasks, and 53 cyber security personnels across various units.
	Internal cyber security audit	Conduct Office Security Check every four months. Conduct Internal cyber security and personal data security audits twice a year, and keep improving. Completed 3 times of Office Security Check, twice of Internal cyber security and personal data security audit in 2022
	Business continuity operation practice	Conduct business continuity practices for the core system according to annual schedule, and keep improving the process.
Technical	Security Testing - Vulnerability Scanning	Conduct biannual vulnerability scanning for host systems and web applications, and continuously patch identified vulnerabilities. Completed two vulnerability scanning assessments for host systems and web applications in 2022.
	Security Testing - Penetration Testing	Perform an annual penetration testing for core systems, and continuously patch identified vulnerabilities. Completed one penetration testing assessment for core systems in 2022.
	Cyber security Health Check <ul style="list-style-type: none"> - Network architecture review - Network malicious activity monitoring - User computer malicious activity monitoring - Server host malicious activity 	Perform an annual cyber security health check and continuously improve it. The cyber security health check was completed in the year 2022.

System Aspects	Implementation Items	Specific management plans and allocation of resources for cyber security
	monitoring - Directory server configuration and review - Firewall connection settings review	
	Endpoint detection and response mechanism:	Implement endpoint protection software across the entire organization to prevent attacks such as malware and ransomware. Cyber security personnel monitor in real-time and respond promptly.
	Cyber security protection – Antivirus software	Deploy endpoint protection software across the entire organization to prevent malicious software and ransomware attacks. Cyber security personnel monitor in real-time and respond promptly.
	Cyber security protection – Network firewall	Deploy next-generation firewalls at network boundaries and enable advanced persistent threat detection. Implement network segmentation based on business and regional attributes and control access through the firewall. Cyber security personnel monitor in real-time and respond promptly.
	Cyber security protection – Email filtering mechanism	Activate email filtering mechanism for the entire organization's email service to detect and alert against spam emails, phishing emails, and external incoming emails. Cyber security personnel monitor in real-time and respond promptly.
	Cyber security protection – Intrusion detection and defense mechanism	Deploy next-generation intrusion detection and defense at network boundaries and enable advanced persistent threat detection. Cyber security personnel monitor in real-time and respond promptly.
	Cyber security protection – Application firewall (WAF)	Implement application firewall (WAF) for core information communication systems serving external services, enhancing core system protection capabilities. Cyber security personnel monitor in real-time and respond promptly.
	Cyber security protection – Advanced persistent threat defense measures:	Integrate cloud, network, endpoint, threat intelligence, and abnormal behavior detection in the internal network to build an advanced persistent threat defense network. Cyber security personnel monitor in real-time and respond promptly.
Knowledge and Training	Cybersecurity Education	In 2022, all employees received annual cybersecurity and personal data education training for a minimum of 3 hours.
	Certifications in information security	Continuously invest in training and maintaining the validity of cyber security certifications for relevant personnel. Currently, the entire group holds approximately 354 certifications in various aspects of cyber security (management and technical).

(4) Cyber Security Risk and Response Measures

HwaCom System Inc. has implemented overall network and computer security measures; however, it cannot guarantee the complete prevention of network attacks from any third party that may disrupt critical business functions, including company operation and accounting. These network attacks involve illegal intrusion into the internal network systems of HwaCom System, resulting in activities that damage the company's operations and reputation. In the event of a severe network attack, the company's systems may lose important data, and operational activities may come to a halt. HwaCom System Inc. continuously reviews and assesses its cyber security regulations and procedures to ensure their adequacy and effectiveness. However, it cannot guarantee that the Company will remain unaffected by evolving risks and attacks in the rapidly changing landscape of cyber security threats. Network attacks may also attempt to steal the company's trade secrets and other confidential information, including proprietary information of customers or other stakeholders, as well as personal information of HwaCom System employees. Malicious hackers may also attempt to introduce computer viruses, destructive software, or ransomware into HwaCom System's network systems to disrupt company operations, extort or blackmail the Company, gain control of computer systems, or access sensitive information. These attacks may result in the Company compensating customers for losses due to delayed or interrupted orders, incurring significant costs for remediation and improvement measures to strengthen the company's network security systems, or facing major legal liabilities arising from legal cases or regulatory investigations related to the data breach concerning the company's employees, customers, or third parties with whom the Company has confidentiality obligations. HwaCom System Inc. acknowledges the potential for future attacks, despite not having experienced any attacks in the past. To prevent and mitigate the damage caused by such attacks,

the Company implements relevant improvement measures and continuously enhances its security practices. These measures include strengthening network firewalls and controls to prevent the spread of computer viruses across endpoints and offices, implementing endpoint protection measures based on computer types, deploying advanced solutions for detecting and handling malicious software, adopting new technologies to enhance data protection, enhancing phishing email detection, establishing an integrated security operations platform, and regularly conducting employee awareness testing and engaging internal/external experts for security risk assessments. Despite these ongoing efforts to enhance cyber security, HwaCom System Inc. cannot guarantee immunity from malware and hacker attacks.

In addition, HwaCom System Inc. needs to share highly sensitive and confidential information with certain third-party vendors who provide services to the company, its subsidiaries, and affiliated enterprises to facilitate their service delivery. While the company requires these third-party service providers to comply with confidentiality and/or network security provisions in the service contracts, it cannot guarantee that every third-party service provider will strictly adhere to these obligations. The internal network systems and external cloud computing networks (e.g., servers) maintained by these service providers and/or their subcontractors also carry the risk of network attacks. If HwaCom System Inc. or its service providers cannot promptly address the technical issues caused by such network attacks, ensure the integrity and availability of data for HwaCom System Inc. (and its customers or other third parties), or maintain control over the Company's or its service providers' computer systems, it may significantly jeopardize the company's commitments to customers and other stakeholders. Consequently, the company's business performance, financial position, prospects, and reputation may be adversely affected.

(5) Significant Information Security Incidents

HwaCom System Inc., has established a risk management mechanism and SOP for handling cyber security incidents. The procedures clearly define the relevant processes and measures, including the incident reporting procedure, assigning responsible personnel to handle significant cyber security incidents, evaluating the incurred losses, implementing necessary response measures, assessing the potential impact of risks on the company's finances and operations, and implementing corresponding measures.

From 2021 up until the publication date of the annual report, HwaCom System Inc., has not experienced any significant cyber security incidents, nor has any financial losses, operational impacts or response measures resulting from such incidents.

vi. Labor-Management Relations:

1. The Company's employee welfare measures, education, training, retirement system and its Implementation:

A. Employee Behavior and Code of Ethics

(1) Implementation of Hierarchical Responsibility

- a. Authorization Criteria and Decision-Making Authority: Speed up operation process and enhance hierarchical management to effectively regulate the job authority of each level.
- b. Implement Job Authorization and Proxy Management to ensure smooth functioning of business operations.
- c. Organization and Job Title Management: Establish a rational job title management system in line with organizational development to provide employees with appropriate career development paths.

(2) Establishment of Employee Code of Conduct

Clearly define the rights and obligations of both labor and management to foster unity and collaboration among all employees for the advancement of the Company's business.

(3) Division of Responsibilities in Departments

Based on departmental functions, clearly define the job responsibilities and organizational functions of each unit to ensure specialization and strengthen the company's core competencies.

(4) Clear Rewards and Penalties

Establish reward and penalty regulations to promptly recognize employees who have

made special contributions and to prevent individual actions that may harm the company.

(5) Implementation of Employee Performance Management

Supervisors provide appropriate feedback and assistance to employees based on their job performance, and use it as a basis for planning their subordinates' future development.

(6) Prevention and Handling Measures for Sexual Harassment

To prevent sexual harassment and ensure gender equality in the workplace, regulations on sexual harassment prevention are established and relevant provisions and complaint channels are posted on the company's internal website to regulate employees' behavior in the workplace.

(7) Code of Ethics

To guide the behavior of the Company's directors, managers, and employees to conform to ethical standards and to enhance stakeholders' understanding of the company's ethical standards, a code of ethics is established for compliance.

B. Employee Welfare Measures:

In order to encourage morale, improve work efficiency, foster employee loyalty, and establish a stable working environment, the Company has implemented various welfare measures to address their needs. We aim to cultivate a sense of mutual coexistence and prosperity between employees and the company, and to create a harmonious labor-management relationship. In addition to labor insurance and health insurance, we provide the following welfare measures:

※ Bonus: Year-end bonuses, performance bonuses

※ Self-improvement activities: The Employee Welfare Committee organizes periodic domestic and overseas travel, leisure activities, and cultural events.

※ Subscription of capital increase: Encouraging employees to participate in cash capital increases, sharing in the benefits of growth, and fostering employee loyalty.

※ Grants for weddings, funerals, and celebrations: The Employee Welfare Committee has established relevant guidelines to provide support and boost morale.

※ Education and training: Empowering employees to acquire new skills and enhance personal growth.

※ Insurance: Life insurance, accident insurance, and accidental medical coverage.

C. Employee Training and Development Implementation:

In response to the rapid change of technology in the industry and to ensure the competence and career development of employees meet company objective, the Company has made employee learning and development a key focus of our human resources management. Based on core competencies, aligned with the company's operational strategies and professional skill training, we have developed talent training programs that are integrated with a knowledge management system. We have also established guidelines for education and training. Employees have the opportunity to proactively request or be assigned by their supervisors to participate in various education and training programs to enhance their skills and capabilities. The details are as follows:

(1) New employee training: Make new employees to familiarize with the Company's development history, management rules, and concepts of safety and quality assurance.

(2) On-the-job training and further education:

A. The company organizes periodic education and training sessions based on the actual needs of employees.

B. Employees are encouraged to proactively propose or be periodically assigned by their supervisors to attend external training programs based on business needs.

- (3) In 2022, the Company's total person-hours of actual education and training is approximately 32,445 hours(including both internal and external training).The expenditure for education and training was approximately NT\$ 3,340 thousands °

Course	Course Times	Number of participants	Total Hours	Total Amount
General Education course	42	2,656	20,483	NT\$ 3,340 thousands
Technology course	11	133	534	
Product course	13	658	923	
New Employee training	262	1,330	3,264	
Certification	268	489	7,241	

D. Employee Retirement System and Implementation Status:

- ❖ The Company has established a Labor Retirement Reserve Supervision Committee, and employee retirements are carried out according to the Company's Employee Retirement Policy.
- ❖ The company deposits 2% of monthly salaries into the Labor Retirement Reserve Account at the Bank of Taiwan. For those who choose the new labor retirement system, the Company contributes 6% of monthly salaries to the Labor Insurance Bureau's individual retirement account.
- ❖ For other information related to employee retirement benefits, please refer to pages 152 and 160.

E. Labor Health and Safety Policy:

The Company aims to provide a safe, healthy, and comfortable working environment, promoting health and safety management to instill proper awareness and maintain physical and mental well-being among employees. The following measures are implemented:

- ❖ Compliance with environmental protection, safety, and health-related laws and regulations.
- ❖ Reducing potential hazards in the work environment.
- ❖ Enhancing health education and implementing health check-up to ensure effective health management.
- ❖ Encouraging energy conservation and reducing resource waste.
- ❖ Implementing access control card systems in major equipment rooms and office areas to ensure security of personnel and property.
- ❖ Implement energy-saving and carbon-reducing initiatives to address global warming.

F. Agreements between Employees and Management and Measures to safeguard Employee Rights and Benefits:

With the belief in a mutually beneficial relationship between labor and management, the company adheres to the Labor Standards Act and related regulations, respecting employees and valuing their welfare and treatment. Through joint participation and effective communication between labor and management, a harmonious labor-management relationship has been formed.

2. For the recent year, and up to the publication date of the annual report, the Company has incurred losses due to labor disputes, and the current and future estimated amounts of such losses, corresponding measures are as follows:

- A. There's no historical loss caused by labor dispute, primarily because the Company prioritize employee welfare and maintain open communication channels with our employees, we held a harmonious labor-management relationship. Therefore, we cannot reasonably estimate any potential future losses. However, the Company will continue to enhance communication and coordination between labor and management, and strive to improve welfare measures to promote a harmonious relationship within company, aiming to prevent any potential labor disputes.
- B. As a system integration company, our employees do not have concerns about occupational injuries caused by the work environment. Additionally, the Company provide group insurance coverage (life insurance, accident insurance, and accident medical insurance) for our employees. We also have commercial fire insurance of workplace and equipment to ensure a safe working environment for employees.

vii. Important contracts:

Nature of contract	Counterparty	Commencement and expiration date	Major Contents	Restrictions
Maintenance Contract	Southern Region Branch Office, Freeway Bureau, MOTC	From commencement date notified by Party A to September 30, 2024.	2022-2024 Maintenance of the expressway control facilities in the southern region.	None
Maintenance Contract	Central Region Branch Office, Freeway Bureau, MOTC	From commencement date to November 30, 2022. The contractual period for maintenance work is extended by 2 months until January 31, 2023.	Maintenance of the expressway control facilities in the central region (December 2020-November 2022).	None
Sales Contract	MOTC	The supply of procurement shall be completed within 720 calendar days from the date of award. (2022/6/30-2024/6/30)	CV2X- Danhai Phase 2 Project	None
Sales Contract	National Chung-Shan Institute of Science & Technology	For the first batch, the performance start date will be the day following the signing of the contract ; for all batches, except for the first batch, the date will be determined by our institution and notified accordingly. The performance periods for each batch can overlap, and the final delivery date for each batch will be based on the day of completing the delivery of all items in that batch.: 1. First batch delivery: The vendor is required to complete the delivery within 120 calendar days starting from the day after the signing of the contract.	(Factory 205-Installation of the control room)Information Central System	None
Maintenance Contract	Northern Region Branch Office, Freeway Bureau, MOTC	The maintenance period shall be one year after commencement date notified by Party A (2022/02/01-2023/01/31)	2022-2023 Maintenance and expansion of R13 expressway control facilities of Northern Region Highway and Port Western Interchange.	None

VI. Financial Highlights

i. Condensed Balance Sheets and Statements of Comprehensive Income for the Most Recent Five Fiscal Years

1. Condensed Consolidated Balance Sheet - Based on IFRS

Units: NT\$ thousands

Item	Year	Financial data for the last five years (Note:1)					Financial data as of March 31,2023 (Note 1)
		2022	2021	2020	2019	2018	
Current Assets		4,514,434	4,691,974	3,847,547	3,820,012	3,079,853	4,711,641
Property, plant and equipment		230,620	238,356	235,718	218,745	216,584	237,062
Intangible assets		23,142	20,607	12,120	7,546	11,278	24,331
Other assets		560,228	601,953	566,141	324,740	235,525	687,866
Total assets		5,328,424	5,552,890	4,661,526	4,371,043	3,543,240	5,660,900
Current liabilities	Before distribution	2,762,342	3,062,762	2,624,853	2,402,070	1,908,774	3,001,384
	After distribution (Note 2)	Note 3	3,102,870	2,624,853	2,451,223	1,939,819	—
Non-current liabilities		301,201	328,541	216,397	175,004	137,380	283,150
Total liabilities	Before distribution	3,063,543	3,391,303	2,841,250	2,577,074	2,046,154	3,284,534
	After distribution (Note 2)	Note 3	3,431,411	2,841,250	2,626,227	2,077,199	—
Equity attributable to owners of the parent company		2,264,881	2,161,587	1,820,276	1,793,969	1,497,086	2,376,366
Capital stock		1,337,776	1,336,934	1,228,817	1,228,817	1,034,817	1,362,315
Capital surplus		359,937	356,799	281,630	281,630	209,850	374,441
Retained earnings	Before distribution	515,572	410,493	238,826	290,131	245,585	494,875
	After distribution (Note 2)	Note 3	370,385	238,826	240,978	214,540	—
Other equities		64,843	117,158	130,801	(6,609)	6,834	157,982
Treasury stock		(13,247)	(59,797)	(59,797)	0	0	(13,247)
Non-controlling interest		0	0	0	0	0	0
Total equity	Before distribution	2,264,881	2,161,587	1,820,276	1,793,969	1,497,086	2,376,366
	After distribution (Note 2)	Note 3	2,121,479	1,820,276	1,744,816	1,466,041	—

Note 1: Financial data from 2018 through 2022, has been audited and certified by Accountants. Financial data of 2023 Q1 has been reviewed by Accountants.

Note 2: The distribution of retained earnings from 2018 to 2021 was determined by resolutions passed during the shareholders' meetings.

Note 3: The distribution of retained earnings for 2022 was yet determined by resolutions passed during the shareholders' meetings.

2. Condensed Unconsolidated Balance Sheet – Based on IFRS

Units: NT\$ thousands

Item	Year	Financial data for the last five years (Note:1)				
		2022	2021	2020	2019	2018
Current Assets		4,466,391	4,641,346	3,801,289	3,764,081	3,012,746
Property, plant and equipment		228,922	236,440	232,181	216,374	216,374
Intangible assets		23,038	20,570	12,049	7,498	10,177
Other assets		602,022	645,682	595,466	375,235	289,109
Total assets		5,320,373	5,544,038	4,640,985	4,363,188	3,528,406
Current liabilities	Before distribution	2,754,937	3,054,005	2,605,717	2,395,722	1,895,435
	After distribution (Note 2)	Note 3	3,094,113	2,605,717	2,444,875	1,926,480
Non-current liabilities		300,555	328,446	214,991	173,497	135,885
Total liabilities	Before distribution	3,055,492	3,382,451	2,820,708	2,569,219	2,031,320
	After distribution (Note 2)	Note 3	3,422,559	2,820,708	2,618,372	2,062,365
Equity attributable to owners of the parent company		2,264,881	2,161,587	1,820,276	1,793,969	1,497,086
Capital stock		1,337,776	1,336,934	1,228,817	1,228,817	1,034,817
Capital surplus		359,937	356,799	281,630	281,630	209,850
Retained earnings	Before distribution	515,572	410,493	238,826	290,131	245,585
	After distribution (Note 2)	Note 3	370,385	238,826	240,978	214,540
Other equities		64,843	117,158	130,801	(6,609)	6,834
Treasury stock		(13,247)	(59,797)	(59,797)	0	0
Non-controlling interest		0	0	0	0	0
Total equity	Before distribution	2,264,881	2,161,587	1,820,276	1,793,969	1,497,086
	After distribution (Note 2)	Note 3	2,121,479	1,820,276	1,744,816	1,466,041

Note 1: Financial data from 2018 through 2022, have been audited and certified by Accountants.

Note 2: The distribution of retained earnings from 2018 to 2021 was determined by resolutions passed during the shareholders' meetings.

Note 3: The distribution of retained earnings for 2022 was yet determined by resolutions passed during the shareholders' meetings.

3. Condensed Consolidated Statement of Comprehensive Income – Based on IFRS

Units: NT\$ thousands (Excluding EPS)

Item \ Year	Financial data for the last five years (Note:1)					Financial data as of March 31,2023 (Note 1)
	2022	2021	2020	2019	2018	
Net revenue	6,094,449	6,192,732	4,482,295	4,528,267	4,342,956	1,374,878
Gross profit	1,224,102	1,371,855	968,617	1,007,404	905,408	273,474
Income from operations	117,540	210,937	(1,613)	117,719	138,355	(20,970)
Non-operating income and expenses	46,080	9,918	9,281	(3,042)	(5,379)	273
Income before income tax	163,620	220,855	7,668	114,677	132,976	(20,697)
Net income from continuing operations	138,097	171,524	2,551	83,006	103,668	(20,697)
Loss from discontinued operations	0	0	0	0	0	0
Net income(loss)	138,097	171,524	2,551	83,006	103,668	(20,697)
Other comprehensive income, net of income tax	(45,225)	(13,501)	132,707	(20,611)	(22,331)	93,140
Total comprehensive income	92,872	158,023	135,258	62,395	81,337	72,443
Net income attributable to owners of the parent company	138,097	171,524	2,551	83,006	103,668	(20,697)
Net income attributable to noncontrolling interests	0	0	0	0	0	0
Total comprehensive income (loss) attributable to shareholders of the parent company	92,872	158,023	135,258	62,395	81,337	72,443
Total comprehensive income (loss) attributable to non-controlling interests	0	0	0	0	0	0
Earnings per share	1.06	1.43	0.02	0.75	1.00	(0.16)

Note 1: Financial data from 2018 through 2022, has been audited and certified by Accountants. Financial data for 2023 Q1 has been reviewed by Accountants.

4. Condensed Unconsolidated Statement of Comprehensive Income – Based on IFRS :

Units: NT\$ thousands (Excluding EPS)

Item \ Year	Financial information for the last five years (Note:1)				
	2022	2021	2020	2019	2018
Net revenue	6,077,095	6,170,285	4,481,402	4,530,249	4,341,103
Gross profit	1,216,161	1,366,468	967,208	1,004,102	902,221
Income from operations	132,304	228,725	20,349	134,396	154,425
Non-operating income and expenses	31,316	(7,870)	(12,680)	(19,719)	(21,449)
Net income before income tax	163,620	220,855	7,668	114,677	132,976
Net income from continuing operations	138,097	171,524	2,551	83,006	103,668
Loss from discontinued operations	0	0	0	0	0
Net income (loss)	138,097	171,524	2,551	83,006	103,668
Other comprehensive income, net of income tax	(45,225)	(13,501)	132,707	(20,611)	(22,331)
Total comprehensive income	92,872	158,023	135,258	62,395	81,337
Net income attributable to owners of the parent company	138,097	171,524	2,551	83,006	103,668
Net income attributable to noncontrolling interests	0	0	0	0	0
Total comprehensive income (loss) attributable to shareholders of the parent company	92,872	158,023	135,258	62,395	81,337
Total comprehensive income (loss) attributable to non-controlling interests	0	0	0	0	0
Earnings per share	1.06	1.43	0.02	0.75	1.00

Note 1: Financial data from 2018 through 2022, has been audited and certified by Accountants.

5. Names of CPAs in the most recent five fiscal years and their audit opinions

Year	CPA	Audit Opinion
2018	CHANG,SHU-CHENG and LIU,KE-YI	Unqualified opinion
2019	CHANG,SHU-CHENG and LIU,KE-YI	Unqualified opinion
2020	LIU,KE-YI and HSU,KUN-HSI	Unqualified opinion
2021	LIU,KE-YI and HSU,KUN-HSI	Unqualified opinion
2022	CHANG,SHU-CHENG and HSU,KUN-HSI	Unqualified opinion

ii. Financial analysis for the most recent fiscal years

1. Financial Analysis - IFRS - Consolidated

Year(Note 1) Item(Note 2)		Financial analysis for the last five years					Financial data as of March 31,2023 (Note 1)
		2022	2021	2020	2019	2018	
Capital Structure Analysis (%)	Debt to assets ratio	57.49	61.07	60.95	58.96	57.75	58.02
	Long-term fund to property, plant and equipment	1112.69	1044.71	864.03	900.12	754.66	1121.87
Liquidity Analysis (%)	Current ratio	163.43	153.19	146.58	159.03	161.35	156.98
	Quick ratio	111.99	84.85	82.62	108.16	122.62	109.05
	Times interest earned (Times)	1263.40	1599.25	156.61	1017.20	1275.53	0.00
Operating Performance Analysis	Average collection turnover (Times)	3.54	4.74	3.16	2.76	3.12	2.84
	Average collection days	103.10	77	116	132.24	116.98	128.52
	Average inventory turnover (Times)	3.07	2.72	2.81	3.82	3.94	3.46
	Average payment turnover (Times)	5.29	5.47	3.75	4.08	3.52	8.12
	Average days of sales	118.99	134.19	131	95.54	92.63	105.49
	Property, plant and equipment turnover (Times)	25.99	26.13	19.73	20.80	19.42	23.53
	Total assets turnover (Times)	1.12	1.21	0.99	1.14	1.19	1.00
Profitability Analysis	Return on assets(%)	2.75	3.59	0.30	2.35	3.08	(1.26)
	Return on equity (%)	6.24	8.62	0.14	5.04	6.99	(3.57)
	Pre-tax income to paid-in capital (%) (Note 6)	12.23	16.52	0.62	9.33	12.85	(6.08)
	Net margin (%)	2.27	2.77	0.06	1.83	2.39	(1.51)
	Earnings per share (NT\$)	1.06	1.43	0.02	0.75	1.00	(0.16)
Cash Flow	Cash flow ratio (%)	0.00	14.24	7.44	0.00	0.00	6.22
	Cash flow adequacy ratio (%)	37.75	34.34	(11.90)	50.66	34.97	48.33
	Cash reinvestment ratio (%)	0.00	16.87	6.93	0.00	0.00	6.74
Leverage	Operating leverage	10.08	6.34	(580.89)	8.24	6.32	(12.59)
	Financial leverage	1.14	1.08	0.11	1.12	1.09	0.83

2. Analysis of changes exceed 20 % in financial ratios for the most recent two fiscal years.

Explanation of changes		Increase/Decrease(%)	Remark
Item			
Capital Structure Analysis (%)	Debt to assets ratio	(5.86)	
	Long-term fund to property, plant and equipment	6.51	
Liquidity Analysis (%)	Current ratio	6.68	
	Quick ratio	31.98	Due to current liabilities decreased
	Times interest earned (Times)	(21.00)	Result from decrease in pre-tax income
Operating Performance Analysis	Average collection turnover (Times)	(25.30)	Result from increase in accounts receivable
	Average collection days	33.90	Accounts receivable increased due to several big projects accepted and billed in the last month.
	Average inventory turnover rate (Times)	12.76	
	Payables turnover rate (times)	(3.27)	
	Average days of sales	(11.39)	
	Property, plant and equipment turnover rate (Times)	(0.52)	
	Total assets turnover rate (Times)	(7.62)	
Profitability Analysis	Return on assets(%)	(23.52)	Result from decrease in net income
	Return on equity (%)	(27.58)	Result from decrease in net income
	Pre-tax income to paid-in capital (%) (Note 6)	(25.96)	Result from decrease in net income
	Net profit margin (%)	(18.19)	
	Earnings per share (NT\$)	(25.46)	Result from decrease in net income.
Cash flow	Cash flow ratio (%)	(98.95)	Due to decrease of net cash inflow from operating activities
	Cash flow adequacy ratio (%)	9.92	
	Cash reinvestment ratio (%)	(100.00)	Due to decrease of net cash inflow from from operating activities
Leverage	Operating leverage	59.03	Both the revenue and operating profit have decreased
	Financial leverage	5.66	

3. Financial analysis - IFRS - Unconsolidated

Year(Note1) Analysis Item(Note2)		Financial analysis for the last five years				
		2022	2021	2020	2019	2018
Capital Structure Analysis (%)	Debt to assets ratio	57.43	61.01	60.78	58.88	57.57
	Long-term fund to property, plant and equipment	1120.66	1053.14	876.59	910.72	754.70
Liquidity Analysis (%)	Current ratio	162.12	151.98	145.88	157.12	158.95
	Quick ratio	110.71	83.69	81.94	106.43	120.46
	Times interest earned ratio (Times)	1264.72	1599.25	156.61	1017.20	1275.53
Operating Performance Analysis	Account collection turnover (times)	3.53	4.72	3.16	2.76	3.12
	Average collection days	103	77	116	132.08	116.83
	Average inventory turnover (Times)	3.07	2.72	2.81	3.84	3.95
	Average payment turnover (Times)	5.27	5.46	3.75	4.08	3.53
	Average days of sales	118.84	134.35	129.98	95.16	92.46
	Property, plant and equipment turnover rate (Times)	26.12	26.33	20.00	20.95	19.42
	Total asset turnover (Times)	1.12	1.21	1.00	1.15	1.19
Profitability Analysis	Return on assets(%)	2.75	3.60	0.30	2.36	3.09
	Return on equity (%)	6.24	8.62	0.14	5.04	6.99
	Pre-tax income to paid-in capital (%) (Note 6)	12.23	16.52	0.62	9.33	12.85
	Net margin (%)	2.27	2.78	0.06	1.83	2.39
	Earnings per share (NT\$)	1.06	1.43	0.02	0.75	1.00
Cash Flow	Cash flow ratio (%)	0.61	14.96	8.11	0.00	0.00
	Cash flow adequacy ratio (%)	40.86	36.41	(7.84)	49.44	33.57
	Cash reinvestment ratio (%)	(0.87)	17.37	7.71	0.00	0.00
Leverage	Operating leverage	8.90	5.82	45.89	7.20	5.65
	Financial leverage	1.12	1.07	2.99	1.10	1.08

4. Analysis of changes exceed 20 % in financial ratios for the most recent two fiscal years.

Explanation of changes		Increase/Decrease(%)	Remark
Analysis Item			
Capital Structure Analysis (%)	Debt to assets ratio	(5.87)	
	Long-term fund to property, plant and equipment	6.41	
Liquidity Analysis (%)	Current ratio	6.68	
	Quick ratio	32.28	Due to current liabilities decreased.
	Times interest earned (Times)	(20.92)	Result from decrease in pre-tax income
Operating Performance Analysis	Account collection turnover (Times)	(25.17)	Result from increase in accounts receivable
	Average collection days	33.77	Accounts receivable increased due to several big projects accepted and billed in the last month.
	Average inventory turnover (Times)	13.06	
	Average payment turnover (Times)	(3.40)	
	Average days of sales	(11.55)	
	Property, plant and equipment turnover (Times)	(0.82)	
	Total assets turnover (Times)	(7.67)	
Profitability Analysis	Return on assets(%)	(23.63)	Result from decrease in net income.
	Return on equity (%)	(27.58)	Result from decrease in net income.
	Pre-tax income to paid-in capital (%) (Note 6)	(25.96)	Result from decrease in pre-tax income.
	Net profit margin (%)	(18.25)	
	Earnings per share (NT\$)	(25.46)	Result from decrease in net income.
Cash Flow	Cash flow ratio (%)	(95.92)	Due to decrease of net cash inflow from operating activities
	Cash flow adequacy ratio (%)	12.23	
	Cash reinvestment ratio (%)	(100.00)	Due to decrease of net cash inflow from
Leverage	Operating leverage	52.84	Both the revenue and operating profit have decreased
	Financial leverage	4.67	

Note1: Financial data from 2018 through 2022, have been audited and certified by Accountants. Financial data of 2023 Q1 has been reviewed by Accountants.

Note2: Formula illustration:

1. Capital Structure Analysis

(1) Debt to Assets Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities

(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

(1) Average Collection (including accounts receivable and notes receivable resulting from operation) Turnover = net sales / balance (gross) of average accounts receivable (including accounts receivable and notes receivable resulting from operation)

(2) Average Collection Days = 365 / Average Collection Turnover

(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Payment (including accounts payable and notes payable resulting from operation) Turnover = net sales / balance (gross) of average accounts payable (including accounts payable and notes payable resulting from operation)

(5) Average Inventory Turnover on Sales = 365 / Inventory turnover

(6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment

(7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

(1) Return on Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Return on Earnings = Income after income tax/average total equity

(3) Net margin = Net Income / Net Sales

(4) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent – Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding(Note 4)

5. Cash Flow

(1) Cash Flow Ratio = Net Cash from Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash from Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital) (Note 5)

6. Leverage:

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 6)

(2) Financial Leverage = Income from Operations / (Income from Operations – Interest Expenses)

VI. Financial Information

Note 3: Special attention should be paid to the following when calculating earnings per share by the above equation:

1. The weighted average quantity of outstanding common shares shall be taken as the standard, not the quantity of outstanding shares at the end of the year.

2. If there is any cash capital increase or treasury stock transaction, take the circulation periods into account when calculating the weighted average quantity of outstanding shares.

3. If there is any capitalization of retained earnings or capital surplus, the annual and semi-annual earnings per share of past years shall be retrospectively adjusted pro rata to the size of the capital increase, without considering the issuance period of the capital increase.

4. If the preferred shares are non-convertible cumulative preferred shares, the dividend for the fiscal year (whether it has been distributed or not) shall be deducted from the net income after tax or added to the net loss after tax. If the preferred shares are non-cumulative, the dividend shall be deducted from the net income after tax if there is net income after tax and no adjustment is required in case there is loss.

Note 4: Special attention should be paid to the following when making the calculations for cash flow analysis:

1. Net cash flow from operating activities refers to the net cash inflow from operating activities in the cash flow statement.

2. Capital expenditures refers to the annual cash outflow used in capital investment.

3. Increase in inventory is counted only when the balance at the end of the period is greater than the balance at the beginning of the period. If the inventory has decreased at the end of the year, it is counted as zero.

4. Cash dividends include the cash dividends of common stock and preferred stock.

5. Gross property, plant and equipment refers to the total property, plant and equipment without deduction of accumulated depreciation.

Note 5: The issuer shall categorize the operating costs and operating expenses into fixed ones and variable ones in accordance with their properties. If the categorization is subject to estimation or subjective judgment, attention shall be paid to ensure that it is done rationally and consistently.

Note 6: If the Company's shares have no par value or the par value per share is not NT\$10, the paid-in capital involved in the calculation of the above ratio shall be replaced by the equity attributable to owners of the parent company on the balance sheet.

iii. Auditor's Review Report on the Most Recent Annual Financial Report

HwaCom Systems Inc. Audit Report of the Audit Committee

The Board of Directors has prepared and submitted the 2022 financial statements (including individual and consolidated financial statements), and has appointed BDO Taiwan to audit and certify. The audit has been completed and an audit report has been issued. The aforementioned submitted documents by the Board of Directors are in compliance and no discrepancies have been found. Therefore, in accordance with Article 219 of the Company Act, a report is hereby prepared.

Requested for review

Regards,

2023 Regular Shareholders' Meeting of the company

Independent Director: Li Hsu-Tung (李旭東)
Independent Director: Li Ming-Jun (李明峻)
Independent Director: Ong Chong-Xiong (翁崇雄)

14th March 2023

iv. The Most Recent Annual Financial Report.: Please refer to P. 125.

v. The Most Recent Unconsolidated Financial Statements Audited and Certified by CPAs. Please refer to P. 192.

vi. The impact on the financial position of the Company in the event of financial turnover difficulties in the most recent year and as of the date of publication of this annual report of the Company and its affiliated companies: None.

VII. Analysis of Financial Conditions, Financial Results and Risk Management

i. Financial Conditions:

(1) Analysis of assets, liabilities and equity in the last two years:

Units: NT\$ thousands

Analysis Item \ Year	2022	2021	Differences		
			Amount	%	Explanation
Current assets	4,514,434	4,691,974	(177,540)	(3.78)	
Property, plant and equipment	230,620	238,356	(7,736)	(3.25)	
Other financial assets measured at fair value- Non current	133,295	195,473	(62,178)	(31.81)	1
Other assets	450,075	427,087	22,988	5.38	
Total assets	5,328,424	5,552,890	(224,466)	(4.04)	
Current liabilities	2,762,342	3,062,762	(300,420)	(9.81)	
Non-Current liabilities	301,201	328,541	(27,340)	(8.32)	
Total liabilities	3,063,543	3,391,303	(327,760)	(9.66)	
Capital stock	1,337,776	1,336,934	842	0.06	
Capital surplus	359,937	356,799	3,138	0.88	
Retained earnings	515,572	410,493	105,079	25.60	2
Other interests	64,843	117,158	(52,315)	(44.65)	3
Treasury stock	(13,247)	(59,797)	46,550	(77.85)	4
Total shareholders' equity	2,264,881	2,161,587	103,294	4.78	

Explanation for significant changes exceeding 20% and amounting to NT\$10,000,000 or more is as follows:

1. Other financial assets measured at fair value- Non-current: The decrease is mainly due to an increase in unrealized valuation losses of the company's other financial assets measured as per the appraisal report.
2. Retained earnings: The increase is mainly attributable to the accumulated net profit in 2021
3. Other interests: The increase is mainly due to the increase in unrealized valuation losses on financial assets measured at fair value through other comprehensive income in 2022.
4. Treasury stock: The decrease is due to the transfer of treasury stock to employees in 2022.

(2) Major reasons for significant changes and future response plans.: Not Applicable.

ii. Financial Results

(1) Recent two-year analysis of revenue, net profit, and pre-tax profit :

Units: NT\$ thousands

Item	Year	2022	2021	Difference		
		Amount	Amount	Amount	%	Explanation
Net revenue		6,094,449	6,192,732	(98,283)	(1.59)	
Costs of sales		4,870,347	4,820,877	49,470	1.03	
Gross profit		1,224,102	1,371,855	(147,753)	(10.77)	
Operating expenses		1,106,562	1,160,918	(54,356)	(4.68)	
Income from operations		117,540	210,937	(93,397)	(44.28)	1
Non-operating income and expenses		46,080	9,918	36,162	364.61	2
Net income before tax		163,620	220,855	(57,235)	(25.92)	3
Net income after tax (loss)		138,097	171,524	(33,427)	(19.49)	4
Other comprehensive income		(45,225)	(13,501)	(31,724)	234.98	5
Total comprehensive income		92,872	158,023	(65,151)	(41.23)	

Explanation for significant changes exceeding 20% and amounting to NT\$10,000,000 or more is as follows:

1. Income from operations: The decrease in Net revenue and gross profit resulted in a decrease in Income from operations.
2. Non-operating income and expenses: The increase in other income and net gains/losses led to an overall increase compared to the previous year.
3. Net income before tax: Due to a decline in performance net revenue, both gross profit and income from operations have decreased. Although non-operating income and expenses increased compared to the previous year, the overall pre-tax income still decreased.
4. Net income after tax (loss): After deducting income tax from the pre-tax profit, the net profit also decreased compared to the previous year.
5. Other comprehensive income: The main reason for the decrease is attributed to the increase in unrealized fair value losses on financial assets measured at fair value through other comprehensive income, as assessed based on the valuation report.

(2) Expected sales volume and its basis, possible impact on the company's future finance, business, and response plan: Not Applicable.

iii. Cash Flow

1. Analysis on changes of the cash flow in the last two years

Account \ Year	2022	2021	Increase(Decrease)	
			Amount	Ratio(%)
Operating activities	3,104	436,045	(432,941)	(99.29)
Investing activities	(103,512)	(118,296)	14,784	(12.50)
Financing activities	(121,729)	46,228	(167,957)	(363.32)

Analysis on changes in the cash flow:

(1) Operating activities: Due to an increase in accounts receivable in 2022, the cash inflow from operating activities has decreased.

(2) Investing activities: Due to an increase in prepaid equipment expenses resulted from business requirements in 2022.

(3) Financing activities: Due to the issuance of unsecured corporate bonds, resulting in an increase in funds for loan repayment in 2021.

(1) Operating activities: Due to an increase in accounts receivable in 2022, the cash inflow from operating activities has decreased.

2. Remedy for Cash Deficit and Liquidity Analysis: Not applicable.

3. Cash Flow Analysis for the coming year

Units: NT\$ thousands

Cash Balance beginning of the period (1)	The estimated cash flow of operating activities throughout the year (2)	The estimated cash flow throughout the year (3)	The estimated amount of surplus (shortage) of cash. (1)+(2)+(3)	Responsive measures with cash shortage	
				Investment	Investment
766,328	61,259	(90,936)	736,651	0	0

1. Analysis on changes in the cash flow:

(1) Operating activities: Expected net cash inflow, due to estimated future sales orders being fulfilled and accepted on schedule, and the receivable being received within the designated timeframe without any bad debt issues, so that ensures sufficient funds to support vendor payments and daily operation.

(2) Investing activities: Expected net cash outflow, primarily due to an increase in the amount of guarantee bond paid for project bids. Additionally, there is a slight increase in expenses for the acquisition of fixed assets and intangible assets to meet operational requirements.

(3) Financing activities: Expected net cash outflow, due to cash dividend payments, share buybacks, and increased project loans and working capital to meet the future funding requirements of projects.

2. Remedial Actions for Cash deficit and Liquidity Shortfall: Not applicable.

iv. Impact of Major Capital Expenditures on Financial Operations for the Most Recent Fiscal Year: None.

v. The Company's Reinvestment Policy for the Most Recent Fiscal Year, Its Main Reasons for Profits or Losses, the Improvement Plan, and Investment Plan for the Coming Year: None.

vi. Risk Analysis and Evaluation During the Most Recent Fiscal Year and as of the Date of Publication of this Annual Report:

1. Effect upon the Company's profit(loss) of interest and exchange rate fluctuations and changes in the inflation rate, and response measures to be taken in the future:

A. Changes in interest:

The Company primarily engages in system integration services in the fields of telecommunication, broadband network, media, enterprise users, and smart city control application. The business model revolves around project acquisition, with project sizes varying. However, to meet the demands of large-scale projects, the Company typically obtains project financing from financial institutions to support the funding needs during the construction period. The cost of project financing directly impacts the profits and losses of these projects. The Company implements stringent process controls for large-scale projects and strives to secure favorable financing terms from partner banks to lower the cost of funds. Regarding the short-term idle funds, the Company primarily invests in bond funds or commercial papers, with the impact of interest rate fluctuations on the income statement being minimal.

B. The impact on the company's profit and loss of changes in exchange rate and future measures to be taken:

The company's cash inflows and outflows include transactions in foreign currencies, which provide a natural hedging effect to some extent. The management of exchange rate risk is primarily aimed at hedging rather than profit generation. In the fiscal year of 2017, the net gains from foreign currency exchange accounted for a negligible proportion of net operating income, indicating minimal impact on revenue. To mitigate the impact of exchange rate fluctuations on profitability, the Company has implemented the following specific measures:

- (1) Regularly review the net positions of foreign currency assets and liabilities (primarily in USD and JPY) and manage the Director's risks. The choice of hedging instruments is based on considerations of hedging costs and periods, with borrowing in foreign currencies being the primary method to hedge exchange rate risk. When the foreign currency liability position is exposed to exchange rate risk, the Company often converts foreign currency borrowings into TWD borrowings at favorable exchange rates. Overall, significant exchange rate risk is not expected to arise.
- (2) Continuously gather information on exchange rate fluctuations to have a thorough understanding of exchange rate trends and make timely decisions on foreign currency conversion or retention to manage the risks arising from exchange rate movements.
- (3) Based on market exchange rate trends, the Company conducts "hedging-oriented" foreign currency operations, taking into account the advice of banks, exchange rate differentials, and interest rate factors to reduce exchange risk.
- (4) Tries to use mostly TWD as the pricing benchmark for procurement payments.
- (5) Maintains close communication with banks to obtain preferential interest rates and monitors exchange rate movements. When quoting for orders, the business departments consider the potential impact of future exchange rate fluctuations and appropriately incorporate them into the pricing to ensure reasonable profit margins.

C. Inflation:

According to the statistical data released by the Directorate-General of Budget, Accounting, and Statistics of the Executive Yuan, the annual growth rate of the Consumer Price Index (CPI) for the 2020 increased by 0.06%. Meanwhile, the annual growth rate of the Wholesale Price Index (WPI) declined by 5.10%. The decrease in the overall Wholesale Price Index was primarily attributed to the decline in prices of petroleum and natural gas, chemical materials and products, and pharmaceuticals. This situation does not currently have any inflationary impact on the Company. We will continue to monitor the inflationary situation and maintain good interaction with suppliers and customers to prevent any adverse effects from inflation.

As our company's revenue mainly comes from bids, we will develop high-value solutions to cope with inflation. Additionally, prior to bidding for each project, we will accurately assess the prices of our suppliers and appropriately adjust our bidding prices. We are also devising various cost reduction measures for other related management and sales expenses as part of our response.

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

A. In the recent fiscal year, our company has not engaged in high-risk, high-leverage investments, lending funds to others, endorsing guarantees, or engaging in derivative transactions. If such activities are to be undertaken in the future, they will be conducted in accordance with the "Endorsement and Guarantee Operation Guidelines" and the "Procedures for Asset Acquisition or Disposal" approved by the shareholders' meeting.

B. To manage funds effectively and reduce financial risks, our company has established procedures for lending funds to others and endorsing guarantees in compliance with Article 36-1 of the Securities and Exchange Act, as amended according to regulatory requirements. These procedures also cover the acquisition and disposal of assets.

3. Future R&D plans and estimated R&D expenditures

Over the next decade, ITS will focus on integration and service-oriented approach, while Telematics will bring intelligence to vehicle interiors and offer diverse services. By combining these areas through cloud technology, they form the foundation of the "Internet of Vehicles" and pioneer the realm of IoT. To enhance the Company's capabilities and seize opportunities as a cloud and IoT service provider, we will continue investing in the development of smart monitoring systems and emphasize on integrated IoT service models.

Recent Annual Plan	Current Progress	R&D Expenditure	Estimated Finish Time	Future key factors for successful R&D
Energy storage application services	The equipment maintenance and dispatch system for energy storage O&M has been completed. The development of O&M field monitoring and AFC energy storage management is in progress.	15 million	2022 Q1	The security of AFC energy storage control

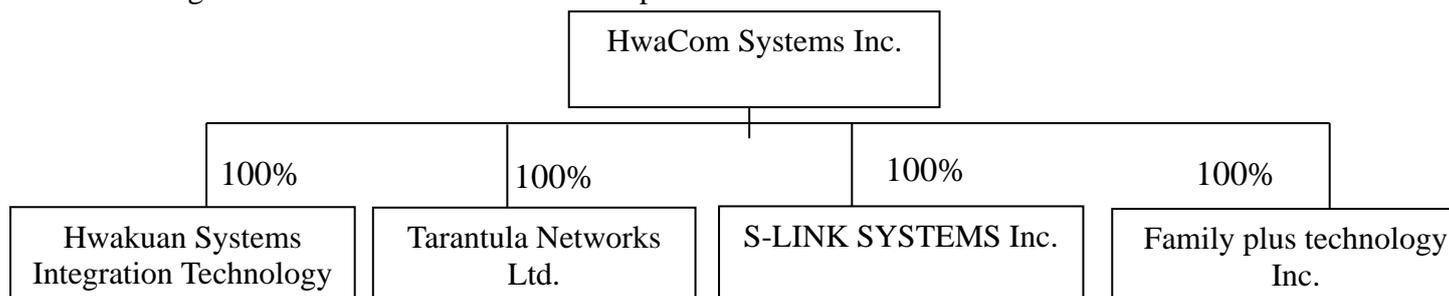
4. The impacts of changes of the important domestic and foreign policies and laws on the Company's finance and business, and measures to be taken in response: None.
 5. Impact of technology changes(including information and security risks) and industry changes on the Company's financial and business, and response measures thereof: None.
 6. Impact of changes of corporate image on the Company's crisis management and corresponding response measures: None.
 7. Expected benefits and possible risks Directord with mergers and acquisitions, and response measures thereof: None.
 8. Expected benefits and possible risks Directord with factory expansion, and response measures thereof: None.
 9. The risks arising from the concentration of purchases or sales, and response measures thereof: None.
 1. Purchases: Purchases: The Company typically collaborates with original equipment suppliers for large-scale projects under contracts such as V2, SVG, and MSAN, which are carried out in partnership with Zyxel. For the X86 project, we work with Dell, while for GPON, with Nokia-ALU. Highways and Transportation Bureau projects are supplied by multiple vendors, ensuring a diversified risk profile without excessive concentration.
 2. Sales: In the fiscal year of 2020, our top three customers each accounted for less than 50% of our total sales revenue. Each sales project is independent and subject to competitive bidding from multiple companies. The outcome of each bidding process is beyond our control. Therefore, there is no issue of excessive concentration. As of the publication date of the annual report, our receivables remain within the normal range.
 10. The impact and risk brought by changes in directors, supervisors, or major shareholders possessing over 10 percent of outstanding stocks, transfer or change of a large number of shares and mitigation measures being or to be taken: None.
 11. The impact and risk brought by changes in the Company's management right and response measures thereof: None.
 12. If the Company, the Company's director, supervisor, President, actual owner, major shareholders possessing over 10 percent of outstanding shares, and the affiliations is involved in a lawsuit event, a non-contentious case, or an administrative lawsuit event which is convicted or still under the lineage until the publication date of the annual report, which has great impact on equity of shareholder or price of stock, the factual argument, value of target object, starting date of the lawsuit, involved parties, and treatment at present should be revealed: None.
 13. Other important risks and countermeasures:
 1. Cyber Security Risk Assessment and Analysis:
 The Company's cyber security strategy is committed to implementing information security management and regulatory compliance, while following international standards certification such as ISO27001 and ISO 27701. This allows us to effectively protect the security of all financial and confidential data, thereby reducing the possibility of unauthorized or illegal use. By supplementing additional control requirements, we establish, implement, maintain, and continuously improve Privacy Information Management within the scope of the ISMS to mitigate the risks faced by privacy information.
 To comprehensively enhance our cyber security defense capability, the Company has established a Cyber Security Committee in addition to adhering to information security development guidelines. We have also appointed cyber security personnel in each department. We conduct regular cyber security assessments and periodically announce cyber security awareness materials to ensure the effective implementation of cyber security management.
 From the fiscal year of 2019 up to the date of publication the annual report, the Company has not identified any significant cyber security threats or incidents that could impact our business activities, nor legal cases or investigations related to cyber security.
- vii. Other Important Matters: None.

VIII. Special Disclosure

i. Summary of Affiliated Companies

1. Consolidated business report of affiliated companies:

A. Organizational chart of affiliated companies



B. Basic Information about affiliated companies:

December 31, 2022; Units: NT\$ thousands/ thousand shares

Company Name	Relationship with the Company	Ownership by the Company			Holding shares of the Company
		Shares	Ratio of Shareholding(%)	Actual Investment Amount	
Hwakuan Systems Integration Technology (Shanghai) Co., Ltd.	Subsidiary of the Company	500	100%	15,713	-
Tarantula Networks Ltd.	Subsidiary of the Company	2,000	100%	19,980	-
S-LINK SYSTEMS Inc.	Subsidiary of the Company	4,500	100%	45,000	-
Family plus technology Inc. (Note 2)	Subsidiary of the Company	1,600	100%	16,000	-

C. For companies presumed to have a relationship of control and subordination under Article 369-3 of the Law, list the shareholders' information: None.

D. The industries covered by the business operated by the affiliates overall, and a description of the mutual dealings and the division of work among such affiliates:

- (1) Hwakuan Systems Integration Technology (Shanghai) Co., Ltd.: Mainly focus on Information processing/provider industry.
- (2) Tarantula Networks Ltd.: Information software and communication industry, etc.
- (3) S-LINK SYSTEMS Inc.: Information software and communication industry, etc.
- (4) Family plus technology Inc.: Information software and service industry, etc.

E. Director, Supervisor, and President of Affiliated Companies

December 31, 2022; Units: shares

Company Name	Title	Company Name or Representative	Ownership by the Company	
			Shares	Shareholding ratio (%)
Hwakuan Systems Integration Technology (Shanghai) Co., Ltd.	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG	500,000	100%
Tarantula Networks Ltd.	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG	2,000,000	100%
S-LINK SYSTEMS Inc.	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG	4,500,000	100%
Family plus technology Inc. (Note 1)	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG	1,600,000	100%

F. Operational highlight of affiliated companies

December 31, 2022; Units: NT\$ thousands

Name	Capital	Total assets	Total liabilities	Net value	Net revenue	Income from operations	Net Income (loss) (after tax)	EPS (NT\$) (after tax)
Hwakuan Systems Integration Technology (Shanghai) Co., Ltd.	15,713	8,115	482	7,633	0	(366)	(341)	-
Tarantula Networks Ltd.	20,000	10,462	30	10,432	0	(61)	(46)	(0.02)
Family plus technology Inc.	16,000	12,738	4,632	8,106	6,577	(2,690)	(2,655)	(1.66)
S-LINK SYSTEMS Inc.	45,000	34,129	11,534	22,595	19,061	(10,423)	(10,393)	(2.31)

2. Consolidated financial statements of affiliated companies: Please refer to p.124.

3. Affiliation report:

A. The relationship between subordinate companies and the controlling company:

December 31, 2022; Units: NT\$ thousands

Controlling Company Name	Control Reason	Details of shareholding and pledges			Directors, supervisors or managerial officers appointed to the subordinate company by the controlling company	
		Shares	Shareholding ratio	Pledged shares	Title	Name
Hwakuan Systems Integration Technology (Shanghai) Co., Ltd.	The Representative of corporate director is the Company's Chairman and President.	500,000	100%	-	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG
Tarantula Networks Ltd.	The Representative of corporate director is the Company's Chairman and President.	2,000,000	100%	-	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG
Family plus technology Inc.	The Representative of corporate director is the Company's Chairman and President.	1,600,000	100%	-	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG
S-LINK SYSTEMS Inc.	The Representative of corporate director is the Company's Chairman and President.	4,500,000	100%	-	Director	HwaCom Systems Inc. Representative: CHEN,KUO-CHANG

2. Transactions:

(1) Purchase/Sale transactions: There's no difference between general transaction terms and transaction terms with Controlling company.

December 31, 2022; Units: NT\$ thousands; %

No (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Business Transactions			
				Account name	Amount (Note 4)	Trading terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	HwaCom Systems Inc.	S-LINK SYSTEMS Inc.	1	Prepayments to suppliers	\$1,094	The same as general trading	0.02%
0	HwaCom Systems Inc.	S-LINK SYSTEMS Inc.	1	Rent income	34	The same as general trading	0.00%
0	HwaCom Systems Inc.	S-LINK SYSTEMS Inc.	1	Sales revenue	125	The same as general trading	0.00%
0	HwaCom Systems Inc.	S-LINK SYSTEMS Inc.	1	Accounts Payable	3,485	The same as general trading	0.07%
0	HwaCom Systems Inc.	S-LINK SYSTEMS Inc.	1	Purchase of goods	7,707	The same as general trading	0.13%
0	HwaCom Systems Inc.	TARANTULA NETWORKS LTD.	1	Rent income	11	The same as general trading	0.00%
0	HwaCom Systems Inc.	TARANTULA NETWORKS LTD.	1	Guarantee deposits received	3	The same as general trading	0.00%
0	HwaCom Systems Inc.	Family plus technology Inc.	1	Rent income	34	The same as general trading	0.00%
0	HwaCom Systems Inc.	Family plus technology Inc.	1	Guarantee deposits received	10	The same as general trading	0.00%
0	HwaCom Systems Inc.	Family plus technology Inc.	1	Purchase of goods	452	The same as general trading	0.01%

Note1: The business transactions between the parent company and its subsidiaries should be indicated with reference numbers in the following manner:

1. For the parent company, the reference number should be "0".
2. For each subsidiary, the reference number should be assigned with Arabic numerals, starting from "1" and progressing accordingly based on the company's classification.

Note2: The relationship with the counterparty of transactions can be categorized into the following three types:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

Note3: The calculation of the ratio of transaction amount to consolidated total revenue or total assets: For balance sheet items: Calculate the ratio based on the year-end balance to the consolidated total assets; For income statement items: Calculate the ratio based on the cumulative amount for the period to the consolidated total revenue.

Note 4: Related transactions have been eliminated during the preparation of the consolidated financial statements.

(2) Property Transactions: None.

(3) Capital Finance: None.

(4) Asset Lease: None.

(5) Other Significant Transaction: None.

(6) Pledged or guaranteed: None.

- I. Private Offering of Securities for the Most Recent Year as of the Publication Date of the Annual Report: None.
- II. Holding or Disposal of Shares of the Company by the Company's Subsidiaries for the Most Recent Year as of the Publication Date of the Annual Report: None
- III. Other Necessary Supplements: None.
- IV. Any Event which has a Material Impact on Shareholders' Rights and Interests or the Company's Securities Price, as Prescribed in Article 36, Paragraph 3, Subparagraph 2 of the Securities and Exchange Act, that Have Occurred in the Most Recent Fiscal Year as of the Publication Date of this Annual Report: None.

D e c l a r a t i o n

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the years ended December 31, 2022 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we did not prepare a separate set of consolidated financial statements of affiliates.

Company Name : HwaCom Systems Inc.

Chairman : Chen, Kuo-Chang

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Independent Auditors' Report

To HwaCom Systems Inc. :

Opinion

We have audited the accompanying financial statements of HwaCom Systems Inc. (the "Company"), which comprise the parent company only balance sheets as of December 31, 2022 and 2021, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

Key audit matters for the Company's parent company only financial statements for the year ended December 31, 2022 are stated as follows:

Revenue recognition

Explanations

Please refer to Note 4 to the parent company only financial statements for the accounting policies of revenue recognition ; Please refer to Note 5 for the accounting judgment, estimates and assumptions of revenue recognition.

The Company is engaged in the services, including telecommunication integration system services, IP broadband network service, media industry service, smart city control business, and service for business customers, etc. As the inherent risk of revenue is high, and significant to the financial statements, revenue recognition is identified as one of the key audit matters.

Audit procedures in response

The main audit procedures in response to the aforementioned key audit matter implemented on specific level are summarized below :

1. Obtain an understanding of and test the internal control and the operating effectiveness relevant to revenue transactions.
2. Obtain an understanding the primary types of revenue, contract terms and transaction terms, to evaluate the rationality of the accounting policies of revenue recognition.
3. Perform sample testing to sales contracts or purchase orders, and evaluate the contract terms and transaction terms, etc., to confirm revenue is recognized in the appropriate period in accordance with company policies.
4. Perform cut-off testing as of year-end, to confirm the correctness of the periods that revenue is attributable to.
5. Check the reasons for significant returns or allowances in the current period and in the subsequent period, and evaluate the rationality of the estimates of returns and allowances.

Inventory valuation

Explanations

Please refer to Note 4 to the parent company only financial statements for the accounting policies of inventory valuation ; Please refer to Note 5 for the accounting judgment, estimates and assumptions of inventory valuation.

The Company is a system integration supplier of telecommunication media and internet information. The products distributed and the business developed provides the upstream, midstream, and downstream of industry chain with value-added integration and distribution functions. Based on the classification of communication network frameworks, the Company provided customized product mixes depending on different sales counterparties and projects, from the underlying infrastructure of communication network, layer by layer to broadband utilization. As inventory valuation involves management's judgment, is with highly estimate uncertainty, and significant to the financial statements, inventory valuation is identified as one of the key audit matters.

Audit procedures in response

The main audit procedures in response to the aforementioned key audit matter implemented on specific level are summarized below :

1. Obtain an understanding of and evaluate the estimates and policies adopted by inventory valuation.
2. Acquire the data used for the Company to evaluate the net realizable value of inventories, and select samples to verify the relevant information on sales prices and estimated costs to completion.
3. Perform sample testing to the correctness of inventory age data, and obtain an understanding of the condition of inventories with long age and the possibility of destock in the future.

Responsibilities of Management and Those Charged with Governance for the Parent company only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company 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 the parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company 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 members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent company only Financial Statements

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

As part of an audit in accordance with the 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 company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, we are required to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company 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 company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Taiwan

CPA : SU-CHEN CHANG

CPA : WINNER HSU

Reference Number of the FSC Approval letter : (86) No. Taiwan-Finance-Securities-VI-74537
(80) No. Taiwan-Finance-Securities-I-51636

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HwaCom Systems Inc.

Parent Company Only Balance Sheets
As of December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

Code	Assets	Note	December 31, 2022	%	December 31, 2021 (Reclassification)	%	Code	Liabilities and equity	Note	December 31, 2022	%	December 31, 2021 (Reclassification)	%
11XX	Current assets						21XX	Current liabilities					
1100	Cash and cash equivalents	6.1	\$725,438	13.64	\$946,183	17.07	2100	Short-term borrowings	6.12	\$421,318	7.92	\$509,035	9.18
1110	Financial assets at fair value through profit or loss - current	6.6	5,019	0.09	5,500	0.10	2130	Contract liabilities - current	6.22	897,555	16.87	1,406,232	25.36
1140	Contract assets - current	6.22	30,414	0.57	32,469	0.59	2170	Accounts payables	6.13	1,082,873	20.35	766,613	13.83
1150	Notes receivables, net		425	0.01	724	0.01	2200	Other payables	6.14	287,765	5.41	279,565	5.04
1170	Accounts receivables, net	6.2	2,074,507	38.99	1,320,451	23.82	2230	Current income tax liabilities		18,547	0.35	50,111	0.90
1200	Other receivables		998	0.02	15,211	0.27	2250	Provisions - current	6.15	-	-	2,536	0.05
130X	Inventories	6.3	1,159,038	21.78	1,852,428	33.41	2280	Lease liabilities - current	6.10	24,568	0.46	22,415	0.40
1410	Prepayments	6.4	257,320	4.84	232,916	4.20	2300	Other current liabilities		22,311	0.42	17,498	0.33
1470	Other current assets	6.5	213,232	4.01	235,464	4.25	21XX	Sub-total		2,754,937	51.78	3,054,005	55.09
11XX	Sub-total		4,466,391	83.95	4,641,346	83.72	25XX	Non-current liabilities					
							2500	Financial liabilities at fair value through profit or loss - non-current	6.6	368	0.01	-	-
							2530	Bonds payables	6.16	115,450	2.17	114,444	2.06
							2540	Long-term borrowings	6.17	26,513	0.50	31,681	0.57
							2550	Provisions - non-current	6.15	12,283	0.23	12,283	0.22
15XX	Non-current assets						2570	Deferred tax liabilities	6.28	17,782	0.33	33,523	0.60
1510	Financial assets at fair value through profit or loss - non-current	6.6	-	-	180	-	2580	Lease liabilities - non-current	6.10	23,328	0.44	21,579	0.40
	Financial assets at fair value through other comprehensive income - non-current	6.7	132,110	2.48	193,588	3.49	2600	Other non-current liabilities		104,831	1.96	114,936	2.08
1517	Investments accounted for using equity method	6.8	47,463	0.89	47,779	0.86	25XX	Sub-total		300,555	5.64	328,446	5.93
1550	Property, plant and equipment	6.9	228,922	4.30	236,440	4.26	2XXX	Total liabilities		3,055,492	57.42	3,382,451	61.02
1755	Right-of-use assets	6.10	47,341	0.89	43,484	0.78	31XX	Equity					
1780	Intangible assets		23,038	0.43	20,570	0.37	3100	Capital stock	6.19	1,337,776	25.14	1,336,934	24.11
1840	Deferred tax assets	6.28	34,825	0.65	45,325	0.82	3110	Common stock		359,937	6.77	356,799	6.44
1900	Other non-current assets	6.21	340,283	6.41	315,326	5.70	3200	Capital surplus	6.20	109,359	2.06	92,192	1.66
15XX	Sub-total		853,982	16.05	902,692	16.28	3300	Retained earnings	6.21	406,213	7.64	318,301	5.74
							3310	Legal reserve		64,843	1.22	117,158	2.11
							3350	Unappropriated earnings (accumulated deficit)		(13,247)	(0.25)	(59,797)	(1.08)
							3400	Other equity		2,264,881	42.58	2,161,587	38.98
							3500	Treasury stock	6.19	\$5,320,373	100.00	\$5,544,038	100.00
1XXX	Total assets		\$5,320,373	100.00	\$5,544,038	100.00	3XXX	Total equity					
							3X2X	Total liabilities and equity					

Please refer to the notes to the parent company only financial statements.

HwaCom Systems Inc.
Parent Company Only Statements of Comprehensive Income
For the Years Ended December 31, 2022 and 2021

Expressed in thousands of
New Taiwan Dollars

Code Item	Note	2022	%	2021	%
4000 Net revenue	6.22	\$6,077,095	100.00	\$6,170,285	100.00
5000 Costs of revenue	6.3, 6.25	(4,860,934)	(79.99)	(4,803,817)	(77.85)
5900 Gross profit		1,216,161	20.01	1,366,468	22.15
5950 Gross profit, net		1,216,161	20.01	1,366,468	22.15
6000 Operating expenses	6.25				
6100 Selling expenses		(832,444)	(13.70)	(896,550)	(14.53)
6200 Administrative expenses		(193,348)	(3.18)	(170,277)	(2.76)
6300 Research and development expenses		(58,065)	(0.95)	(54,965)	(0.89)
6450 Expected credit impairment gains (losses)		-	-	(15,951)	(0.26)
6000 Sub-total		(1,083,857)	(17.83)	(1,137,743)	(18.44)
6900 Net operating income (loss)		132,304	2.18	228,725	3.71
7000 Non-operating income and expenses					
7100 Interest income		2,827	0.05	1,296	0.02
7010 Other income	6.23	57,058	0.94	34,909	0.57
7020 Other gains and losses	6.24	217	-	(13,644)	(0.22)
7050 Financial costs	6.27	(14,048)	(0.23)	(14,731)	(0.24)
7070 Share of profit or loss of subsidiaries, associates and joint ventures accounted for using equity method	6.8	(14,738)	(0.25)	(15,700)	(0.26)
7000 Total non-operating income and expenses		31,316	0.51	(7,870)	(0.13)
7900 Net income (loss) before income tax		163,620	2.69	220,855	3.58
7950 Income tax benefits (expenses)	6.28	(25,523)	(0.42)	(49,331)	(0.80)
8000 Net income (loss) from continuing operations		\$138,097	2.27	\$171,524	2.78
8200 Net income (loss)		\$138,097	2.27	\$171,524	2.78
8300 Other comprehensive income					
8310 Items not to be reclassified into profit or loss					
8311 Remeasurements of defined benefit plans		\$8,863	0.15	\$179	-
8316 Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income		(67,479)	(1.11)	(14,754)	(0.24)
8330 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method		(699)	(0.01)	(107)	-
8349 Income tax related to items of other comprehensive income that will not be reclassified to profit or loss		13,969	0.23	1,135	0.02
8360 Items that may be subsequently reclassified into profit or loss					
8361 Exchange differences on translation of foreign financial statements		121	-	46	-
8300 Other comprehensive income, net of tax		\$(45,225)	(0.74)	\$(13,501)	(0.22)
8500 Total comprehensive income		\$92,872	1.53	\$158,023	2.56
Earnings per share (NT\$) :	6.29				
9750 Basic earnings per share (NT\$)		\$1.06		\$1.43	
9850 Diluted earnings per share (NT\$)		\$1.01		\$1.26	

Please refer to the notes to the parent company only financial statements.

HwaCom Systems Inc.
Parent Company Only Statements of Changes in Equity
For the Years Ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

Summary	Capital stock	Capital surplus	Retained earnings			Other equity		Treasury stock	Total equity
			Legal reserve	Special reserve	Unappropriated earnings (or accumulated deficit)	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income		
Balance at January 1, 2021	\$1,228,817	\$281,630	\$92,192	\$6,609	\$140,025	\$(850)	\$131,651	\$(59,797)	\$1,820,277
Appropriation and distribution of 2020 earnings									
Transfer of special reserve to retained earnings	-	-	-	(6,609)	6,609	-	-	-	-
Stock option recognized by issuance of convertible bonds	-	5,118	-	-	-	-	-	-	5,118
Profit of 2021	-	-	-	-	171,524	-	-	-	171,524
Other comprehensive income	-	-	-	-	143	47	(13,691)	-	(13,501)
Transfer of corporate bonds payables to ordinary shares	108,117	70,051	-	-	-	-	-	-	178,168
Rounding to thousands	-	-	-	-	-	1	-	-	1
Balance at January 1, 2022	\$1,336,934	\$356,799	\$92,192	\$0	\$318,301	\$(802)	\$117,960	\$(59,797)	\$2,161,587
Appropriation and distribution of 2021 earnings									
Appropriate of legal reserve	-	-	17,167	-	(17,167)	-	-	-	-
Cash dividend of ordinary shares	-	-	-	-	(40,108)	-	-	-	(40,108)
Stock option recognized by issuance of convertible bonds	-	(60)	-	-	-	-	-	-	(60)
Profit of 2022	-	-	-	-	138,097	-	-	-	138,097
Other comprehensive income	-	-	-	-	7,090	122	(52,437)	-	(45,225)
Transfer of corporate bonds payables to ordinary shares	842	572	-	-	-	-	-	-	1,414
Treasury shares transferred to employees	-	2,626	-	-	-	-	-	46,550	49,176
Balance at December 31, 2022	\$1,337,776	\$359,937	\$109,359	\$0	\$406,213	\$(680)	\$65,523	\$(13,247)	\$2,264,881

Please refer to the notes to the parent company only financial statements.

HwaCom Systems Inc.
Parent Company Only Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

Item	Expressed in thousands of New Taiwan Dollars	
	2022	2021 (Reclassification)
Cash flows from operating activities		
Profit (loss) before tax from continuing operations	\$163,620	\$220,855
Consolidated total profit (loss)	163,620	220,855
Adjustments:		
Items of income and expenses		
Depreciation expenses	70,668	63,534
Amortization expenses	20,507	15,476
Expected credit losses (benefits)	-	15,951
Net gains or losses from financial assets (liabilities) at fair value through profit or loss	1,035	(1,037)
Interest expenses	14,048	14,731
Interest income	(2,827)	(1,296)
Dividends	(830)	(380)
Share-based payments	6,551	-
Share of profit or loss of subsidiaries, associates and joint ventures accounted for using equity method	14,738	15,699
Losses (gains) from disposal and scrap of property, plant and equipment	(206)	(335)
Losses (gains) from disposal of investments	-	(9)
Losses (gains) on lease improvements	(23)	-
Changes in operating assets and liabilities		
Decrease (increase) in contract assets	2,055	9,597
Decrease (increase) in notes receivables	300	(26)
Decrease (increase) in accounts receivables	(754,056)	(139,844)
Decrease (increase) in other receivables	14,324	(1,809)
Decrease (increase) in inventories	707,249	(388,401)
Decrease (increase) in prepaid expenses	2,438	5,151
Decrease (increase) in prepayments	(26,844)	(35,376)
Decrease (increase) in other current assets	22,230	55,365
Increase (decrease) in contract liabilities	(508,676)	748,317
Increase (decrease) in accounts payables	316,261	(218,156)
Increase (decrease) in other payables	7,995	94,723
Increase (decrease) in provisions	(2,536)	1,973
Increase (decrease) in other current liabilities	4,805	1,414
Increase (decrease) in net defined benefit liabilities	286	(61)
Interests received	2,716	1,274
Dividends received	830	380
Interest paid	(11,487)	(11,275)
Income taxes returned (paid)	(48,359)	(9,697)
Net cash inflow (outflow) provided by operating activities	<u>16,812</u>	<u>456,738</u>
Cash flows from investing activities		
Acquisition of financial assets at fair value through other comprehensive income	(6,000)	-
Acquisition of financial assets at fair value through profit or loss	-	(5,000)
Acquisition of investments accounted for using equity method	(15,000)	(30,000)
Acquisition of property, plant and equipment	(49,116)	(44,560)
Disposal of property, plant and equipment	1,902	1,620
Increase in refundable deposits	(410,971)	(409,728)
Decrease in refundable deposits	407,934	358,456
Acquisition of intangible assets	(22,978)	(24,004)
Disposal of intangible assets	3	16
Increase in prepayments for equipment	(37,069)	(4,298)
Decrease in prepayments for equipment	15,149	9,117
Net cash inflow (outflow) provided by investing activities	<u>(116,146)</u>	<u>(148,381)</u>
Cash flows from financing activities		
Increase in short-term borrowings	1,545,876	1,782,334
Decrease in short-term borrowings	(1,633,593)	(2,004,574)
Increase in short-term notes payables	100,000	-
Decrease in short-term notes payables	(100,000)	-
Issuance of corporate bonds	-	295,000
Repayments of long-term borrowings	(5,161)	(5,144)
Increase in guaranteed deposits received	1,532	5,520
Decrease in guaranteed deposits received	(3,061)	(969)
Repayments of lease principal	(29,522)	(25,752)
Decrease in other non-current liabilities	-	(187)
Distribution of cash dividends	(40,108)	-
Treasury shares purchased by employees	42,626	-
Net cash inflow (outflow) provided by financing activities	<u>(121,411)</u>	<u>46,228</u>
Net increase (decrease) in cash and cash equivalents	<u>(220,745)</u>	<u>354,585</u>
Cash and cash equivalents at the beginning of period	<u>946,183</u>	<u>591,598</u>
Cash and cash equivalents at the end of period	<u>\$725,438</u>	<u>\$946,183</u>

Please refer to the notes to the parent company only financial statements.

HwaCom Systems Inc.
Notes to the Parent Company Only Financial Statements
December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars
(Except as indicated)

(1) Company history

HwaCom Systems Inc. (the “Company”) was established in May, 1994 in accordance with the Company Act. of the R.O.C. The Company is primarily engaged in the services, including telecommunication integration system services, IP broadband network service, media industry service, smart city business, and enterprise customers, etc.

(2) Approval date and procedures of the parent company only financial statements

The parent company only financial statements of the Company were authorized for issue by the Board of Directors on March 14, 2023.

(3) New standards, amendments and interpretations adopted

- 1) The standards or interpretations issued by International Accounting Standards Board and endorsed by the Financial Supervisory Commission (the “FSC”) which have been adopted as of the date of authorization for issue:

The following summarizes new, revised, and amended standards and interpretations, which have been endorsed by the FSC, effective for annual period beginning on January 1, 2022:

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IAS 16 “Property, Plant and Equipment: Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022

The Company assessed that the aforementioned standards and interpretations would not have a significant impact on the financial position and financial performance.

2) The standards or interpretations issued by International Accounting Standards Board and endorsed by the FSC which have not yet been adopted as of the date of authorization for issue:

The following summarizes new, revised, and amended standards and interpretations, which have been endorsed by the FSC, effective for annual period beginning on January 1, 2023:

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023

The Company assessed that the aforementioned standards and interpretations would not have a significant impact on the financial position and financial performance.

3) The impact of IFRSs issued by IASB but not yet endorsed by the FSC:

The following summarizes the IFRSs issued by IASB but not yet endorsed by the FSC:

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
Amendments to IFRS 16 “Lease Liability in Sale and Leaseback”	January 1, 2024
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9—Comparative Information”	January 1, 2023

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendments to IAS 1 “Non-current Liabilities with Covenants”	January 1, 2024

The Company assessed that the aforementioned standards and interpretations would not have a significant impact on the financial position and financial performance.

(4) Summary of significant accounting policies

The primary accounting policies adopted by the parent company only financial statements are explained below. Except as otherwise explained, the policies are consistently applicable in all reporting periods.

1) Statement of compliance

The accompanying parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

2) Basis of preparation

1. The accompanying parent company only financial statements have been prepared on the historical cost basis except for the significant items as follows:

- (a) Financial assets and liabilities at fair value through profit or loss
- (b) Financial assets and liabilities at fair value through other comprehensive income
- (c) Defined benefit liabilities, which is recognized by pension plan assets net of present value of defined benefit obligation

2. Preparing the parent company only financial statements in accordance with IFRSs endorsed by the FSC takes some significant accounting estimates. And in the process of applying the Company’ accounting policies involves the managements’ judgments. Please refer to Note 5 for the items involving high judgment or complexity or items involving significant assumptions and estimates in the parent company only financial statements.

3) Foreign currency transactions

In preparing the parent company only financial statements, transactions in currencies other than the entity’s functional currency (foreign currencies) are translated by the rate of exchange prevailing at

the dates of the transactions or measurement into the functional currency. At the end of each reporting period, foreign currency monetary items shall be translated using the closing rate. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rate at the date when the fair value was measure. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction, and shall not be translated again. The exchange differences shall be recognized in profit or loss.

When preparing the consolidated financial statements, assets and liabilities of foreign operations for each balance sheet shall be translated at the closing rate at the balance sheet date, income and expenses for each statement of comprehensive income shall be translated at the average exchange rates of the period, and all resulting exchange differences shall be recognized in other comprehensive income, and accumulated under exchange differences on translation of foreign financial statements of equity (and attributed to the non-controlling interests as appropriate).

4) Classification of non-current and current assets and liabilities

1. An asset is classified as current under one of the conditions below:

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

For those assets that are not current are classified as non-current.

2. A liability is classified as current under one of the conditions below:

- (a) The Company expects to settle the liability in normal operating cycle;
- (b) The Company holds the liability primarily for the purpose of trading;
- (c) The liability is due to be settled within twelve months after the reporting period;
- (d) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting 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.

For those liabilities that are not current are classified as non-current.

5) Cash and cash equivalents

Cash equivalents are highly liquid short-term time investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks of changes in value. If time deposits meet the aforementioned definition, and the Company holds them for the purpose of short-term cash commitment in operation, they are classified as cash equivalents.

6) Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. A regular way purchases or sales of financial assets at fair value through profit or loss are recognized at fair value at initial recognition using trade date accounting. The relevant transaction costs are recognized in profit or loss. Financial assets at fair value through profit or loss are subsequently measured at fair value, and the gains or losses are recognized in profit or loss. Dividends are recognized as dividend revenue when the entity's right to receive payment of the dividend is established, and it is probable that the economic benefits associated with the dividend will flow to the entity and the amount or the dividend can be measured reliably.

7) Financial assets at fair value through other comprehensive income

1. At initial recognition, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading; or an investment in debt instruments is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- (b) The asset's contractual cash flow characteristics: the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

2. A regular way purchases or sales of financial assets at fair value through other comprehensive income are recognized at fair value at initial recognition using trade date accounting.

3. Financial assets at fair value through other comprehensive income shall be measured at fair value plus transaction costs at initial recognition, and subsequently measure at fair value:

- (a) Subsequent changes of fair value of equity instruments shall be recognized in other comprehensive income. At derecognition, the accumulated profit or loss recognized in other

comprehensive income shall not be reclassified to profit or loss, instead, directly to retained earnings. Dividends are recognized as dividend revenue when the Company's right to receive payment of the dividend is established, and it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably.

- (b) Subsequent changes of fair value of debt instruments shall be recognized in other comprehensive income. Any resulting impairment losses, interest revenue and gains or losses on foreign exchange differences before derecognition shall be recognized in profit or loss. At derecognition, the accumulated profit or loss recognized in other comprehensive income shall not be reclassified to profit or loss from equity..

8) Impairment of financial assets

At each reporting date, the Company shall assess the impairment loss of investments in debt instruments at fair value through other comprehensive income and financial assets at amortized cost (accounts receivables and contract assets with significant financial components) by considering all reasonable and supportable information (including foreseeing information). If the credit risk on the financial assets has not increased significantly since initial recognition, the Company shall measure the loss allowance for those financial assets at an amount equal to 12-month expected credit losses. If the credit risk on other financial assets has increased significantly since initial recognition, the Company shall measure the loss allowance for those financial assets at an amount equal to lifetime expected credit losses. The loss allowance for accounts receivables or contract assets without significant financial components shall be measured at an amount equal to lifetime expected credit losses.

9) Accounts and notes receivables

1. A receivable is the Company' right to consideration for transferring goods or rendering services that is unconditional based on the agreement in the contracts.
2. For short-term accounts and notes receivables without bearing interests, as the effect of discounting is insignificant, they are measured at original invoice amount..

10) Inventories

Inventories are recognized at cost at initial recognition, measured by perpetual inventory system, and the calculation of cost is by weighted-average cost. Inventories are valued at the lower of cost and net realizable value item by item, except inventories under the same categories. Net realizable value

is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Inventories which are defected, damaged or obsolete and whose value is apparently decrease, shall be measured at net realizable value..

11) Property, plant and equipment

Property, plant and equipment are initially recognized by acquisition cost. The relevant borrowing cost during the period of construction shall be capitalized.

Subsequent costs shall be recognized in the carrying value of the assets or as an individual asset, only if it's probable that future economic benefits associated with the item are expected to flow to the Company, and the costs can be measured reliably. The carrying value of the replaced items shall be derecognized. Other fix and maintenance cost are recognized in profit or loss.

Land shall not be depreciated. Other property, plant and equipment shall be depreciated over estimated useful life by straight-line method under cost model. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The residual value, useful life and depreciation method of an item of property, plant, and equipment shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, or there are significant changes in the pattern in which the asset's future economic benefits are expected to be consumed, the changes shall be accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." The useful lives of buildings and structures are 8~50 years, and the useful lives of other fixed assets are 2~8 years..

12) Intangible assets

Intangible assets include computer software, which are recognized by acquisition costs initially, and amortized by straight-line method over estimated useful lives of 1~5 years.

13) Lease transactions of lessee—right-of-use assets and lease liabilities

1. A right-of-use asset and a lease liability shall be recognized at the day that the lease assets can be used by the Company, unless the lease contract is a short-term lease or the underlying assets of the lease is of low value. The Company shall recognize the lease payments associated with a short-term lease or the underlying asset of the lease is of low value as an expense on a straight-line basis.

2. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments that are not paid shall be recognized at the present value discounted by the Company' incremental borrowing rate:
 - (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
 - (b) variable lease payments that depend on an index or a rate;
 - (c) amounts expected to be payable by the lessee under residual value guarantees;
 - (d) the exercise price of a purchase option if the Company are reasonably certain to exercise that option; and
 - (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company shall measure the lease liabilities on the basis of amortized cost, and recognize interest expenses during the lease term. If changes in lease term or lease payments which are not resulting from modification of contracts, lease liabilities shall be remeasured, and right-of-use assets shall be adjusted accordingly.

3. At the commencement date, the Company shall measure the right-of-use asset at cost, which shall comprise:
 - (a) the amount of the initial measurement of the lease liability;
 - (b) any lease payments made at or before the commencement date, less any lease incentives received; and
 - (c) any initial direct costs incurred by the lessee.

The Company shall measure the right-of-use assets by cost model and depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. When lease liabilities are remeasured, right-of-use assets shall be adjusted accordingly.

14) Impairment of non-financial assets

The Company shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any indication is present, the Company is required to estimate the recoverable amount. If the recoverable amount of an asset is less than its carrying amount, impairment loss shall be recognized. Recoverable amount is the higher of the asset's fair value less selling costs and its value in use. The Company conducts the test by the cash-generating unit to which

the individual asset or assets belongs. If the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed to the extent of the losses recognized in prior years.

15) Corporate bonds payables

The convertible corporate bonds payable issued by the Company are embedded with conversion rights, put options and call options. The issue price of convertible corporate bonds payable shall be classified as financial liabilities or equity based on the issue conditions at initial issuance, which shall be treated as follows:

- (a) Embedded conversion rights, put options and call option shall be initially measured at net fair value and recognized as “financial liabilities at fair value through profit or loss,” and subsequently measured at fair value at each balance sheet date, and the differences shall be recognized as “gains or losses on financial assets (liabilities) at fair value through profit or loss”.
- (b) The corporate bonds shall be initially measured at the residual value of issue price less the aforementioned “financial assets (liabilities) at fair value through profit or loss,” and the difference between the amount and the redemption value shall be recognized as the discount or premium of the bonds payables, which shall be amortized in profit or loss as an adjustment to the “financial costs” over the period of bond outstanding using the effective interest method.
- (c) Any transaction costs directly attributable to the issuance of the convertible corporate bonds are allocated to the liability components in proportion to the allocation of initial carrying amount.
- (d) When bondholders exercise conversion rights, the liability component (including “bonds payables” and “financial assets or liabilities at fair value through profit or loss”) shall be remeasured based on the classification. The carrying value of the aforementioned liability components is the issue costs of ordinary shares transferred.

16) Provisions

A provision is a present legal or constructive obligation or arising from past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The amount of provisions is determined by expected future cash flows discounted by current pre-tax interest rate. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization by discounting the

provision shall be recognized as interest expenses.

Onerous contracts: When the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it, onerous contract provisions shall be recognized. The provision is measured at the lower of the present value of the expected costs to exit the contracts and the expected net costs to fulfill the contracts. Before recognizing onerous contract provisions, the Company shall recognize any impairment losses that has occurred on assets relevant to the contracts.

17) Investments in subsidiaries accounted for using equity method

1. Subsidiaries are all the entities (including special purpose entities) that the Company has the right to direct their financial and operating policies. The Company generally holds directly or indirectly over 50% of the shares with voting rights. The Company evaluates the investments in subsidiaries in the parent company only financial statements by equity method.
2. The unrealized gains or losses arising from transaction between the Company have been eliminated. Appropriate adjustments of accounting policies of the subsidiaries have been made to be uniform with the accounting policies of the Company.
3. Share of profit or loss of subsidiaries is recognized in profit or loss, and share of other comprehensive income of subsidiaries is recognized in other comprehensive income. If the Company's share of losses of a subsidiary equals or exceeds its interest in the subsidiary, the Company continues recognizing its share of further losses.
4. Changes in parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (ig. transactions with non-controlling interests) are equity transactions, which are transactions with owners in their capacity as owners. The differences between the adjustment amount of non-controlling interests and the fair value of consideration paid or received are recognized in equity.
5. If the Company losses control of a subsidiary, the retained investments in the former subsidiary shall be remeasured at fair value. The differences between the fair value and the carrying amount shall be recognized in profit or loss. The Company shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company shall

reclassify the gain or loss from equity to profit or loss when it loses control of the subsidiary.

6. According to the “Regulations Governing the Preparation of Financial Reports by Securities Issuers,” the profit or loss during the period and other comprehensive income presented in parent company only financial reports 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 reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis.

18) Employee benefits

1. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for that service, and shall be recognized as expenses when the employees have rendered service.

2. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions shall be recognized as pension expenses when they are due on the accrual basis. Prepaid contributions shall be recognized that excess as an asset to the extent that the prepayment will lead to a cash refund or a reduction in the future payments.

(b) Defined benefit plans

A. Net obligation under a defined benefit plan is accrued from the present value of future benefit that employees have earned in return for their services in the current or prior periods. The Company shall recognize the present value of the defined benefit obligation deducting the fair value of plan assets at the balance sheet date. Net obligation of the defined benefit is calculated annually by independent actuaries using the projected unit credit method and is discounted by using the market yield on government bonds with consistent denominated currency and duration.

B. Remeasurements arising from defined benefit plans shall be recognized in other comprehensive income in the period in which they arise and shall be recorded in retained earnings.

C. Expenses related to past service costs shall be recognized in profit or loss immediately.

3. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an

employee's employment as a result of the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Company shall recognize the expense for termination benefits at the earlier of the dates when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If the termination benefits are not expected to be settled wholly before twelve months after the balance sheet date, the Company shall discount the termination benefits.

4. Employees', directors', and supervisors' remuneration

Employees', directors', and supervisors' remuneration are recognized as expenses and liabilities 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 estimates.

19) Income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that it relates to the 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.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the entities operate and generate taxable income. Management shall periodically evaluate the tax declaration condition, and estimate the income tax liabilities based on the tax expected to be paid to the taxation authority when applicable.

Deferred income tax shall be recognized for the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The Company shall not recognize the deferred tax liabilities for temporary differences associated with investments in subsidiaries, if the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax is measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets shall be recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered and deferred tax assets unrecognized and recognized shall be reassessed at each reporting date.

The Company shall offset current tax assets and current tax liabilities, only if the Company has a legally enforceable right to set off the recognized amount, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities may offset each other, only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities, and the deferred income tax assets and liabilities related to the same taxable entity and the same taxation authority, or the deferred income tax assets and liabilities related to different taxable entities, but each entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Tax preferences arising from expenditures invested in procurement of equipment, research and development, and equity shall adopt income tax deduction accounting, and shall be recognized as deferred tax assets to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

20) Treasury shares

The Company shall measure treasury shares from recovering issued shares at cost. The costs of treasury shares shall deduct the equity in the balance sheets, and the price differences of treasury shares transactions shall be recognized under equity. When cancelling treasury shares, the Company shall credit “treasury shares” and debit in proportion of percentage of ownership “share capital” and “capital surplus-additional paid-in capital.”

21) Revenue recognition

1. The revenue from contracts with customers is primarily arising from the services of integration of electric information system, traffic control system and the planning and building of safety monitoring system. Revenue shall be recognized when the control of committed goods or services transferred to customers and the performance of obligations is fulfilled. The Company recognizes revenue based on the agreed prices of contracts or orders and takes into consideration of sales returns and allowances. The cumulative revenue shall be recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.
2. When control of goods and services has transferred to customers, but the Company does not have the unconditional right to receive the consideration, contract assets and revenue shall be recognized. A contract liability shall be recognized for the obligation to transfer goods or services to a customer for which the Company has received part of the consideration from the customer, and shall be transferred to revenue when the performance obligation is fulfilled subsequently.

22) Financial income and financial costs

Financial income including interest income arising from investments in financial assets, dividends, reversal gains on financial assets impairment losses, gains on disposal of financial assets at fair value and gains on hedge instruments that shall be recognized in profit or loss. Interest income shall be recognized in profit or loss under accrual basis by effective interest rate method. Dividends shall be recognized at the date when the consolidated company has the right to receive the dividends. For securities with quoted prices, the dividends shall be recognized at ex-dividend date. Interest income and dividends shall be recognized as “other income” under non-operating income and expenses; other items shall be recognized with relevant losses by the net amount as “other gains and losses” under non-operating income and expenses.

Financial costs include interest expenses arising from borrowings, interest expenses recognized for discounted provisions as the time goes by, net losses on financial assets (liabilities) at fair value through profit or loss, impairment losses recognized for financial assets, losses on disposal of financial assets at fair value, and losses on hedge instruments that shall be recognized in profit or loss. Financial costs, except for interest expenses, shall be recognized with relevant gains by the net amount as “other gains and losses” under non-operating income and expenses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset shall be recognized in profit or loss by effective interest rate method.

Foreign exchange gains and losses shall be recognized by net amount as “other gains and losses” under non-operating income and expenses.

23) Earnings per share

Basic earnings per share are calculated by net income divided by the weighted-average outstanding number of shares; Calculation of diluted earnings per share shall take into consideration the effect of dilutive potential ordinary shares transferring into ordinary shares. Potential ordinary shares with antidilutive effect shall not be included in the calculation.

(5) Major sources of uncertainty arising from significant accounting judgments, estimates, and assumptions

When preparing the Company’ parent company only financial statements, the management has made judgments to determine the account policies adopted, and make accounting estimates and assumptions based on the reasonable exceptions for future events based on the condition at the balance sheet date. However, these estimates and assumptions could differ from the actual result; thus, they could be assessed and adjusted by considering historical experiences and other factors. The uncertainty of significant

accounting judgments, estimates and assumptions is as follows:

1) Revenue recognition

Revenue shall be recognized when the control of committed goods or services transferred to customers and the performance of obligations is fulfilled. Returns and allowances are estimated based on historical experiences and other known factors, and recognized as the deduction to sales revenue at the period of the sales. And the Company reviews the rationality of the estimates on a regular basis.

2) Valuation of inventories

As inventories shall be measured at the lower of the cost and net realizable value, the Company shall determine the net realizable value of inventories at the end of the reporting period by utilizing judgment and estimates. As the technology changes swiftly, the Company evaluates the amounts of inventories that are consumed normally, obsolete, or without market selling value, and write off the costs of inventories to the net realizable value. As valuation of inventories is estimated based on the demand for the products during a specific period in the future, significant changes may occur.

(6) Explanation of significant accounts

1) Cash and cash equivalents

	December 31, 2022	December 31, 2021
Cash on hand and revolving fund	\$528	\$518
Checking deposits and demand deposits	628,905	895,665
Time deposits	96,005	50,000
Total	<u>\$725,438</u>	<u>\$946,183</u>

As the correspondent banks are credible and the Company has several correspondent banks to diversify the credit risk, the probability of default is expected to be very low.

2) Accounts receivables

	December 31, 2022	December 31, 2021 (reclassification)
Accounts receivables	<u>\$ 2,072,090</u>	<u>\$ 1,290,211</u>

Installment accounts receivables	2,382	4,030
Unrealized interest revenue- installment accounts receivable	(72)	-
Lease payments receivables	21,739	48,572
Unearned finance income from financial lease	(517)	(1,247)
Less: loss allowances	(21,115)	(21,115)
Total	<u>\$2,074,507</u>	<u>\$1,320,451</u>

1. The aging analysis of the accounts receivables of the Company is as follows:

	Undue	Overdue for 1-30 days	Overdue for 31-90 days	Overdue for 91-180 days	Overdue for over 181 days	Total
December 31, 2022						
Total carrying amount	\$1,962,556	\$2,506	\$114,973	\$13,627	\$1,660	\$2,095,322
Loss allowances	-	(251)	(19,204)	-	(1,660)	(21,115)
Total	<u>\$1,962,556</u>	<u>\$2,255</u>	<u>\$95,769</u>	<u>\$13,627</u>	<u>\$-</u>	<u>\$2,074,207</u>

	Undue	Overdue for 1-30 days	Overdue for 31-90 days	Overdue for 91-180 days	Overdue for over 181 days	Total
December 31, 2021						
Total carrying amount	\$1,297,428	\$1,569	\$21,163	\$1,568	\$19,838	\$1,341,566
Loss allowances	-	(157)	(4,233)	(470)	(16,255)	(21,115)
Total	<u>\$1,297,428</u>	<u>\$1,412</u>	<u>\$16,930</u>	<u>\$1,098</u>	<u>\$3,583</u>	<u>\$1,320,451</u>

2. The changes in loss allowances for accounts receivables of the Company and subsidiaries are as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021
Beginning balance	\$21,115	\$5,164
Impairment losses	-	15,951

Reversals and write-offs	-	-
Cumulative translation adjustment	\$21,115	\$21,115

3. The max exposure to credit risk of the accounts receivables is the carrying amount of the accounts receivables.
4. The Company and subsidiaries do not hold any collateral.
5. The Company and subsidiaries reclassified retentions receivables of NT\$30,414 thousand which were recognized as accounts receivables, to contract assets. As of December 31, 2021 and January 1, 2021, the reclassification amounted to NT\$32,469 thousand and NT\$42,067 thousand, respectively.

3) Inventories

	December 31, 2022	December 31, 2021
Merchandise inventories	\$1,221,798	\$1,953,966
Allowances for inventory valuation and obsolescence losses	(62,760)	(101,538)
Total	\$1,159,038	\$1,852,428

Costs of goods sold relevant to inventories are as follows:

	2022	2021
Costs of goods sold	\$4,877,141	\$4,780,902
Losses on scrap of inventories	22,571	23,602
Inventory valuation losses (reversal gains)	(38,778)	(687)
Total	\$4,860,934	\$4,803,817

The reversal gains of inventory valuation losses are primarily from scraps and sales of inventories with allowances for inventory valuation.

4) Prepayments

	December 31, 2022	December 31, 2021
Prepayments to suppliers	\$243,851	\$217,013
Others	13,469	15,903
Total	\$257,320	\$232,916

5) Other current assets

	December 31, 2022	December 31, 2021
Restricted assets(pledged time deposits, reserve deposits)	\$212,151	\$231,703

Temporary payments	835	2,755
Payment on behalf of others	246	1,006
Total	\$213,232	\$235,464
6) Financial assets and liabilities at fair value through profit or loss		
1. Financial assets:		
Item	December 31, 2022	December 31, 2021
Current items:		
Stocks of listed companies	\$5,019	\$5,500
Non-current items:		
Derivative instruments-Redemption and put options of convertible bonds	\$-	\$180
2. Financial liabilities:		
Item	December 31, 2022	December 31, 2021
Non-current items:		
Derivative instruments-Redemption and put options of convertible bonds	\$368	\$-
7) <u>Financial assets at fair value through other comprehensive income</u>		
Item	December 31, 2022	December 31, 2021
Non-current items:		
Equity instruments		
Stocks of unlisted companies	\$40,631	\$34,630
Valuation adjustments	91,479	158,958
Total	\$132,110	\$193,588

As the Company invested in the stocks of for mid to long-term strategic purposes, and expects to earn profits by long-term investments, those investments were designated as measured at fair value through other comprehensive income.

8) Investments accounted for using equity method

(a) The ending balances of investments in subsidiaries as of December 31, 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
TARANTULA NETWORKS LTD.	\$10,432	\$11,178
HWACOM SYSTEMS (SHANGHAI)CO.LTD.	7,633	7,852
Family plus technology Inc.	8,106	10,761
S-LINK SYSTEMS INC.	21,292	17,988
Total	<u>\$47,463</u>	<u>\$47,779</u>

(b) The share of interests of subsidiaries accounted for using equity method is valued based on the audited financial statements in the same period. The shares of profit or loss of subsidiaries, and associates accounted for using equity method for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
TARANTULA NETWORKS LTD.	\$(46)	\$(60)
HWACOM SYSTEMS (SHANGHAI)CO.LTD.	(341)	979
Family plus technology Inc.	(2,655)	(4,787)
S-LINK SYSTEMS INC.	(11,696)	(11,832)
Total	<u>\$(14,738)</u>	<u>\$(15,700)</u>

(c) The capital reduction to make up for losses of NT\$40,000 thousand and cash capital increase of NT\$15,000 thousand of the subsidiary, S-LINK SYSTEMS INC., have been resolved by the board of directors in June, 2022.

(d) The capital reduction to make up for losses of NT\$25,000 thousand of the subsidiary, Family plus technology Inc., has been resolved by the board of directors in August, 2022.

(e) The cash capital increase of NT\$10,000 thousand of the subsidiary, Family plus technology Inc., has been resolved by the board of directors in October, 2021.

(f) The cash capital increase of NT\$20,000 thousand of the subsidiary, S-LINK SYSTEMS INC., has been resolved by the board of directors in May, 2021.

(g) Please refer to the notes to the consolidated financial statements for the years ended December 31, 2022 for the information on investees.

9) Property, plant and equipment

	Land	Buildings and structures	Office equipment	Other equipment	Total
January 1, 2022					

Costs	\$111,724	\$93,413	\$41,141	\$81,451	\$327,729
Accumulated depreciation and impairment	-	(38,889)	(18,994)	(33,406)	(91,289)
	<u>\$111,724</u>	<u>\$54,524</u>	<u>\$22,147</u>	<u>\$48,045</u>	<u>\$236,440</u>
2022					
January 1	\$111,724	\$54,524	\$22,147	\$48,045	\$236,440
Additions	-	-	21,075	28,041	49,116
Disposals and scraps	-	-	(1,696)	-	(1,696)
Reclassification	-	-	-	(13,858)	(13,858)
Depreciation expenses	-	(2,476)	(14,668)	(23,936)	(41,080)
December 31	<u>\$111,724</u>	<u>\$52,048</u>	<u>\$26,858</u>	<u>\$38,292</u>	<u>\$228,922</u>
December 31, 2022					
Costs	\$111,724	\$82,815	\$49,515	\$85,566	\$329,620
Accumulated depreciation and impairment	-	(30,767)	(22,657)	(47,274)	(100,698)
	<u>\$111,724</u>	<u>\$52,048</u>	<u>\$26,858</u>	<u>\$38,292</u>	<u>\$228,922</u>
	<u>Land</u>	<u>Buildings and structures</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Total</u>
January 1, 2021					
Costs	\$111,724	\$93,413	\$22,866	\$72,442	\$300,445
Accumulated depreciation and impairment	-	(35,120)	(10,210)	(22,934)	(68,264)

	<u>\$111,724</u>	<u>\$58,293</u>	<u>\$12,656</u>	<u>\$49,508</u>	<u>\$232,181</u>
2021					
January 1	\$111,724	\$58,293	\$12,656	\$49,508	\$232,181
Additions	-	-	14,524	30,036	44,560
Disposals and scraps	-	-	(1,285)	-	(1,285)
Reclassification	-	-	8,995	(9,563)	(568)
Depreciation expenses	-	(3,769)	(12,743)	(21,936)	(38,448)
December 31	<u>\$111,724</u>	<u>\$54,524</u>	<u>\$22,147</u>	<u>\$48,045</u>	<u>\$236,440</u>
December 31, 2021					
Costs	\$111,724	\$93,413	\$41,141	\$81,451	\$327,729
Accumulated depreciation and impairment	-	(38,889)	(18,994)	(33,406)	(91,289)
	<u>\$111,724</u>	<u>\$54,524</u>	<u>\$22,147</u>	<u>\$48,045</u>	<u>\$236,440</u>

1. As of December 31, 2022 and 2021, the property, plant and equipment held by the Company are not impaired.
2. Please refer to Note 8 “pledged assets” for the information on property, plant and equipment pledge as collaterals.

10) Lease transactions—lessee

1. The underlying assets of the lease transactions that the Company involves include buildings and structure, transportation equipment and miscellaneous equipment. The durations of lease terms are usually 2 to 3 years. The lease contracts are negotiated individually and applicable to different terms and conditions. Except for that the lease assets shall not be used as collaterals, there’s no other restriction imposed to the lease assets.
2. The information on the carrying amount of right-of-use assets and depreciation expenses recognized is as follows:

(a) Carrying amount of right-of-use assets

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Buildings	\$26,761	\$28,817
Transportation equipment	19,350	14,280

Miscellaneous equipment	1,230	387
Total	<u>\$47,341</u>	<u>\$43,484</u>

(b) Depreciation expenses of right-of-use assets

	2022	2021
Buildings	\$16,096	\$11,608
Transportation equipment	13,070	13,056
Miscellaneous equipment	422	422
Total	<u>\$29,588</u>	<u>\$25,086</u>

3. The additions to right-of-use assets for the years ended December 31, 2022 and 2021 amounted to NT\$34,029 thousand and NT\$27,282 thousand, respectively.

4. The lease liabilities are as follows:

	December 31, 2022		
	Minimum future lease payments	Interests	Present value of minimum lease payments
Current	\$25,237	\$(669)	\$24,568
Non-current	23,760	(432)	23,328
Total	<u>\$48,997</u>	<u>\$(1,101)</u>	<u>\$47,896</u>

	December 31, 2021		
	Minimum future lease payments	Interests	Present value of minimum lease payments
Current	\$23,040	\$(625)	\$22,415
Non-current	21,979	(400)	21,579
Total	<u>\$45,019</u>	<u>\$(1,025)</u>	<u>\$43,994</u>

The total cash outflows for lease for the years ended December 31, 2022 and 2021 amounted to NT\$(30,518) thousand and NT\$(25,752) thousand, respectively.

11) Other non-current assets

	December 31, 2022	December 31, 2021

Prepayments for equipment	\$22,102	\$181
Refundable deposits	318,181	315,145
Total	\$340,283	\$315,326

12) Short-term borrowings

Nature of borrowings	December 31, 2022	December 31, 2021
Procurement loans	\$323,683	\$327,128
Other bank loans	97,635	181,907
Total	\$421,318	\$509,035
Interest rate interval	1.02% ~ 2.39%	1.13% ~ 2.00%

The Company provided part of the assets as collaterals for aforementioned short-term borrowings. Please refer to Note 8 “pledged assets” for detailed explanation.

13) Accounts payables

	December 31, 2022	December 31, 2021
Accounts payables	\$1,038,757	\$697,798
Estimated accounts payables	44,116	68,815
Total	\$1,082,873	\$766,613

14) Other payables

	December 31, 2022	December 31, 2021
Wages and salaries payables	\$182,797	\$175,520
Employees’ remuneration payables	23,323	31,511
Sales tax payables	39,341	33,955
Other accrued expenses payables	42,304	38,579
Total	\$287,765	\$279,565

15) Provisions

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current:		
Short-term liabilities from onerous contracts	\$-	\$2,536
Non-current:		
Long-term liabilities to be determined by leg procedures	\$12,283	\$12,283

16) Corporate bonds payables

1. The outstanding convertible corporate bonds issued by the Company are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total amount of convertible corporate bonds issued	\$300,000	\$300,000
Less: discount on corporate bonds payables	(3,350)	(5,756)
Less: accumulated conversion amount	(181,200)	(179,800)
Total	<u>\$115,450</u>	<u>\$114,444</u>

2. The Company issued the fourth domestic unsecured convertible corporate bonds in 2021 for the future operating requirements and repayment of bank loans. The issuance was approved by the letter with No. Financial-Supervisory-Securities-Corporate-1100339335 from the FSC on April 23, 2021. The issuance terms are as follows:

Total amount issued	NT\$300,000 thousand
Issue date	May 25, 2021
Coupon rate	0%
Issue period	May 25, 2021~May 25, 2024
Terms of repayment	Unless the bonds are converted to ordinary shares of the Company in accordance with Article 10 of these Regulations, or the Company redeems in advance in accordance with Article 18 of these Regulations, or the Company buys back from the TPEX for the cancellation in accordance with Article 17, the Company shall repay in cash one lump sum by the denomination of bonds when the convertible bonds mature.
Terms of redemption	<ol style="list-style-type: none"> 1. From the day following the three-month period after the issuance of the convertible bonds to 40 days before the expiry of the issuance period, when the closing price of the Company's ordinary shares exceeds the current conversion price by 30% (inclusive) for 30 consecutive business days, the Company may redeem the outstanding bonds by the denomination of the bonds. 2. From the day following the three-month period after the issuance of the convertible bonds to 40 days before the expiry of the issuance period, when the outstanding balance of the convertible bonds is lower than 10% of the original total issued amount, the Company may redeem the outstanding bonds by the denomination of the bonds.
Terms of demanding pay back by bondholders	40 days before the two-year period after the issuance of the convertible bond, the bondholder may demand the Company to pay back the denomination of bonds plus interest refunds by cash. After two years, it's 100.50% of the denomination of the bonds.
Conversion period	From the day following the three-month period after the issuance of the convertible bonds to the maturity date, the bondholder may request the Company's stock agency for conversion of ordinary shares at any time based on the conversion terms, except during the period in which transfer is suspended by laws.
Conversion price	The conversion price at issuance is NT\$16.63.

17) Long-term borrowings

Creditor	Loan period and repayment	December 31, 2022	December 31, 2021
Taiwan Cooperative Bank	The contract period is from June 11, 2013 to June 11, 2028. The loan shall be repaid by installments. Interest rate for the loan is 1.80%.	\$15,018	\$17,611
Bank of Taiwan	The contract period is from June 12, 2014 to June 12, 2029. The loan shall be repaid by installments. Interest rate for the loan is 1.91%.	16,683	19,250
Less: current portion of long-term borrowings		(5,188)	(5,180)
		\$26,513	\$31,681

The Company provided part of the assets as collaterals for aforementioned long-term borrowings. Please refer to Note 8 “pledged assets” for detailed explanation.

18) Pension

1.(a) 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 Labor Standards Act. For employees who are eligible for retirement, 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. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years (included) and one unit for each additional year thereafter, subject to a maximum of 45 units. The Company contributes monthly an amount equal to 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent Supervisory Committee of Labor Retirement Reserve Fund (the “Fund”). Before the end of each year, the Company assesses the balance in the aforementioned Fund. If the balance in the Fund is inadequate to pay the retirement benefits of employees who are eligible for retirement in the following year by the aforementioned method, the Company and subsidiaries are required to fund the deficit in one appropriation before the end of next March.

(b) Amounts recognized in balance sheets are as follows:

	December 31, 2022	December 31, 2021
Present value of the defined benefit obligations	\$(140,156)	\$(146,108)
Fair value of the plan assets	48,826	46,203
Net defined benefit assets	\$(91,330)	\$(99,905)

(c) Changes in present value of the defined benefit obligations are as follows:

	2022	2021
Present value of the defined benefit obligations as of January 1	\$(146,108)	\$(143,949)
Current service costs	(1,215)	(1,274)
Interest costs of defined benefit obligations	(1,011)	(428)
Benefits paid	2,842	-
Actuarial gains (losses) from experience adjustments	(905)	(4,879)
Actuarial gains (losses) from changes in demographic assumptions	(1)	(810)
Actuarial gains (losses) from changes in financial assumptions	6,242	5,232
Present value of the defined benefit obligations as of December 31	\$(140,156)	\$(146,108)

(d) Changes in fair value of plan assets are as follows:

	2022	2021
Fair value of plan assets as of January 1	\$46,203	\$43,838
Expected interest income of plan assets	318	130
Return (losses) on plan assets	3,527	636
Funding by the employer	1,620	1,599
Benefits of plan assets paid	(2,842)	-
Fair value of plan assets as of December 31	\$48,826	\$46,203

(e) Total amounts of expenses recognized in statements of comprehensive income:

	2022	2021
Current service costs	\$1,215	\$1,274
Interest costs of defined benefit obligations	1,011	428
Interest revenue of plan assets	(318)	(130)
Current pension costs	<u>\$1,908</u>	<u>\$1,572</u>

The aforementioned expenses are recognized in statements of comprehensive income as various costs and expenses as follows:

	2022	2021
Selling expenses	\$1,272	\$1,059
Administrative expenses	555	446
Research and development expenses	81	67
Total	<u>\$1,908</u>	<u>\$1,572</u>

(f) Actuarial gains (losses) recognized in other comprehensive income are as follows:

	2022	2021
Recognized in the current period	\$8,863	\$179
Cumulative amount	<u>\$(34,527)</u>	<u>\$(43,390)</u>

(g) The employee pension fund of defined benefit plan is deposited under a trust administered by the Bank of Taiwan. Bank of Taiwan follows the proportion and amount of operation items designated in the utilization plan of the fund, according to the items designated in Act. 6 of Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund (which are deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate and its securitization products, etc.), to operate the commission. The related utilization guarantees the minimum return to be no less than the return attainable from interest rates offered by local banks for two-year time deposits. For the composition of fair value of the fund assets as of December 31, 2022 and 2021, please refer to the utilization report of labor retirement fund of each year publicly announced by the government.

The expected rate of return of the entire plan asset is estimated by the forecast to the return of the entire period of the obligations based on the trend of historical returns, and referring to the utilizations of the pension fund supervised by the Bureau of Labor Funds, and the estimates take into consideration the effect that the minimum return to be no less than the return

attainable from interest rates offered by local banks for two-year time deposits.

(h) Actuarial assumptions related to pension are summarized as follows:

	2022	2021
Discount rate	1.25%	0.70%
Rate of expected future salary increase	3.00%	3.00%

The mortality assumption is based on the sixth and fifth life insurance mortality table of Taiwan's life insurance industry.

The effects of the present value of defined benefit obligation due to the changes in main actuarial assumptions:

	Discount rate		Rate of expected future salary increase	
	Increase by 0.25%	Decrease by 0.25%	Increase by 0.25%	Decrease by 0.25%
December 31, 2022				
Effects to the present value of defined benefit obligation	\$(2,695)	\$2,782	\$2,728	\$(2,656)
December 31, 2021				
Effects to the present value of defined benefit obligation	\$(3,181)	\$3,291	\$3,208	\$(3,119)

The sensitivity analyses above have been determined based a method that extrapolates the effects on the net defined obligation as a result of a single change in key assumptions. Practically, the changes of assumptions may be correlated. The method that the sensitivity analyses adopted is the same as what the calculation of net pension liabilities in the balance sheets do.

The method and assumptions used for the sensitivity analyses in the current period are the same as the prior period.

(i) The historical information of experience adjustments is as follows:

	2022	2021
Present value of defined benefit obligations	\$(140,156)	\$(146,108)

Fair value of plan assets	48,826	46,203
Surplus (deficit) in the plan	\$(91,330)	\$(99,905)
Experience adjustments of plan liabilities	\$(5,336)	\$457
Experience adjustments of plan assets	\$3,527	\$636

(j) The Company and subsidiaries expect to make pension fund contribution of NT\$1,619 in 2023.

2.(a) Since July 1, 2005, based on Labor Pension Act., the Company has defined contribution plan covering regular employees with R.O.C. nationality, and make monthly contributions of 6% based on each individual employee's salary or wage to employees' pension accounts for employees who chose to continue to be subject to the pension mechanism under the Labor Standards Act. The contribution plan accrued dividends from an employee's individual account is paid monthly or in lump sum upon retirement of an employee.

(b) The pension costs recognized based on the aforementioned pension plan for the years ended December 31, 2022 and 2021 amounted to NT\$36,015 thousand and NT\$34,114 thousand, respectively.

19) Share capital

	December 31, 2022	December 31, 2021
Authorized capital stock	\$2,000,000	\$2,000,000
Ordinary shares	\$1,336,934	\$1,228,817
Conversion of corporate bonds	842	108,117
Issued shares	\$1,337,776	\$1,336,934

1. The outstanding numbers of ordinary shares in the beginning and in the end of the period are reconciled as follows:

(Unit: thousands of shares)

	2022	2021
January 1	129,356	118,544
Treasury shares transferred to employees	3,377	-
Ordinary shares from conversion of corporate bonds payables	84	10,812
December 31	132,817	129,356

2. The cash capital increase by private placement was approved by the shareholders meeting on June 28, 2019, and the board of directors resolved that the base date of the private placement is on August 5, 2019, and the number of shares for the private placement is 19,400 thousand of shares

with subscription price of NT\$13.7 per share. The total amount raised was NT\$265,780 thousand. The retroactive handling of public issuance procedures of the private placement of ordinary shares have been approved by Taipei Exchange on November 10, 2022.

3. Treasury shares

(a) The changes in treasury shares are as follows:
(Unit: thousands of shares)

Reason of the reacquisition	For the year ended December 31, 2022			
	January	Additions	Reductions	December 31
Transfer the shares to employees	4,338	-	3,377	961

Reason of the reacquisition	For the year ended December 31, 2021			
	January	Additions	Reductions	December 31
Transfer the shares to employees	4,338	-	-	4,338

(b) The reacquisition of 4,338 thousand of treasury shares amounting to NT\$59,797 thousand has been resolved by the board of directors on March 23, 2020. The board of directors has resolved to transfer 3,377 thousand of treasury shares to employees with the consideration amounting to NT\$42,625 thousand at November 7, 2022, and recognized the costs for share-based payments of NT\$6,551 thousand. As of December 31, 2022, the balance of treasury shares amounted to NT\$13,247 thousand, 961 thousand of shares.

(c) According to the Securities and Exchange Act, the treasury shares held by the Company shall not be pledged. Before transfer, the shareholder's rights, such as dividend distribution, voting, shall not be enjoyed.

20) Capital surplus

According to the regulation of the Company Act, where a company incurs no loss, it may distribute the income derived from the issuance of new shares at a premium, and the income from endowments received by the company, by issuing new shares or by cash. Based on the regulations of the Securities and Futures Bureau, where a company intends to capitalize the capital surplus, the total amount per year shall not exceed 10 percent of paid-in capital. An amount transferred to capital surplus may not be capitalized until the fiscal year after the competent authority for company registrations approves registration of the capital increase or whatever other matter generated that portion of capital surplus.

	December 31, 2022	December 31, 2021
Additional paid-in capital	\$342,405	\$341,832
Treasury shares transactions	8,447	5,822
Employee stock options	4,027	4,027
Warrants of corporate bonds	5,058	5,118
Total	<u>\$359,937</u>	<u>\$356,799</u>

21) Retained earnings

1. Legal reserve

The legal reserve shall not be used except for making good the deficit of the company. Where a company incurs no loss, legal reserve may be distributed by issuing new shares or by cash, for the portion in excess of 25% of the paid-in capital.

2. Special reserve

(a) When distributing distributable earnings, the Company shall set aside special reserve for the net debit elements of other equity according to regulations. If any of the net debit elements under other equity is reversed, the special reserve in the amount equal to the reversal may be reversed for earnings distribution.

(b) The amounts previously set aside by the Company as special reserve at first-time adoption of IFRSs in accordance with the approval letter with reference number Financial-Supervisory-Securities-Corporate-1010012865 issued on April 6, 2013, shall be reversed proportionately when the relevant assets are used, disposed, or reclassified subsequently. Such amounts are reversed upon disposal or reclassification if the assets are investment property of land, and reversed over the used period if the assets are investment property other than land.

3. Earnings distribution

(a) According to the Article 20 of the Company's Articles of Incorporation, the Company shall

allocate remuneration to employees at the rate of 10% to 20% of annual profits, and to directors and supervisors at the rate of no higher than 1% of annual profits during the period; provided, however, that when the Company has accumulated losses, the profits shall be preserved to make up for losses, before distributing to employees, directors, and supervisors.

If there is any net profit after closing of a fiscal year, the Company shall first pay income tax, offset losses in previous years, set aside a legal capital reserve at 10% of the profits left over; and then set aside a special reserve in accordance with regulations. If there is still remaining balance, the Company may retain part of the profits if necessary and set aside the balance as shareholders' dividends.

As the industry that the Company operates in is in the growth period, in considering the demand of future funding and shareholders' requirements of cash inflows, if there is any net profit after closing of a fiscal year, the ratio of cash dividend shall be lower than 10% of total distribution, and the others shall be paid by stock dividends.

- (b) The information about the distribution of earnings of 2021 resolved by the shareholders meeting is available at the Market Observation Post System website of TWSE.
- (c) Please refer to Note 6.26 for the information on employees', directors', and supervisors' remuneration.

22) Operating revenue

1. Revenue from contracts with customers

	2022	2021
Sales revenue, net	\$5,022,943	\$4,948,745
Maintenance revenue	657,044	734,588
Construction revenue	271,052	327,758
Service revenue	96,001	20,938
Other operating revenue	30,055	138,256

Total	<u>\$6,077,095</u>	<u>\$6,170,285</u>
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2. Information on revenue from contracts with customers is as follows:

(a) Classification of revenue

	<u>2022</u>	<u>2021</u>
Time point of revenue recognition:		
At a point of time	\$5,041,027	\$5,013,369
Recognize over time	1,036,068	1,156,916
Total	<u>\$6,077,095</u>	<u>\$6,170,285</u>

(b) Balances of contracts

	<u>December 31, 2022</u>	<u>December 31, 2021</u> (reclassification)
Contract assets	\$30,414	\$32,469
Contract liabilities	<u>\$897,555</u>	<u>\$1,406,232</u>

As of December 31, 2022 and 2021, the beginning balances of contract liabilities recognized as revenue in the years ended December 31, 2022 and 2021 amounted to NT\$1,085,987 thousand and NT\$283,463 thousand, respectively.

When control of goods and services has transferred to customers, but the Company does not have the unconditional right to receive the consideration, contract assets shall be recognized. A contract liability shall be recognized for the obligation to transfer goods or services to a customer for which the Company has received part of the consideration from the customer, and shall be transferred to revenue when the performance obligation is fulfilled subsequently.

23) Other income

	<u>2022</u>	<u>2021</u>
Income from government grants	\$36,707	\$25,430
Miscellaneous Income	20,351	9,479
Total	<u>\$57,058</u>	<u>\$34,909</u>

24) Other gains and losses

	2022	2021
Gains (losses) on disposal and scrap of property, plant and equipment	\$206	\$335
Net foreign exchange gains (losses)	21,007	2,080
Gains (losses) on valuation of financial liabilities at fair value through profit or loss	(1,035)	1,037
Miscellaneous disbursements	(19,961)	(17,096)
Total	<u>\$217</u>	<u>\$(13,644)</u>

25) Additional information on the nature of expenses

	2022	2021
Costs of goods sold	\$4,130,554	\$4,017,147
Maintenance costs	397,349	428,172
Construction costs	250,693	257,695
Other operating costs	82,338	100,803
Employee benefits expenses	949,897	950,426
Depreciation, amortization, and impairment expenses	91,175	79,010
Travelling and insurance expenses	26,761	21,534
Other expenses	16,024	86,773
Total	<u>\$5,944,791</u>	<u>\$5,941,560</u>

26) Employee benefits expenses

	2022	2021
Payroll expenses	\$824,190	\$825,001
Labor and health insurance expenses	64,335	61,933
Pension expenses	37,923	35,686
Directors' remuneration	1,742	1,320
Other employment expenses	<u>21,707</u>	<u>26,486</u>

Total	<u>\$949,897</u>	<u>\$950,426</u>
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(a) According to the Company's Articles of Incorporation, the Company shall allocate remuneration to employees at the rate of 10% to 20% of annual profits, and to directors and supervisors at the rate of no higher than 1% of annual profits during the period; provided, however, that when the Company has accumulated losses, the profits shall be preserved to make up for losses, before distributing to employees, directors, and supervisors.

(b) For the years ended December 31, 2022 and 2021, the employees' remuneration accrued amounted to NT\$22,261 thousand and NT\$30,463 thousand, respectively; the directors' and supervisors' remuneration accrued amounted to NT\$1,855 thousand and NT\$2,539 thousand, respectively. The aforementioned amounts are recognized as payroll expenses. The differences between the employees' remuneration and directors' and supervisors' remunerations for the years ended December 31, 2021 resolved by the board of directors and the amounts recognized in the financial statements for the year ended December 31, 2021 are NT\$3,593 thousand and NT\$299 thousand overestimated, respectively, which have been adjusted in the profit or loss for the year ended December 31, 2022. Employees' remuneration is paid by cash.

(c) The information about the employees', directors', and supervisors' remuneration approved by the board of directors and resolved by the shareholders meeting is available at the Market Observation Post System website of TWSE.

27) Financial costs

	<u>2022</u>	<u>2021</u>
Interest expenses:		
Bank loans	\$10,697	\$10,893
Lease liabilities	996	751
Corporate bonds	2,355	3,087
	<u>\$14,048</u>	<u>\$14,731</u>

28) Income tax

1. Income tax expenses comprise:

	<u>2022</u>	<u>2021</u>
Current income tax:		
Current income tax charge	\$16,100	\$50,133
Additional tax on undistributed earnings	2,578	-

Underestimation (overestimation) of income tax of prior periods	(1,883)	1,135
Total current income tax	<u>\$16,795</u>	<u>\$51,268</u>
Deferred income tax:		
Origination and reversal of temporary differences	<u>8,728</u>	<u>(1,937)</u>
Income tax expenses (benefits)	<u><u>\$25,523</u></u>	<u><u>\$49,331</u></u>

2. Relationship between income tax expenses and accounting profits

	2022	2021
Tax payables calculated by profit (loss) before tax multiplying the enacted tax rates	\$32,724	\$44,171
Tax effect of items that shall not be included in calculating income tax	(16,624)	5,962
Additional tax on undistributed earnings	2,578	-
Tax effect of temporary difference	8,728	(1,937)
Underestimation (overestimation) of income tax of prior periods	(1,883)	1,135
Income tax expenses (benefits)	<u><u>\$25,523</u></u>	<u><u>\$49,331</u></u>

3. The amounts of deferred tax assets or liabilities arising from temporary differences, loss carryforwards, and investment tax credits are as follows:

	2022			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets				
Recognition of inventory valuation losses	\$20,309	\$(7,757)	\$-	\$12,552
Recognition of estimated litigation losses	2,456	-	-	2,456

Recognition of pension expenses	4,390	58	-	4,448
Recognition of net pension costs and actuarial gains and losses	15,563	-	(1,772)	13,791
Others	2,607	(1,029)	-	1,578
Total	<u>\$45,325</u>	<u>\$(8,728)</u>	<u>\$(1,772)</u>	<u>\$34,825</u>
-Deferred tax liabilities				
Unrealized gains (losses) on valuation of financial liabilities at fair value through other comprehensive income	\$ (33,523)	-	\$(15,741)	\$ (17,782)
Total	<u>\$(33,523)</u>	<u>\$-</u>	<u>\$(15,741)</u>	<u>\$ (17,782)</u>

2021

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets				
Recognition of inventory valuation losses	\$20,446	\$(137)	\$-	\$20,309
Recognition of estimated litigation losses	2,569	(113)	-	2,456
Recognition of pension expenses	4,395	(5)	-	4,390
Recognition of net pension costs and actuarial gains and losses	15,599	-	(36)	15,563
Others	415	2,192	-	2,607

Total	\$43,424	\$1,937	\$(36)	\$45,325
<u>-Deferred tax liabilities</u>				
Unrealized gains (losses) on valuation of financial liabilities at fair value through other comprehensive income	\$ (34,694)	-	\$1,171	\$ (33,523)
Total	\$(34,694)	\$-	\$1,171	\$(33,523)

4. The declaration of the Company's profit-seeking enterprise income tax has been verified by the tax collection authority until the years as follows:

	<u>Verification year</u>
The Company	2020

29) Earnings per share

	<u>2022</u>		
	Amount net of tax	Weighted average number of ordinary shares outstanding (thousand)	Earnings per share (NT\$)
<u>Basic earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares	\$138,097	129,957	\$1.06
<u>Effects of dilutive potential ordinary shares</u>			
The fourth convertible corporate bonds	1,883	7,189	
Employees' remuneration	-	1,830	
<u>Diluted earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares plus the effects of	\$139,980	138,976	\$1.01

dilutive potential ordinary shares	2021		Earnings per share (NT\$)
	Amount net of tax	Weighted average number of ordinary shares outstanding (thousand)	
<u>Basic earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares	\$171,524	120,318	\$1.43
<u>Effects of dilutive potential ordinary shares</u>			
The fourth convertible corporate bonds	2,470	16,265	
Employees' remuneration	-	1,474	
<u>Diluted earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares plus the effects of dilutive potential ordinary shares	\$173,994	138,057	\$1.26

1. In calculating diluted earnings per share, if the Company may distribute the employees' remuneration in stock, the potential ordinary shares shall be added into the weighted average number of ordinary shares outstanding when they become dilutive. The fair value of the potential ordinary shares at the end of the reporting period is the basis for determination of number of shares issued. Before determining the number of shares distributed as employees' remuneration, in calculating diluted earnings per share, the Company shall keep considering the dilution of the potential ordinary shares.
2. If distribution of employees' remuneration by stock and the number of shares to be distribute has been resolved, it shall be added into the calculation of earnings per share in the year of the resolution.
3. If the operating results of the Company are deficit or adding the potential ordinary shares of convertible bonds is antidilutive, they are not included in the calculation of diluted earnings per share.

Weighted average number of ordinary shares outstanding is calculated as follows:

(Unit: thousands of shares)

	2022	2021
Beginning number of shares	129,356	118,544
Treasury shares transferred to employees	563	-
Corporate bonds converted into ordinary shares	38	1,774
Total	<u>129,957</u>	<u>120,318</u>

(7) Related party transactions

1) Names and relationships of related parties

Name of related parties	Relationship with the Company and subsidiaries
TARANTULA NETWORKS LTD.	Subsidiary
Family plus technology Inc.	Subsidiary
S-LINK SYSTEMS INC.	Subsidiary
HWACOM SYSTEMS (SHANGHAI)CO.LTD.	Subsidiary
ADVANTECH Co., Ltd.	Associate

2) Significant transactions with related parties:

1. Purchase

	2022	2021
Subsidiaries	\$8,132	\$4,412
Associates	24,486	29,346
Total	<u>\$32,618</u>	<u>\$33,758</u>

The purchases from related parties are based on the general purchase conditions (market price), and the payment terms are 1 to 2 months.

2. Sales

	2022	2021
Subsidiaries	\$125	\$-

The sales to related parties are based on the general purchase conditions (market price), and the payment terms are 1 to 2 months.

3. Payables to related parties

	December 31, 2022	December 31, 2021
Subsidiary	\$3,485	\$1,678
Associate	8,880	18,000
	\$12,365	\$19,678

3) Information on key management personnel compensation

	2022	2021
Payroll and other short-term employee benefits	\$98,379	\$89,712

(8) Pledged assets

The assets pledged as collaterals are as follows:

Assets	December 31, 2022	December 31, 2021
Other current assets- time deposits and reserve account	\$212,151	\$231,703
Property, plant and equipment	163,772	166,248
Total	\$375,923	\$397,951

- 1) The pledged assets are presented at carrying amount.
- 2) The pledged assets are provided for collaterals for loans from financial institutions.

(9) Significant contingencies and unrecognized contract commitments

- 1) Contingencies

	December 31, 2022	December 31, 2021
(a) Unused usance L/C issued for importing cargo	\$279,181	\$59,830
(b) Guarantee notes submitted for performance of constructions	182,044	819,823
(c) Letter of guarantee issued for bid bonds and performance bonds	589,039	637,280
Total	<u>\$1,050,264</u>	<u>\$1,516,933</u>

(d) The Company purchased equipment from NTT TAIWAN LTD. (hereinafter “NTT”) for the “building of Asia Pacific Telecom’s server room project” outsourced by NOKIA SOLUTIONS AND NETWORKS TAIWAN CO., LTD. (hereinafter “Nokia”), and dispute occurred. NTT alleged that the Company, Nokia, and Asia Pacific have the cause of not making payments, and complaint and requested joint damage or quasi-joint compensation from the aforementioned 3 companies, including the Company. The case been judged against the Company in the trial of first insurance by Taiwan Shilin District Court on January 14, 2020. The Company has recognized the relevant losses of NT\$12,846 thousand (USD428,482 thousand) for the payable amount based on the conservatism principle, which are recognized under non-current liabilities-provisions. The Company appealed and the High Court judged on September 15, 2021 that the Company shall pay NTT USD18,779 thousand and the accrued interest calculated from October 24, 2017 to the repayment date by annual interest rate of 5%. The residual USD409,703 thousand and the interests shall be paid by Asia Pacific Telecom based on the amendment to the judgment.

After consulting legal expert for legal advices, for the USD409,703 appealed by Asia Pacific Telecom and NTT, the Company did not issue purchase order to NTT, and the upstream of the Company, Nokia, did not issue purchase order to the Company. Therefore, the amount shall not be paid by the Company. However, as NTT and Asia Pacific Telecom has appealed for the third instance, and the case has been remanded to the High Court by the Supreme Court, the final result is not determined in July, 2022. Therefore, as of December 31, 2022, the balance of the provisions amounted to NT\$12,283 thousand.

(10) Losses due to major disasters: None.

(11) Significant subsequent events: None.

(12) Others

1) Capital risk management

The primary objective of the Company's capital management is to ensure that it operates continuously and maintains optimal balances of debts and equity to maximize the returns to shareholders. The Company maintains good profitability and financial ratios by reviewing and measuring relevant costs, risk and rate of return on a regular basis. The Company balances the entire capital structure by various financing method as appropriate, to cope with the requirements to operating funds, repayments of debts, and dividends in the future.

2) Financial instruments

1. Fair value information of financial instruments

- (a) All the carrying amounts of financial instruments not measured at fair value (including cash and cash equivalents, financial assets, notes receivables, accounts receivables, contract assets and liabilities, other receivables, borrowings, accounts payables, other payables, and financial liabilities) that are not measure at fair value, are the reasonable approximations of fair value.

2. Financial risk management policies

- (a) The normal operation of the Company is affected by various financial risks, including market risk (including foreign currency risk, interest rate risk, and price risk), credit risk, and liquidity risk. In order to decrease the potential adverse impact on the financial position and financial performance, the Company's entire risk management policies put emphasis on the unpredictable events in the financial market..
- (b) The financial risk management is implemented by the finance department based on the transaction authority approved by the board of directors. The Company's financial department is responsible for identifying, evaluating and hedging financial risk by closely communicating with operating units.

3. Information on significant financial risk

(a) Market risk

- i. Foreign currency risk:

A. As part of the cash inflows and outflows are denominated in foreign currencies, there are natural hedging effects. The purpose of the management of foreign currency risk is for hedging, instead for profiting.

B. The strategies to manage foreign currency risk are to review the net position of assets and liabilities denominated in foreign currencies (primarily USD and JPY) on a regular basis, and implement risk management to the position. The election of instruments to hedge foreign currency risk considers the hedging costs and hedging periods. Currently, raising debts denominated in foreign currencies is the primary tool to hedge foreign currency risk. As the liabilities denominated in foreign currencies are exposed to foreign currency risk, the Company and subsidiaries usually transform the borrowings denominated in foreign currencies into borrowings denominated in NTD. Therefore, significant foreign currency risk is expected not to occur in general.

The information on the monetary assets and liabilities denominated in foreign currencies at the end of the reporting period is as follows:

		December 31, 2022				
Foreign currency		Carrying amount	Sensitivity analysis			Impact on other comprehensive income
(thousand)	Exchange rate		(NTD)	Variation	Impact on profit or loss	
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$5,674	30.67	\$174,022	1%	\$1,740	\$-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	2,768	30.78	85,199	1%	852	-
JPY	46,980	0.23	10,989	1%	110	-

December 31, 2021						
Foreign currency	Carrying amount		Sensitivity analysis			
			Variation	Impact on profit or loss	Impact on other comprehe nsive income	
(thousan d)	Exchan ge rate	(NTD)				
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$12,952	27.61	\$357,605	1%	\$3,576	\$-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	2,626	27.73	72,819	1%	728	-
JPY	35,661	0.24	8,559	1%	86	-

The unrealized exchange gains (losses) of monetary items with significant influence due to exchange rates fluctuations for the years ended December 31, 2022 and 2021 amounted to NT\$(537) thousand and NT\$(1,998) thousand, respectively.

- ii. Price risk: As the investments held by the Company are classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income in the consolidated balance sheets, the Company is exposed to price risk of equity instruments. In order to manage the price risk of equity instruments, the Company controls the risk by diversifying the investment portfolio.
- iii. Interest rate risk: The interest rate risk is from borrowings from bank. The Company is exposed to cash flow interest rate risk due to borrowings at floating interest rate, and part of the risk is offset by the cash and cash equivalents at floating interest rate. The Company is exposed to fair value interest rate risk due to borrowings at fixed interest rate. The Company's policy is adopting fixed interest rate.

(2) Credit risk

- i. Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial losses to the Company. The Company is exposed to credit risks from cash, deposited in banks and financial institutions, fixed income investments, other financial instruments and receivables arising from operating activities.

- ii. Most of the debtors of the receivables are credible companies or government agencies. As there is no significant bad debt in recent years, and the adequacy of loss allowances is reviewed on a regular basis, there is no significant credit risk.
- iii. The credit risk of bank deposits, fixed income investments and other financial instruments is measured and reviewed by operating management department. As the transaction and performance counterparties are credible banks and financial institutions, there is no significant credit risk.

(3) Liquidity risk

- i. The cash flow forecast is summarized by the financial department. The financial department monitors the forecast of working capital requirement, ensures there's enough capital to support the operating requirements, and maintains enough unused commitments of borrowings at any time, to prevent the Company from breaching related credit lines of borrowings or terms.
- ii. The table below analyzed the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The contractual cash flows disclosed below are not discounted.

Non-derivative financial liabilities

December 31, 2022	Within 3 months	3 month to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Short-term borrowings	\$134,456	\$286,862	\$-	\$-	\$-
Accounts payables	464,391	596,021	18,774	3,687	-
Other payables	246,416	40,968	381	-	-
Corporate bonds payables (including the current portion)	-	-	118,800	-	-
Lease liabilities	7,365	17,872	14,275	9,484	-
Long-term borrowings (including the current	1,293	3,895	5,235	16,001	5,277

portion)

Non-derivative financial liabilities

December 31, 2021	Within 3 months	3 month to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Short-term borrowings	\$131,822	\$377,213	\$-	\$-	\$-
Accounts payables	462,860	303,753	-	-	-
Other payables	232,425	47,140	-	-	-
Corporate bonds payables (including the current portion)	587	1,779	2,415	121,221	-
Lease liabilities	6,390	16,650	13,743	8,236	-
Long-term borrowings (including the current portion)	1,292	3,888	5,214	15,853	10,614

3) Estimates of fair value

1. The valuation techniques adopted to analyze the financial instruments at fair value are as the table below. The definitions of each level are as follows :

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that entities can access at the measurement date. An active market is the market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the assets or liabilities. The investment properties held by the Company are in the scope..

<u>December 31, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Current financial assets at fair value through profit or loss</u>				
Stocks of listed companies	\$5,019	\$-	\$-	\$5,019
<u>Non-current financial assets at fair value through profit or loss</u>				
Stocks of unlisted companies	\$-	\$-	\$132,110	\$132,110
<u>Non-current financial liabilities at fair value through profit or loss</u>				
Derivative financial instruments	\$-	\$368	\$-	\$368
<u>December 31, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Current financial assets at fair value through profit or loss</u>				
Stocks of listed companies	\$5,500	\$-	\$-	\$5,500
<u>Non-current financial assets at fair value through profit or loss</u>				
Derivative financial instruments	\$-	\$180	\$-	\$180
<u>Non-current financial assets at fair value through profit or loss</u>				
Stocks of unlisted companies	\$-	\$-	\$193,588	\$193,588

(a) For the years ended December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements.

(b) Changes in Level 3 financial instruments are as follows:

	<u>Non-derivative equity instruments</u>	
	<u>2022</u>	<u>2021</u>
January 1	\$193,588	\$208,343
Purchase in current period	6,000	-

	Non-derivative equity instruments	
	2022	2021
Recognized in other comprehensive income		
(Recognized as unrealized valuation gains and losses on investments in equity instruments at fair value through other comprehensive income)	(67,478)	(14,755)
December 31	\$132,110	\$193,588

2. Valuation techniques used to evaluate financial instruments include:

- (a) The quoted price in a public market or from dealers of an identical instrument.
- (b) Other valuation techniques to determine the fair value of the other financial instruments, e.g. discounted cash flow analysis.

3. The valuation process of fair value categorized in level 3 is verifying the independent fair value of financial instruments by accounting department, making the valuation results close to market condition by data from independent sources and reviewing on a regular basis, to ensure the valuation results are reasonable.

4. As the Company carefully assessed and selected the valuation model and valuation parameters, the fair value measurement shall be reasonable. However, different valuation model or parameter may result in different valuation results. The quantitative information on the significant unobservable inputs used in valuation models of level 3 fair value measurement is as follows:

	December 31, 2022	Valuation techniques	Significant unobservable	Interval (Weighted-average)	Relationship between the
Non-derivative Stocks of unlisted companies	\$132,110	Market approach	Book-to- market ratio, Price-to-sales ratio, capital structure adjustment ratio	-	The higher the book-to-market ratio is, the higher the fair value is; the higher the capital structure

adjustment ratio
is, the lower the
fair value is.

As there are changes of $\pm 1\%$ in significant unobservable input, the effects recognized in other comprehensive income amounted to NT\$1,897 thousand and NT\$(1,874) thousand.

(13) Other disclosures

1) Information on significant transactions

1. Loans to others: None.

2. Provision of endorsements and guarantees to others: None.

3. Holding of marketable securities at the end of the period (excluding investment in subsidiaries, associates, and joint ventures):

Name of holder	Category and name of security (Note 1)	Relationship with the Company (Note 2)	Account	Ending balance				Note (Note 4)
				Shares or units	Carrying amount (Note3)	Percentage of ownership	Fair value	
HwaCom Systems Inc.	Zero One Technology Co.,Ltd.	-	Current financial assets at fair value through profit or loss	125	\$5,019	0.08%	\$5,019	
HwaCom Systems Inc.	GENIE NETWORKS LIMITED	-	Non-current financial assets at fair value through other comprehensive income	906	17,751	3.53%	\$17,751	
HwaCom Systems Inc.	VeriSilicon Microelectronics(Shanghai)Co.,Ltd.	-	Non-current financial assets at fair value through other comprehensive income	713	103,886	0.14%	103,886	
HwaCom Systems Inc.	ACOM NETWORKS TECHNOLOGY CO., LTD.	-	Non-current financial assets at fair value through other comprehensive income	380	6,373	19.00%	6,373	
HwaCom Systems Inc.	Taiwan Botong Software Technology Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	500	-	11.63%	-	
HwaCom Systems Inc.	OMNI MEDIA INTERNATIONAL INCORPORATION	-	Non-current financial assets at fair value through other comprehensive income	500	2,195	0.76%	2,195	
HwaCom Systems Inc.	LEON ENERGY CO., LTD.	-	Non-current financial assets at fair value through other comprehensive income	100	1,905	0.44%	1,905	
TARANTULA NETWORKS LTD.	ZQAM COMMUNICATIONS CORPORATION -ordinary shares	-	Non-current financial assets at fair value through other comprehensive income	188	823	1.15%	823	
TARANTULA NETWORKS LTD. 司	ZQAM COMMUNICATIONS CORPORATION –preferred shares	-	Non-current financial assets at fair value through other comprehensive income	82	362	-	362	

Note 1: The securities in the table are within the stocks, bonds, beneficiary certificates, and derivative securities of aforementioned items within the scope of IFRS 9 “Financial Instruments: Recognition and Measurement”

Note 2: If the issuer of the security is not a related party, the column shall be left blank.

Note 3: For those measured at fair value, the carrying amount shall be filled in the carrying balance after fair value valuation adjustments and less the accumulated impairment. For those not measured at fair value, the carrying amount shall be filled in the carrying balance of initial acquisition costs or amortized costs less accumulated impairment.

Note 4: If the securities listed are restricted for providing guarantee or collaterals for borrowings, the number of shares provided for guarantee or collateral, the guaranteed or borrowed amount, and the restricted conditions shall be filled in the Note column.

4. Acquisition or sale of the same security with the accumulated cost exceeding NT\$300 million or 20% of the Company's paid-in capital or more: None.

5. Acquisition of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more: None.

6. Disposal of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more: None.

7. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: None.

8. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.

9. Trading in derivative instruments: None.

10. Significant transactions, prices, payments terms and unrealized gains or losses with investees in Mainland China through a holding company registered in a third region: None.

11. Business relationships among the parent company and subsidiaries, and significant intercompany transactions and amounts: Note 7

2) Information on investees

The Information about company names, locations, etc. of Investees (excluding the investees in Mainland China) :

Investor company	Investee company (Note 1, 2)	Location	Main business	Original investment amount		Holding in the end of period			Profit (loss) of investees in the current period (Note 2(2))	Gain (loss) on investments recognized in the current period (Note 2(3))	Note
				December 31, 2022	December 31, 2021	Number of shares	Percent age	Carrying amount			
HwaCom Systems Inc.	TARANTULA NETWORKS LTD.	New Taipei City	Information software and communication engineering, etc.	\$19,980	\$19,980	2,000	100.00	\$10,432	\$(46)	\$(46)	Subsidiary
HwaCom Systems Inc.	Family technology Inc. plus	New Taipei City	Information software and communication engineering, etc.	16,000	41,000	1,600	100.00	8,106	(2,655)	(2,655)	Subsidiary

HwaCom Systems Inc.	S-LINK SYSTEMS INC.	New Taipei City	Information software and communication engineering, etc.	45,000	70,000	4,500	100.00	21,292	(10,393)	(11,696)	Subsidiary
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Note 1: If the public company has established foreign holding companies and the consolidated financial statements are the main financial statements based on local regulations, the information on the foreign investees may be disclosed only to the relevant information of the holding companies.

Note 2: For investees not in the scope of Note 1, the information shall be filled as rules as follows:

- (1) "Investee company," "Location," "Main business," "Original investment amount," and "Holding in the end of the period" shall be filled sequentially based on the investment condition of the Company and the investment condition of the investees directly or indirectly controlled by the Company. And the relationship between the investees and the Company shall be filled in the Note column (if they are subsidiaries or sub-subsidiaries).
- (2) "Profit (loss) of investees in the current period" shall be filled in the profit or loss of each investee in the current period.
- (3) "Gain (loss) on investments recognized in the current period" shall only be filled in the profit or loss of subsidiaries accounted for using equity method. For other condition, the column shall be left blank. When filling "Gain (loss) on investments recognized in the current period," the Company shall ensure the profit or loss of each subsidiary has include the gains or losses of investments that shall be recognized in accordance with regulations.

3) Information on investees in Mainland China

Investee in Mainland China	Main business	Paid-in capital	Method of investment (Note 1)	Accumulated outward remittance for investment from Taiwan as of January 1, 2022	Remittance of funds in the		Accumulated outward remittance for investment from Taiwan as of December 31, 2022	Profit (loss) of investees in the current period	Percentage of ownership of direct or indirect investments	Gains (losses) on investments recognized in the current period (Note 2)	Carrying amount of investments as of December 31, 2022	Accumulated repatriation of gain on investment as of December 31, 2022
					Outward	Inward						
HWACOM SYSTEMS (SHANGHAI)CO.LTD.	Data processing, information supply service industry	\$15,713	(1)	\$15,713	\$-	\$-	\$15,713	\$(341)	100.00%	\$(341) B	\$7,633	\$-

Accumulated outward remittance for investment in Mainland China as of December 31, 2022	Investment amount authorized by investment commission, MOEA	Upper limit on the amount of investment stipulated by investment commission, MOEA
\$15,713	Invested in HWACOM SYSTEMS (SHANGHAI)CO.LTD. by USD	\$1,358,929

Note 1: There are 3 types of investment method as follows. Fill in the numbers to indicate the type.:

- (1) Directly invest in invests in Mainland China.
- (2) Invest through a holding company registered in a third region. (Please indicate the holding company in the third region)
- (3) Other method.

Note 2: In the “Gains (losses) on investments recognized in the current period” column:

(1) If the investee is under preparation without gains (losses) on investments, please indicate.

(2) There are 3 bases to recognize gains (losses) on investments as follows. Please indicate.:

A. The financial statements have been audited and attested by international CPA firms which cooperate with the CPA firms in R.O.C.

B. The financial statements have been audited and attested by the CPA of the parent company in Taiwan.

C. The financial statements are preliminary and not reviewed by CPA.

Note 3: The amounts in the table shall be expressed in New Taiwan Dollars.

Note 4: The Company originally directly held 100% of ownership of HWACOM SYSTEMS (SHANGHAI)CO.LTD. through HWACOM INVESTMENT INC. After approved by the approval letter with No. Investment-Committee-Auditing-II-10900005280 on January 14, 2020, the investee has been directly held by the Company. The registration of cancellation of HAWCOM INVESTMENT INC. has been completed on August 31, 2020.

4) Information on major shareholders:

Shares Major shareholder	Number of shares held	Percentage of ownership
Advantech Corporate Investment	24,575,000	18.37%

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

Note 2 : If a shareholder delivers the shareholdings to the trust, the above information will be disclosed by the individual trustor who opened the trust account. 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.

Independent Auditors' Report

To HwaCom Systems Inc. :

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Revenue recognition

Explanations

Please refer to Note 4 to the consolidated financial statements for the accounting policies of revenue recognition ; Please refer to Note 5 for the accounting judgment, estimates and assumptions of revenue recognition.

The Group is engaged in the services, including telecommunication integration system services, IP broadband network service, media industry service, smart city control business, and service for business customers, etc. As the inherent risk of revenue is high, and significant to the financial statements, revenue recognition is identified as one of the key audit matters.

Audit procedures in response

The main audit procedures in response to the aforementioned key audit matter implemented on specific level are summarized below :

1. Obtain an understanding of and test the internal control and the operating effectiveness relevant to revenue transactions.
2. Obtain an understanding the primary types of revenue, contract terms and transaction terms, to evaluate the rationality of the accounting policies of revenue recognition.
3. Perform sample testing to sales contracts or purchase orders, and evaluate the contract terms and transaction terms, etc., to confirm revenue is recognized in the appropriate period in accordance with company policies.
4. Perform cut-off testing as of year-end, to confirm the correctness of the periods that revenue is attributable to.
5. Check the reasons for significant returns or allowances in the current period and in the subsequent period, and evaluate the rationality of the estimates of returns and allowances.

Inventory valuation

Explanations

Please refer to Note 4 to the consolidated financial statements for the accounting policies of inventory valuation ; Please refer to Note 5 for the accounting judgment, estimates and assumptions of inventory valuation.

The Group is a system integration supplier of telecommunication media and internet information. The products distributed and the business developed provides the upstream, midstream, and downstream of industry chain with value-added integration and distribution functions. Based on the classification of communication network frameworks, the Group provided customized product mixes depending on different sales counterparties and projects, from the underlying infrastructure of communication network, layer by layer to broadband utilization. As inventory valuation involves management's judgment, is with highly estimate uncertainty, and significant to the financial statements, inventory valuation is identified as one of the key audit matters.

Audit procedures in response

The main audit procedures in response to the aforementioned key audit matter implemented on specific level are summarized below :

1. Obtain an understanding of and evaluate the estimates and policies adopted by inventory valuation.
2. Acquire the data used for the Group to evaluate the net realizable value of inventories, and select samples to verify the relevant information on sales prices and estimated costs to completion.

3. Perform sample testing to the correctness of inventory age data, and obtain an understanding of the condition of inventories with long age and the possibility of destock in the future.

Other Matter

We have also audited the parent company only financial statements of HwaCom Systems Inc. as of and for the years ended December 31, 2022 and 2021 on which we have issued an unqualified 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, we are required to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient 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 audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Taiwan

CPA : SU-CHEN CHANG

CPA : WINNER HSU

Reference Number of the FSC Approval letter : (86) No. Taiwan-Finance-Securities-VI-74537
(80) No. Taiwan-Finance-Securities-I-51636

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HwaCom Systems Inc. and Subsidiaries

Consolidated Balance Sheets
As of December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

Code	Assets	Note	December 31, 2022	%	December 31, 2021 (Reclassification)	%	Code	Liabilities and equity	Note	December 31, 2022	%	December 31, 2021 (Reclassification)	%
11XX	Current assets						21XX	Current liabilities					
1100	Cash and cash equivalents	6.1	\$766,328	14.38	\$988,343	17.80	2100	Short-term borrowings	6.11	\$421,318	7.91	\$509,035	9.17
1110	Financial assets at fair value through profit or loss - current	6.6	5,019	0.09	5,500	0.10	2130	Contract liabilities - current	6.21	902,641	16.94	1,411,614	25.42
1140	Contract assets - current	6.21	30,414	0.57	32,469	0.58	2170	Accounts payables	6.12	1,080,582	20.28	766,186	13.80
1150	Notes receivables, net		425	0.01	724	0.01	2200	Other payables	6.13	291,708	5.47	283,052	5.10
1170	Accounts receivables, net	6.2	2,077,173	38.98	1,321,172	23.79	2230	Current income tax liabilities		18,547	0.35	50,111	0.90
1200	Other receivables		1,022	0.02	15,211	0.27	2250	Provisions - current	6.14	-	-	2,536	0.05
130X	Inventories	6.3	1,164,059	21.85	1,854,416	33.40	2280	Lease liabilities - current	6.9	24,998	0.47	22,415	0.40
1410	Prepayments	6.4	256,761	4.82	238,669	4.30	2300	Other current liabilities		22,548	0.42	17,813	0.32
1470	Other current assets	6.5	213,233	4.00	235,470	4.25	21XX	Subtotal		2,762,342	51.84	3,062,762	55.16
11XX	Sub-total		4,514,434	84.72	4,691,974	84.50	25XX	Non-current liabilities					
								Financial liabilities at fair value through profit or loss - non-current	6.6	368	0.01	-	-
							2530	Bonds payables	6.15	115,450	2.17	114,444	2.06
							2540	Long-term borrowings	6.16	26,513	0.50	31,681	0.57
							2550	Provisions - non-current	6.14	12,283	0.23	12,283	0.22
							2570	Deferred tax liabilities	6.27	17,782	0.33	33,523	0.60
15XX	Non-current assets						2580	Lease liabilities - non-current	6.9	23,879	0.45	21,579	0.39
1510	Financial assets at fair value through profit or loss - non-current	6.6	-	-	180	-	2600	Other non-current liabilities		104,926	1.96	115,031	2.07
	Financial assets at fair value through other comprehensive income - non-current	6.7	133,295	2.50	195,473	3.52	25XX	Sub-total		301,201	5.65	328,541	5.91
1600	Property, plant and equipment	6.8	230,620	4.33	238,356	4.29	2XXX	Total liabilities		3,063,543	57.49	3,391,303	61.07
1755	Right-of-use assets	6.9	48,315	0.91	43,484	0.78	31XX	Equity					
1780	Intangible assets		23,142	0.43	20,607	0.37		Equity attributable to owners of the parent					
1840	Deferred tax assets	6.27	36,930	0.69	47,431	0.85	3100	Capital stock	6.18				
1900	Other non-current assets	6.10	341,688	6.42	315,385	5.69	3110	Common stock		1,337,776	25.11	1,336,934	24.08
15XX	Sub-total		813,990	15.28	860,916	15.50	3200	Capital surplus	6.19	359,937	6.76	356,799	6.43
							3300	Retained earnings	6.20				
							3310	Legal reserve		109,359	2.05	92,192	1.66
								Unappropriated earnings					
							3350	(accumulated deficit)		406,213	7.62	318,301	5.73
							3400	Other equity		64,843	1.22	117,158	2.11
							3500	Treasury stock	6.18	(13,247)	(0.25)	(59,797)	(1.08)
								Total equity attributable to owners of the parent		2,264,881	42.51	2,161,587	38.93
							3XXX	Total equity		2,264,881	42.51	2,161,587	38.93
1XXX	Total assets		\$5,328,424	100.00	\$5,552,890	100.00	3X2X	Total liabilities and equity		\$5,328,424	100.00	\$5,552,890	100.00

Please refer to the notes to the consolidated financial statements.

HwaCom Systems Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2022 and 2021

Expressed in thousands
of New Taiwan Dollars

Code	Note	2022	%	2021	%
4000 Net revenue	6.21	\$6,094,449	100.00	\$6,192,732	100.00
5000 Costs of revenue	6.3, 6.24	(4,870,347)	(79.91)	(4,820,877)	(77.85)
5900 Gross profit		1,224,102	20.09	1,371,855	22.15
5950 Gross profit, Net		1,224,102	20.09	1,371,855	22.15
6000 Operating expenses	6.24				
6100 Selling expenses		(852,280)	(13.98)	(915,658)	(14.79)
6200 Administrative expenses		(195,324)	(3.20)	(172,598)	(2.79)
6300 Research and development expenses		(58,958)	(0.98)	(56,453)	(0.91)
6450 Expected credit impairment reversal gains (losses)		-	-	(16,209)	(0.25)
6000 Sub-total		(1,106,562)	(18.16)	(1,160,918)	(18.74)
6900 Net operating income (loss)		117,540	1.93	210,937	3.41
7000 Non-operating income and expenses					
7100 Interest income		2,922	0.05	1,336	0.02
7010 Other income	6.22	57,042	0.94	36,957	0.60
7020 Other gains and losses	6.23	180	-	(13,644)	(0.22)
7050 Financial costs	6.26	(14,064)	(0.24)	(14,731)	(0.24)
7000 Total non-operating income and expenses		46,080	0.75	9,918	0.16
7900 Net income (loss) before income tax		163,620	2.68	220,855	3.57
7950 Income tax benefits (expenses)	6.27	(25,523)	(0.41)	(49,331)	(0.80)
8000 Net income (loss) from continuing operations		\$138,097	2.27	\$171,524	2.77
8200 Net income (loss)		\$138,097	2.27	\$171,524	2.77
8300 Other comprehensive income					
8310 Items not to be reclassified into profit or loss					
8311 Remeasurements of defined benefit plans		\$8,863	0.15	\$179	-
8316 Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income		(68,178)	(1.12)	(14,862)	(0.24)
8349 Income tax related to items of other comprehensive income that will not be reclassified to profit or loss		13,969	0.23	1,135	0.02
8360 Items that may be subsequently reclassified into profit or loss					
8361 Exchange differences on translation of foreign financial statements		121	-	47	-
8300 Other comprehensive income, net of tax		\$(45,225)	(0.74)	\$(13,501)	(0.22)
8500 Total comprehensive income		\$92,872	1.53	\$158,023	2.55
8600 Profit (loss) attributable to :					
8610 Owner of the parent		138,097	2.27	171,524	2.77
Total		138,097	2.27	171,524	2.77
8700 Total comprehensive income attributable to :					
8710 Owner of the parent		92,872	1.53	158,023	2.55
Total		\$92,872	1.53	\$158,023	2.55
Earnings per share (NT\$) :	6.28				
9750 Basic earnings per share (NT\$)		\$1.06		\$1.43	
9850 Diluted earnings per share (NT\$)		\$1.01		\$1.26	

Please refer to the notes to the consolidated financial statements.

HwaCom Systems Inc. and Subsidiaries
Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars

Summary	Equity attributable to owners of the parent										Non-control ling interests	Total equity
	Capital stock	Capital surplus	Retained earnings			Other equity		Treasury stock	Total equity attributable to owners of the parent	Total equity		
			Legal reserve	Special reserve	Unappropriated earnings (or accumulated deficit)	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income					
Balance at January 1, 2021	\$1,228,817	\$281,630	\$92,192	\$6,609	\$140,025	\$(850)	\$131,651	\$(59,797)	\$1,820,277	\$0	\$1,820,277	
Appropriation and distribution of 2020 earnings												
Transfer of special reserve to retained earnings	-	-	-	(6,609)	6,609	-	-	-	-	-	-	
Stock option recognized by issuance of convertible bonds	-	5,118	-	-	-	-	-	-	5,118	-	5,118	
Profit of 2021	-	-	-	-	171,524	-	-	-	171,524	-	171,524	
Other comprehensive income	-	-	-	-	143	47	(13,691)	-	(13,501)	-	(13,501)	
Transfer of corporate bonds payables to ordinary shares	108,117	70,051	-	-	-	-	-	-	178,168	-	178,168	
Rounding to thousands	-	-	-	-	-	1	-	-	1	-	1	
Balance at January 1, 2022	\$1,336,934	\$356,799	\$92,192	\$0	\$318,301	\$(802)	\$117,960	\$(59,797)	\$2,161,587	\$0	\$2,161,587	
Appropriation and distribution of 2021 earnings												
Appropriate of legal reserve	-	-	17,167	-	(17,167)	-	-	-	-	-	-	
Cash dividend of ordinary shares	-	-	-	-	(40,108)	-	-	-	(40,108)	-	(40,108)	
Stock option recognized by issuance of convertible bonds	-	(60)	-	-	-	-	-	-	(60)	-	(60)	
Profit of 2022	-	-	-	-	138,097	-	-	-	138,097	-	138,097	
Other comprehensive income	-	-	-	-	7,090	122	(52,437)	-	(45,225)	-	(45,225)	
Transfer of corporate bonds payables to ordinary shares	842	572	-	-	-	-	-	-	1,414	-	1,414	
Treasury shares transferred to employees	-	2,626	-	-	-	-	-	46,550	49,176	-	49,176	
Balance at December 31, 2022	\$1,337,776	\$359,937	\$109,359	\$0	\$406,213	\$(680)	\$65,523	\$(13,247)	\$2,264,881	\$0	\$2,264,881	

Please refer to the notes to the consolidated financial statements.

HwaCom Systems Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

Item	Expressed in thousands of New Taiwan Dollars	
	2022	2021 (Reclassification)
Cash flows from operating activities		
Profit (loss) before tax from continuing operations	\$163,620	\$220,855
Consolidated total profit (loss)	163,620	220,855
Adjustments:		
Items of income and expenses		
Depreciation expenses	72,139	65,132
Amortization expenses	20,545	15,504
Expected credit losses (benefits)	-	16,208
Net gains or losses from financial assets (liabilities) at fair value through profit or loss	1,035	(1,037)
Interest expenses	14,065	14,731
Interest income	(2,922)	(1,336)
Dividends	(830)	(380)
Share-based payments	6,551	-
Losses (gains) from disposal and scrap of property, plant and equipment	(219)	(336)
Losses (gains) from disposal of investments	-	(9)
Losses (gains) on lease improvements	(23)	-
Changes in operating assets and liabilities		
Decrease (increase) in contract assets	2,055	9,597
Decrease (increase) in notes receivables	300	(26)
Decrease (increase) in accounts receivables	(756,000)	(140,478)
Decrease (increase) in other receivables	14,324	(1,808)
Decrease (increase) in inventories	704,215	(389,456)
Decrease (increase) in prepaid expenses	2,420	5,178
Decrease (increase) in prepayments	(20,513)	(29,248)
Decrease (increase) in other current assets	22,236	55,706
Increase (decrease) in contract liabilities	(508,973)	741,387
Increase (decrease) in accounts payables	314,396	(220,766)
Increase (decrease) in other payables	8,451	93,884
Increase (decrease) in provisions	(2,536)	662
Increase (decrease) in other current liabilities	4,728	1,415
Increase (decrease) in net defined benefit liabilities	286	(61)
Interests received	2,786	1,318
Dividends received	830	380
Interest paid	(11,504)	(11,275)
Income taxes returned (paid)	(48,358)	(9,696)
Net cash inflow (outflow) provided by operating activities	<u>3,104</u>	<u>436,045</u>
Cash flows from investing activities		
Acquisition of financial assets at fair value through other comprehensive income	(6,000)	-
Acquisition of financial assets at fair value through profit or loss	-	(5,000)
Acquisition of property, plant and equipment	(50,045)	(44,770)
Disposal of property, plant and equipment	1,915	1,854
Increase in refundable deposits	(415,201)	(411,585)
Decrease in refundable deposits	410,819	360,369
Acquisition of intangible assets	(23,083)	(24,034)
Disposal of intangible assets	3	52
Increase in prepayments for equipment	(37,069)	(4,298)
Decrease in prepayments for equipment	15,149	9,116
Net cash inflow (outflow) provided by investing activities	<u>(103,512)</u>	<u>(118,296)</u>
Cash flows from financing activities		
Increase in short-term borrowings	1,545,876	1,782,334
Decrease in short-term borrowings	(1,633,593)	(2,004,574)
Increase in short-term notes payables	100,000	-
Decrease in short-term notes payables	(100,000)	-
Issuance of corporate bonds	-	295,000
Repayments of long-term borrowings	(5,161)	(5,144)
Increase in guaranteed deposits received	1,532	5,520
Decrease in guaranteed deposits received	(3,061)	(969)
Repayments of lease principal	(29,839)	(25,752)
Decrease in other non-current liabilities	-	(187)
Distribution of cash dividends	(40,108)	-
Treasury shares purchased by employees	42,625	-
Net cash inflow (outflow) provided by financing activities	<u>(121,729)</u>	<u>46,228</u>
Effect of movements in exchange on cash and cash equivalents	122	48
Net increase (decrease) in cash and cash equivalents	(222,015)	364,025
Cash and cash equivalents at the beginning of period	988,343	624,318
Cash and cash equivalents at the end of period	<u>\$766,328</u>	<u>\$988,343</u>

Please refer to the notes to the consolidated financial statements.

HwaCom Systems Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

Expressed in thousands of New Taiwan Dollars
(Except as indicated)

(1) Company history

HwaCom Systems Inc. (the “Company”) and subsidiaries (the Company and subsidiaries included in the consolidated financial statements are hereinafter the “Company and subsidiaries”) were established in May, 1994 in accordance with the Company Act. of the R.O.C. The Company and subsidiaries are primarily engaged in the services, including telecommunication integration system services, IP broadband network service, media industry service, smart city business, and enterprise customers, etc.

(2) Approval date and procedures of the consolidated financial statements

The consolidated financial statements of the Company and subsidiaries were authorized for issue by the Board of Directors on March 14, 2023.

(3) New standards, amendments and interpretations adopted

1) The standards or interpretations issued by International Accounting Standards Board and endorsed by the Financial Supervisory Commission (the “FSC”) which have been adopted as of the date of authorization for issue :

The following summarizes new, revised, and amended standards and interpretations, which have been endorsed by the FSC, effective for annual period beginning on January 1, 2022 :

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IAS 16 “Property, Plant and Equipment: Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022

The Company and subsidiaries assessed that the aforementioned standards and interpretations would not have a significant impact on the financial position and financial performance.

- 2) The standards or interpretations issued by International Accounting Standards Board and endorsed by the FSC which have not yet been adopted as of the date of authorization for issue :

The following summarizes new, revised, and amended standards and interpretations, which have been endorsed by the FSC, effective for annual period beginning on January 1, 2023 :

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023

The Company and subsidiaries assessed that the aforementioned standards and interpretations would not have a significant impact on the financial position and financial performance.

- 3) The impact of IFRSs issued by IASB but not yet endorsed by the FSC :

The following summarizes the IFRSs issued by IASB but not yet endorsed by the FSC :

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB

New, Revised, or Amended Standards or Interpretations	Effective date per IASB
Amendments to IFRS 16 “Lease Liability in Sale and Leaseback”	January 1, 2024
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9—Comparative Information”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendments to IAS 1 “Non-current Liabilities with Covenants”	January 1, 2024

The Company and subsidiaries assessed that the aforementioned standards and interpretations would not have a significant impact on the financial position and financial performance.

(4) Summary of significant accounting policies

The primary accounting policies adopted by the consolidated financial statements are explained below. Except as otherwise explained, the policies are consistently applicable in all reporting periods.

1) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations (the “IFRSs”) endorsed and issued into effect by the FSC.

2) Basis of preparation

1. The accompanying consolidated financial statements have been prepared on the historical cost basis except for the significant items as follows :

- (a) Financial assets and liabilities at fair value through profit or loss
- (b) Financial assets and liabilities at fair value through other comprehensive income
- (c) Defined benefit liabilities, which is recognized by pension plan assets net of present value of defined benefit obligation

2. Preparing the consolidated financial statements in accordance with IFRSs endorsed by the FSC takes some significant accounting estimates. And in the process of applying the Company and subsidiaries' accounting policies involves the managements' judgments. Please refer to Note 5 for the items involving high judgment or complexity or items involving significant assumptions and estimates in the consolidated financial statements.

3) Basis of consolidation

1. Basis of preparation of consolidated financial statements

(a) All subsidiaries are included in the consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Company and subsidiaries. The Company and subsidiaries control an entity when the Company and subsidiaries are 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 Company and subsidiaries obtain control of the subsidiaries and ceases when the Company and subsidiaries lose control of the subsidiaries.

(b) All intra-group balances, transactions, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full. Appropriate adjustments of accounting policies of the subsidiaries have been made to be uniform with the accounting policies of the Company.

(c) Changes in 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 equity transactions, which are transactions with owners in their capacity as owners. The differences between the adjustment amount of non-controlling interests and the fair value of consideration paid or received are recognized in equity.

2. Subsidiaries included in the consolidated financial statements are as follows :

Name of investor	Name of subsidiary	Main business	Percentage of ownership		Note
			December 31, 2022	December 31, 2021	
The Company	TARANTULA NETWORKS LTD.	Information software and communication engineering industry, etc.	100%	100%	-

The Company	FAMILY PLUS TECHNOLOGY INC.	Information software and service industry, etc.	100%	100%	-
The Company	S-LINK SYSTEMS INC.	Information software and communication engineering industry, etc.	100%	100%	-
The Company	HWACOM SYSTEMS (SHANGHAI)CO.L TD.	Data processing, information supply service industry	100%	100%	-

3.Subsidiaries excluded from the consolidated financial statements : None.

4.Adjustments and treatments for subsidiaries with different balance sheet dates : None.

5.Significant restrictions : None.

6.Subsidiaries that have material non-controlling interests : None.

4) Foreign currency transactions

The items included in the entities of the Company and subsidiaries' financial statements are measured by the currency used in the primary economic environment where the entities operate (functional currency). The operation performances and financial positions of consolidated entities are translated into New Taiwan Dollar (the functional currency of the Company and the presentation currency of the consolidated financial statements).

Transactions in currencies other than the entity's functional currency (foreign currencies) are translated by the rate of exchange prevailing at the dates of the transactions or measurement into the functional currency. At the end of each reporting period, foreign currency monetary items shall be translated using the closing rate. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rate at the date when the fair value was measure. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction, and shall not be translated again. The exchange differences shall be recognized in profit or loss.

When preparing the consolidated financial statements, assets and liabilities of foreign operations for each balance sheet shall be translated at the closing rate at the balance sheet date, income and expenses for each statement of comprehensive income shall be translated at the average exchange

rates of the period, and all resulting exchange differences shall be recognized in other comprehensive income, and accumulated under exchange differences on translation of foreign financial statements of equity (and attributed to the non-controlling interests as appropriate).

The balances of non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value through profit or loss shall be adjusted based on the closing rate at the end of each reporting period. The exchange differences arising from the adjustment shall be recognized in profit or loss. The balances of non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value through other comprehensive income shall be adjusted based on the closing rate at the end of each reporting period. The exchange differences arising from the adjustment shall be recognized in other comprehensive income. The balances of non-monetary assets and liabilities denominated in foreign currencies which are not measured at fair value shall be measured by the historical rate at the date of the transaction.

5) Classification of non-current and current assets and liabilities

1. An asset is classified as current under one of the conditions below :

- (a) The Company and subsidiaries expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) The Company and subsidiaries holds the asset primarily for the purpose of trading;
- (c) The Company and subsidiaries expects to realize the asset within twelve months after reporting period;
- (d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

For those assets that are not current are classified as non-current.

2. A liability is classified as current under one of the conditions below :

- (a) The Company and subsidiaries expects to settle the liability in normal operating cycle;
- (b) The Company and subsidiaries holds the liability primarily for the purpose of trading;
- (c) The liability is due to be settled within twelve months after the reporting period;
- (d) The Company and subsidiaries does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting 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.

For those liabilities that are not current are classified as non-current.

6) Cash and cash equivalents

Cash equivalents are highly liquid short-term time investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks of changes in value. If time deposits meet the aforementioned definition, and the Company and subsidiaries holds them for the purpose of short-term cash commitment in operation, they are classified as cash equivalents.

7) Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. A regular way purchases or sales of financial assets at fair value through profit or loss are recognized at fair value at initial recognition using trade date accounting. The relevant transaction costs are recognized in profit or loss. Financial assets at fair value through profit or loss are subsequently measured at fair value, and the gains or losses are recognized in profit or loss. Dividends are recognized as dividend revenue when the Company and subsidiaries' right to receive payment of the dividend is established, and it is probable that the economic benefits associated with the dividend will flow to the entity and the amount or the dividend can be measured reliably.

8) Financial assets at fair value through other comprehensive income

1. At initial recognition, the Company and subsidiaries may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading; or an investment in debt instruments is measured at fair value through other comprehensive income if both of the following conditions are met :

- (a) The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ; and
- (b) The asset's contractual cash flow characteristics : the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

2. A regular way purchases or sales of financial assets at fair value through other comprehensive income are recognized at fair value at initial recognition using trade date accounting.

3. Financial assets at fair value through other comprehensive income shall be measured at fair value plus transaction costs at initial recognition, and subsequently measure at fair value :

- (a) Subsequent changes of fair value of equity instruments shall be recognized in other comprehensive income. At derecognition, the accumulated profit or loss recognized in other

comprehensive income shall not be reclassified to profit or loss, instead, directly to retained earnings. Dividends are recognized as dividend revenue when the Company and subsidiaries' right to receive payment of the dividend is established, and it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably.

- (b) Subsequent changes of fair value of debt instruments shall be recognized in other comprehensive income. Any resulting impairment losses, interest revenue and gains or losses on foreign exchange differences before derecognition shall be recognized in profit or loss. At derecognition, the accumulated profit or loss recognized in other comprehensive income shall not be reclassified to profit or loss from equity.

9) Impairment of financial assets

At each reporting date, the Company and subsidiaries shall assess the impairment loss of investments in debt instruments at fair value through other comprehensive income and financial assets at amortized cost (accounts receivables and contract assets with significant financial components) by considering all reasonable and supportable information (including foreseeing information). If the credit risk on the financial assets has not increased significantly since initial recognition, the Company and subsidiaries shall measure the loss allowance for those financial assets at an amount equal to 12-month expected credit losses. If the credit risk on other financial assets has increased significantly since initial recognition, the Company and subsidiaries shall measure the loss allowance for those financial assets at an amount equal to lifetime expected credit losses. The loss allowance for accounts receivables or contract assets without significant financial components shall be measured at an amount equal to lifetime expected credit losses.

10) Accounts and notes receivables

1. A receivable is the Company and subsidiaries' right to consideration for transferring goods or rendering services that is unconditional based on the agreement in the contracts.
2. For short-term accounts and notes receivables without bearing interests, as the effect of discounting is insignificant, they are measured at original invoice amount.

11) Inventories

Inventories are recognized at cost at initial recognition, measured by perpetual inventory system, and

the calculation of cost is by weighted-average cost. Inventories are valued at the lower of cost and net realizable value item by item, except inventories under the same categories. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Inventories which are defected, damaged or obsolete and whose value is apparently decrease, shall be measured at net realizable value.

12) Property, plant and equipment

Property, plant and equipment are initially recognized by acquisition cost. The relevant borrowing cost during the period of construction shall be capitalized.

Subsequent costs shall be recognized in the carrying value of the assets or as an individual asset, only if it's probable that future economic benefits associated with the item are expected to flow to the Company and subsidiaries, and the costs can be measured reliably. The carrying value of the replaced items shall be derecognized. Other fix and maintenance cost are recognized in profit or loss.

Land shall not be depreciated. Other property, plant and equipment shall be depreciated over estimated useful life by straight-line method under cost model. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The residual value, useful life and depreciation method of an item of property, plant, and equipment shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, or there are significant changes in the pattern in which the asset's future economic benefits are expected to be consumed, the changes shall be accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." The useful lives of buildings and structures are 30~50 years, and the useful lives of other fixed assets are 1~8 years.

13) Intangible assets

Intangible assets include computer software and others, which are recognized by acquisition costs initially, and amortized by straight-line method over estimated useful lives of 1~3 years.

14) Lease transactions of lessee—right-of-use assets and lease liabilities

1. A right-of-use asset and a lease liability shall be recognized at the day that the lease assets can be used by the Company and subsidiaries, unless the lease contract is a short-term lease or the underlying assets of the lease is of low value. The Company and subsidiaries shall recognize the lease payments associated with a short-term lease or the underlying asset of the lease is of low value as an expense on a straight-line basis.

2. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments that are not paid shall be recognized at the present value discounted by the Company and subsidiaries' incremental borrowing rate :
 - (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable ;
 - (b) variable lease payments that depend on an index or a rate ;
 - (c) amounts expected to be payable by the lessee under residual value guarantees ;
 - (d) the exercise price of a purchase option if the Company and subsidiaries are reasonably certain to exercise that option ; and
 - (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company and subsidiaries shall measure the lease liabilities on the basis of amortized cost, and recognize interest expenses during the lease term. If changes in lease term or lease payments which are not resulting from modification of contracts, lease liabilities shall be remeasured, and right-of-use assets shall be adjusted accordingly.

3. At the commencement date, the Company and subsidiaries shall measure the right-of-use asset at cost, which shall comprise :
 - (a) the amount of the initial measurement of the lease liability ;
 - (b) any lease payments made at or before the commencement date, less any lease incentives received ; and
 - (c) any initial direct costs incurred by the lessee.

The Company and subsidiaries shall measure the right-of-use assets by cost model and depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. When lease liabilities are remeasured, right-of-use assets shall be adjusted accordingly.

15) Impairment of non-financial assets

The Company and subsidiaries shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any indication is present, the Company and subsidiaries is required to estimate the recoverable amount. If the recoverable amount of an asset is less than its carrying amount, impairment loss shall be recognized. Recoverable amount is the higher of the asset's fair value less selling costs and its value in use. The Company and subsidiaries conduct the test by the cash-generating unit to which the individual asset or assets belongs. If the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed to the extent of the losses recognized in prior years.

16) Corporate bonds payables

The convertible corporate bonds payable issued by the Company and subsidiaries are embedded with conversion rights, put options and call options. The issue price of convertible corporate bonds payable shall be classified as financial liabilities or equity based on the issue conditions at initial issuance, which shall be treated as follows :

- (a) Embedded conversion rights, put options and call option shall be initially measured at net fair value and recognized as "financial liabilities at fair value through profit or loss," and subsequently measured at fair value at each balance sheet date, and the differences shall be recognized as "gains or losses on financial assets (liabilities) at fair value through profit or loss".
- (b) The corporate bonds shall be initially measured at the residual value of issue price less the aforementioned "financial assets (liabilities) at fair value through profit or loss," and the difference between the amount and the redemption value shall be recognized as the discount or premium of the bonds payables, which shall be amortized in profit or loss as an adjustment to the "financial costs" over the period of bond outstanding using the effective interest method.
- (c) Any transaction costs directly attributable to the issuance of the convertible corporate bonds are allocated to the liability components in proportion to the allocation of initial carrying amount.
- (d) When bondholders exercise conversion rights, the liability component (including "bonds payables" and "financial assets or liabilities at fair value through profit or loss") shall be remeasured based on the classification. The carrying value of the aforementioned liability components is the issue costs of ordinary shares transferred.

17) Provisions

A provision is a present legal or constructive obligation or arising from past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The amount of provisions is determined by expected future cash flows discounted by current pre-tax interest rate. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization by discounting the provision shall be recognized as interest expenses.

Onerous contracts : When the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it, onerous contract provisions shall be recognized. The provision is measured at the lower of the present value of the expected costs to exit the contracts and the expected net costs to fulfill the contracts. Before recognizing onerous contract provisions, the Company and subsidiaries shall recognize any impairment losses that has occurred on assets relevant to the contracts.

18) Employee benefits

1. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for that service, and shall be recognized as expenses when the employees have rendered service.

2. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions shall be recognized as pension expenses when they are due on the accrual basis. Prepaid contributions shall be recognized that excess as an asset to the extent that the prepayment will lead to a cash refund or a reduction in the future payments.

(b) Defined benefit plans

A. Net obligation under a defined benefit plan is accrued from the present value of future benefit that employees have earned in return for their services in the current or prior periods. The Company and subsidiaries shall recognize the present value of the defined benefit obligation deducting the fair value of plan assets at the balance sheet date. Net obligation of the defined benefit is calculated annually by independent actuaries using the projected unit credit method and is discounted by using the market yield on government bonds with consistent denominated currency and duration.

B. Remeasurements arising from defined benefit plans shall be recognized in other comprehensive income in the period in which they arise and shall be recorded in retained earnings.

C. Expenses related to past service costs shall be recognized in profit or loss immediately.

3. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Company and subsidiaries shall recognize the expense for termination benefits at the earlier of the dates when the Company and subsidiaries can no longer withdraw the offer of those benefits and when the Company and subsidiaries recognizes costs for a restructuring. If the termination benefits are not expected to be settled wholly before twelve months after the balance sheet date, the Company and subsidiaries shall discount the termination benefits.

4. Employees', directors', and supervisors' remuneration

Employees', directors', and supervisors' remuneration are recognized as expenses and liabilities 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 estimates.

19) Income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that it relates to the 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.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the entities operate and generate taxable income. Management shall periodically evaluate the tax declaration condition, and estimate the income tax liabilities based on the tax expected to be paid to the taxation authority when applicable.

Deferred income tax shall be recognized for the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The Company and subsidiaries shall not recognize the deferred tax liabilities for temporary differences associated with investments in subsidiaries, if the Company and subsidiaries are able to control the timing of the reversal of the

temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax is measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets shall be recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered and deferred tax assets unrecognized and recognized shall be reassessed at each reporting date.

The Company and subsidiaries shall offset current tax assets and current tax liabilities, only if the Company and subsidiaries have a legally enforceable right to set off the recognized amount, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities may offset each other, only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities, and the deferred income tax assets and liabilities related to the same taxable entity and the same taxation authority, or the deferred income tax assets and liabilities related to different taxable entities, but each entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Tax preferences arising from expenditures invested in procurement of equipment, research and development, and equity shall adopt income tax deduction accounting, and shall be recognized as deferred tax assets to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

20) Treasury shares

The Company and subsidiaries shall measure treasury shares from recovering issued shares at cost. The costs of treasury shares shall deduct the equity in the balance sheets, and the price differences of treasury shares transactions shall be recognized under equity. When cancelling treasury shares, the Company and subsidiaries shall credit “treasury shares” and debit in proportion of percentage of ownership “share capital” and “capital surplus-additional paid-in capital.”

21) Revenue recognition

1. The revenue from contracts with customers is primarily arising from the services of integration of electric information system, traffic control system and the planning and building of safety monitoring system. Revenue shall be recognized when the control of committed goods or services transferred to customers and the performance of obligations is fulfilled. The Company and subsidiaries recognize revenue based on the agreed prices of contracts or orders and takes into

consideration of sales returns and allowances. The cumulative revenue shall be recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

2. When control of goods and services has transferred to customers, but the Company and subsidiaries do not have the unconditional right to receive the consideration, contract assets and revenue shall be recognized. A contract liability shall be recognized for the obligation to transfer goods or services to a customer for which the Company and subsidiaries have received part of the consideration from the customer, and shall be transferred to revenue when the performance obligation is fulfilled subsequently.

22) Financial income and financial costs

Financial income including interest income arising from investments in financial assets, dividends, reversal gains on financial assets impairment losses, gains on disposal of financial assets at fair value and gains on hedge instruments that shall be recognized in profit or loss. Interest income shall be recognized in profit or loss under accrual basis by effective interest rate method. Dividends shall be recognized at the date when the consolidated company has the right to receive the dividends. For securities with quoted prices, the dividends shall be recognized at ex-dividend date. Interest income and dividends shall be recognized as “other income” under non-operating income and expenses; other items shall be recognized with relevant losses by the net amount as “other gains and losses” under non-operating income and expenses.

Financial costs include interest expenses arising from borrowings, interest expenses recognized for discounted provisions as the time goes by, net losses on financial assets (liabilities) at fair value through profit or loss, impairment losses recognized for financial assets, losses on disposal of financial assets at fair value, and losses on hedge instruments that shall be recognized in profit or loss. Financial costs, except for interest expenses, shall be recognized with relevant gains by the net amount as “other gains and losses” under non-operating income and expenses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset shall be recognized in profit or loss by effective interest rate method.

Foreign exchange gains and losses shall be recognized by net amount as “other gains and losses” under non-operating income and expenses.

23) Earnings per share

Basic earnings per share are calculated by net income divided by the weighted-average outstanding number of shares; Calculation of diluted earnings per share shall take into consideration the effect of dilutive potential ordinary shares transferring into ordinary shares. Potential ordinary shares with antidilutive effect shall not be included in the calculation.

24) Operating segments

The segment information is reported by the same way as the internal management report provided to the main chief operating decision maker. The operations results of operating segment are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

(5) Major sources of uncertainty arising from significant accounting judgments, estimates, and assumptions

When preparing the Company and subsidiaries' consolidated financial statements, the management has made judgments to determine the account policies adopted, and make accounting estimates and assumptions based on the reasonable exceptions for future events based on the condition at the balance sheet date. However, these estimates and assumptions could differ from the actual result; thus, they could be assessed and adjusted by considering historical experiences and other factors. The uncertainty of significant accounting judgments, estimates and assumptions is as follows :

1) Revenue recognition

Revenue shall be recognized when the control of committed goods or services transferred to customers and the performance of obligations is fulfilled. Returns and allowances are estimated based on historical experiences and other known factors, and recognized as the deduction to sales revenue at the period of the sales. And the Company and subsidiaries review the rationality of the estimates on a regular basis.

2) Valuation of inventories

As inventories shall be measured at the lower of the cost and net realizable value, the Company and subsidiaries shall determine the net realizable value of inventories at the end of the reporting period by utilizing judgment and estimates. As the technology changes swiftly, the Company and subsidiaries evaluate the amounts of inventories that are consumed normally, obsolete, or without market selling value, and write off the costs of inventories to the net realizable value. As valuation of inventories is estimated based on the demand for the products during a specific period in the future, significant changes may occur.

(6) Explanation of significant accounts

1) Cash and cash equivalents

	December 31, 2022	December 31, 2021
Cash on hand and revolving fund	\$558	\$518
Checking deposits and demand deposits	660,765	937,825
Time deposits	105,005	50,000
Total	<u>\$766,328</u>	<u>\$988,343</u>

As the correspondent banks are credible and the Company and subsidiaries have several correspondent banks to diversify the credit risk, the probability of default is expected to be very low.

2) Accounts receivables

	December 31, 2022	December 31, 2021 (reclassification)
Accounts receivables	\$2,075,018	\$1,291,190
Installment accounts receivables	2,382	4,030
Unrealized interest revenue- installment accounts receivable	(72)	-
Lease payments receivables	21,739	48,572
Unearned finance income from financial lease	(517)	(1,247)
Less : loss allowances	(21,377)	(21,373)
Total	<u>\$2,077,173</u>	<u>\$1,321,172</u>

1. The aging analysis of the accounts receivables of the Company and subsidiaries is as follows :

	Undue	Overdue for 1-30 days	Overdue for 31-90 days	Overdue for 91- 180 days	Overdue for over 181 days	Total
December 31, 2022						
Total carrying amount	\$1,965,513	\$2,506	\$128,609	\$-	\$1922	\$2,098,550
Loss allowances	-	(251)	(19,204)	-	(1,922)	(21,377)
Amortized cost	<u>\$1,965,513</u>	<u>\$2,255</u>	<u>\$109,405</u>	<u>\$-</u>	<u>\$-</u>	<u>\$2,077,173</u>

	Undue	Overdue for 1-30 days	Overdue for 31-90 days	Overdue for 91- 180 days	Overdue for over 181 days	Total
December 31, 2021						
Total carrying amount	\$1,298,149	\$1,569	\$21,163	\$1,568	\$20,096	\$1,342,545
Loss allowances	-	(157)	(4,233)	(470)	(16,513)	(21,373)
Amortized cost	<u>\$1,298,149</u>	<u>\$1,412</u>	<u>\$16,930</u>	<u>\$1,098</u>	<u>\$3,583</u>	<u>\$1,321,172</u>

2. The changes in loss allowances for accounts receivables of the Company and subsidiaries are as follows :

	2022	2021
Beginning balance	\$21,373	\$5,164
Impairment losses	-	16,209
Reversals and write-offs	-	-
Cumulative translation adjustment	4	-
Ending balance	<u>\$21,377</u>	<u>\$21,373</u>

3. The max exposure to credit risk of the accounts receivables is the carrying amount of the accounts receivables.
4. The Company and subsidiaries do not hold any collateral.
5. The Company and subsidiaries reclassified retentions receivables of NT\$30,414 thousand which were recognized as accounts receivables, to contract assets. As of December 31, 2021 and January 1, 2021, the reclassification amounted to NT\$32,469 thousand and NT\$42,067 thousand, respectively.

3) Inventories

	December 31, 2022	December 31, 2021
Merchandise inventories	\$1,229,287	\$1,958,420
Allowances for inventory valuation and obsolescence losses	(65,228)	(104,004)
Total	<u>\$1,164,059</u>	<u>\$1,854,416</u>

Costs of goods sold relevant to inventories are as follows :

	2022	2021
Costs of goods sold	\$4,889,088	\$4,797,997

Losses on scrap of inventories	22,571	23,602
Inventory valuation losses (reversal gains)	(41,312)	(722)
Total	<u>\$4,870,347</u>	<u>\$4,820,877</u>

As the reversal gains of inventory valuation losses are primarily from scraps and sales of inventories with allowances for inventory valuation, the net realizable value of inventories increased.

4) Prepayments

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Prepayments	\$242,790	\$221,840
Others	13,971	16,829
Total	<u>\$256,761</u>	<u>\$238,669</u>

5) Other current assets

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Restricted assets(pledged time deposits, reserve deposits)	\$212,151	\$231,703
Temporary payments	836	2,761
Payment on behalf of others	246	1,006
Total	<u>\$213,233</u>	<u>\$235,470</u>

6) Financial assets and liabilities at fair value through profit or loss

1. Financial assets :

<u>Item</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current items:		
Stocks of listed companies	<u>\$5,019</u>	<u>\$5,500</u>
Non-current items :		
Derivative instruments-Redemption and put options of convertible corporate bonds	<u>\$-</u>	<u>\$180</u>

2. Financial liabilities :

<u>Item</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Non-current items :		
Derivative instruments-Redemption and put options of convertible corporate bonds	<u>\$368</u>	<u>\$-</u>

7) Financial assets at fair value through other comprehensive income

Item	December 31, 2022	December 31, 2021
Non-current items :		
Equity instruments		
Stocks of unlisted companies	\$49,990	\$43,990
Valuation adjustments	83,305	151,483
Total	\$133,295	\$195,473

As the Company and subsidiaries invested in the stocks of for mid to long-term strategic purposes, and expects to earn profits by long-term investments, those investments were designated as measured at fair value through other comprehensive income.

8) Property, plant and equipment

	Land	Buildings and structures	Office equipment	Other equipment	Total
January 1, 2022					
Costs	\$111,724	\$93,413	\$41,683	\$86,146	\$332,966
Accumulated depreciation and impairment	-	(38,889)	(19,223)	(36,498)	(94,610)
	\$111,724	\$54,524	\$22,460	\$49,648	\$238,356
<u>2022</u>					
January 1	\$111,724	\$54,524	\$22,460	\$49,648	\$238,356
Additions	-	-	21,628	28,417	50,045
Disposals and scraps	-	-	(1,696)	-	(1,696)
Reclassification	-	-	-	(13,858)	(13,858)
Depreciation expenses	-	(2,476)	(14,905)	(24,846)	(42,227)
December 31	\$111,724	\$52,048	\$27,487	\$39,361	\$230,620
December 31, 2022					
Costs	\$111,724	\$82,815	\$50,590	\$87,707	\$332,836
Accumulated depreciation and impairment	-	(30,767)	(23,103)	(48,346)	(102,216)
	\$111,724	\$52,048	\$27,487	\$39,361	\$230,620

	Land	Buildings and structures	Office equipment	Other equipment	Total
January 1, 2021					
Costs	\$111,724	\$93,413	\$23,688	\$77,204	\$306,029
Accumulated depreciation and impairment	-	(35,120)	(10,546)	(24,645)	(70,311)
	<u>\$111,724</u>	<u>\$58,293</u>	<u>\$13,142</u>	<u>\$52,559</u>	<u>\$235,718</u>
<u>2021</u>					
January 1	\$111,724	\$58,293	\$13,142	\$52,559	\$235,718
Additions	-	-	14,734	30,036	44,770
Disposals and scraps	-	-	(1,481)	(37)	(1,518)
Reclassification	-	-	8,995	(9,563)	(568)
Depreciation expenses	-	(3,769)	(12,930)	(23,347)	(40,046)
December 31	<u>\$111,724</u>	<u>\$54,524</u>	<u>\$22,460</u>	<u>\$49,648</u>	<u>\$238,356</u>
December 31, 2021					
Costs	\$111,724	\$93,413	\$41,683	\$86,146	\$332,966
Accumulated depreciation and impairment	-	(38,889)	(19,223)	(36,498)	(94,610)
	<u>\$111,724</u>	<u>\$54,524</u>	<u>\$22,460</u>	<u>\$49,648</u>	<u>\$238,356</u>

1. As of December 31, 2022 and 2021, the property, plant and equipment held by the Company and subsidiaries are not impaired.

2. Please refer to Note 8 “pledged assets” for the information on property, plant and equipment pledge as collaterals.

9) Lease transactions—lessee

1. The underlying assets of the lease transactions that the Company and subsidiaries involve include buildings and structure, transportation equipment and miscellaneous equipment. The durations of lease terms are usually 2 to 5 years. The lease contracts are negotiated individually and applicable to different terms and conditions. Except for that the lease assets shall not be used as collaterals, there’s no other restriction imposed to the lease assets.

2. The information on the carrying amount of right-of-use assets and depreciation expenses recognized is as follows :

(a) Carrying amount of right-of-use assets

	December 31, 2022	December 31, 2021
Buildings	\$26,761	\$28,817
Transportation equipment	20,324	14,280
Miscellaneous equipment	1,230	387
Total	<u>\$48,315</u>	<u>\$43,484</u>

(b) Depreciation expenses of right-of-use assets

	2022	2021
Buildings	\$16,096	\$11,608
Transportation equipment	13,394	13,056
Miscellaneous equipment	422	422
Total	<u>\$29,912</u>	<u>\$25,086</u>

3. The additions to right-of-use assets for the years ended December 31, 2022 and 2021 amounted to NT\$35,328 thousand and NT\$27,282 thousand, respectively.

4. The lease liabilities are as follows :

	December 31, 2022		
	Minimum future lease payments	Interests	Present value of minimum lease payments
Current	\$25,682	\$(684)	24,998
Non-current	24,317	(438)	23,879
Total	<u>\$49,999</u>	<u>\$(1,122)</u>	<u>\$48,877</u>

	December 31, 2021		
	Minimum future lease payments	Interests	Present value of minimum lease payments
Current	\$23,040	\$(625)	22,415
Non-current	21,979	(400)	21,579

Total	\$45,019	\$(1,025)	\$43,994
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The total cash outflows for lease for the years ended December 31, 2022 and 2021 amounted to NT\$(30,852) thousand and NT\$(25,752) thousand, respectively.

10) Other non-current assets

Nature of borrowings	December 31, 2022	December 31, 2021
Prepayments for equipment	\$22,102	\$181
Refundable deposits	319,586	315,204
Total	\$341,688	\$315,385

11) Short-term borrowings

Nature of borrowings	December 31, 2022	December 31, 2021
Procurement loans	\$323,683	\$327,128
Other bank loans	97,635	181,907
Total	\$421,318	\$509,035
Interest rate interval	1.02 % ~ 2.39%	1.13 % ~ 2.00%

The Company and subsidiaries provided part of the assets as collaterals for aforementioned short-term borrowings. Please refer to Note 8 “pledged assets” for detailed explanation.

12) Accounts payables

	December 31, 2022	December 31, 2021
Accounts payables	\$1,036,466	\$697,024
Estimated accounts payables	44,116	69,162
Total	\$1,080,582	\$766,186

13) Other payables

	December 31, 2022	December 31, 2021
Wages and salaries payables	\$185,843	\$178,398
Employees’ remuneration payables	23,323	31,511
Sales tax payables	39,385	33,955

Other accrued expenses payables	43,157	39,188
Total	<u>\$291,708</u>	<u>\$283,052</u>

14) Provisions

	December 31, 2022	December 31, 2021
Current:		
Short-term liabilities from onerous contracts	\$-	\$2,536
Non-current:		
Long-term liabilities to be determined by legal procedures	\$12,283	\$12,283

15) Corporate bonds payables

- The outstanding convertible corporate bonds issued by the Company and subsidiaries are as follows :

	December 31, 2022	December 31, 2021
Total amount of convertible corporate bonds issued	\$300,000	\$300,000
Less : discount on corporate bonds payables	(3,350)	(5,756)
Less : accumulated conversion amount	(181,200)	(179,800)
Total	<u>\$115,450</u>	<u>\$114,444</u>

- The Company issued the fourth domestic unsecured convertible corporate bonds in 2021 for the future operating requirements and repayment of bank loans. The issuance was approved by the letter with No. Financial-Supervisory-Securities-Corporate-1100339335 from the FSC on April 23, 2021. The issuance terms are as follows :

Total amount issued	NT\$300,000 thousand
Issue date	May 25, 2021
Coupon rate	0%
Issue period	May 25, 2021~May 25, 2024
Terms of repayment	Unless the bonds are converted to ordinary shares of the Company in accordance with Article 10 of these Regulations, or the Company redeems in advance in accordance with Article 18 of these Regulations, or the Company buys back from the TPEX for the cancellation in accordance with Article 17, the Company shall repay in cash one lump sum by the denomination of bonds when the convertible bonds mature.
Terms of redemption	<p>1. From the day following the three-month period after the issuance of the convertible bonds to 40 days before the expiry of the issuance period, when the closing price of the Company's ordinary shares exceeds the current conversion price by 30% (inclusive) for 30 consecutive business days, the Company may redeem the outstanding bonds by the denomination of the bonds.</p> <p>2. From the day following the three-month period after the issuance of the convertible bonds to 40 days before the expiry of the issuance period, when the outstanding balance of the convertible bonds is lower than 10% of the original total issued amount, the Company may redeem the outstanding bonds by the denomination of the bonds.</p>
Terms of demanding pay back by bondholders	40 days before the two-year period after the issuance of the convertible bond, the bondholder may demand the Company to pay back the denomination of bonds plus interest refunds by cash. After two years, it's 100.50% of the denomination of the bonds.
Conversion period	From the day following the three-month period after the issuance of the convertible bonds to the maturity date, the bondholder may request the Company's stock agency for conversion of ordinary shares at any time based on the conversion terms, except during the period in which transfer is suspended by laws.
Conversion price	The conversion price at issuance is NT\$16.63.

16) Long-term borrowings

Creditor	Loan period and repayment	December 31, 2022	December 31, 2021
Taiwan Cooperative Bank	The contract period is from June 11, 2013 to June 11, 2028. The loan shall be repaid by installments. Interest rate for the loan is 1.80%.	\$15,018	\$17,611
Bank of Taiwan	The contract period is from June 12, 2014 to June 12, 2029. The loan shall be repaid by installments. Interest rate for the loan is 1.91%.	16,683	19,250
Less : current portion of long-term borrowings		(5,188)	(5,180)
		<u>\$26,513</u>	<u>\$31,681</u>

The Company and subsidiaries provided part of the assets as collaterals for aforementioned long-term borrowings. Please refer to Note 8 “pledged assets” for detailed explanation.

17) Pension

1.(a) The Company and subsidiaries have 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 Labor Standards Act. For employees who are eligible for retirement, 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. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years (included) and one unit for each additional year thereafter, subject to a maximum of 45 units. The Company and subsidiaries contribute monthly an amount equal to 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent Supervisory Committee of Labor Retirement Reserve Fund (the “Fund”). Before the end of each year, the Company and subsidiaries assess the balance in the aforementioned Fund. If the balance in the Fund is inadequate to pay the

retirement benefits of employees who are eligible for retirement in the following year by the aforementioned method, the Company and subsidiaries are required to fund the deficit in one appropriation before the end of next March.

(b) Amounts recognized in balance sheets are as follows :

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Present value of the defined benefit obligations	\$(140,156)	\$(146,108)
Fair value of the plan assets	48,826	46,203
Net defined benefit assets	<u>\$(91,330)</u>	<u>\$(99,905)</u>

(c) Changes in present value of the defined benefit obligations are as follows :

	<u>2022</u>	<u>2021</u>
Present value of the defined benefit obligations as of January 1	\$(146,108)	\$(143,949)
Current service costs	(1,215)	(1,274)
Interest costs of defined benefit obligations	(1,011)	(428)
Benefits paid	2,842	-
Actuarial gains (losses) from experience adjustments _經	(905)	(4,879)
Actuarial gains (losses) from changes in demographic assumptions	(1)	(810)
Actuarial gains (losses) from changes in financial assumptions	6,242	5,232
Present value of the defined benefit obligations as of December 31	<u>\$(140,156)</u>	<u>\$(146,108)</u>

(d) Changes in fair value of plan assets are as follows :

	<u>2022</u>	<u>2021</u>
Fair value of plan assets as of January 1	\$46,203	\$43,838
Expected interest income of plan assets	318	130
Return (losses) on plan assets	3,527	636
Funding by the employer	1,620	1,599
Benefits of plan assets paid	(2,842)	-

Fair value of plan assets as of December 31	<u>\$48,826</u>	<u>\$46,203</u>
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(e) Total amounts of expenses recognized in statements of comprehensive income :

	<u>2022</u>	<u>2021</u>
Current service costs	\$1,215	\$1,274
Interest costs of defined benefit obligations	1,011	428
Interest revenue of plan assets	(318)	(130)
Current pension costs	<u>\$1,908</u>	<u>\$1,572</u>

The aforementioned expenses are recognized in statements of comprehensive income as various costs and expenses as follows :

	<u>2022</u>	<u>2021</u>
Selling expenses	\$1,272	\$1,059
Administrative expenses	555	446
Research and development expenses	81	67
Total	<u>\$1,908</u>	<u>\$1,572</u>

(f) Actuarial gains (losses) recognized in other comprehensive income are as follows :

	<u>2022</u>	<u>2021</u>
Recognized in the current period	\$8,863	\$179
Cumulative amount	<u>\$(34,527)</u>	<u>\$(43,390)</u>

(g) The employee pension fund of defined benefit plan is deposited under a trust administered by the Bank of Taiwan. Bank of Taiwan follows the proportion and amount of operation items designated in the utilization plan of the fund, according to the items designated in Act. 6 of Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund (which are deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate and its securitization products, etc.), to operate the commission. The related utilization guarantees the minimum return to be no less than the return attainable from interest rates offered by local banks for two-year time deposits. For the composition of fair value of the fund assets as of December 31, 2022 and 2021, please refer to the utilization report of labor retirement fund of each year publicly announced by the government.

The expected rate of return of the entire plan asset is estimated by the forecast to the return of the entire period of the obligations based on the trend of historical returns, and referring to the utilizations of the pension fund supervised by the Bureau of Labor Funds, and the estimates take into consideration the effect that the minimum return to be no less than the return attainable from interest rates offered by local banks for two-year time deposits.

(h) Actuarial assumptions related to pension are summarized as follows :

	2022	2021
Discount rate	1.25%	0.70%
Rate of expected future salary increase	3.00%	3.00%

The mortality assumption is based on the sixth and fifth life insurance mortality table of Taiwan's life insurance industry.

The effects of the present value of defined benefit obligation due to the changes in main actuarial assumptions :

	Discount rate		Rate of expected future salary increase	
	Increase by 0.25%	Decrease by 0.25%	Increase by 0.25%	Decrease by 0.25%
December 31, 2022				
Effects to the present value of defined benefit obligation	\$(2,695)	\$2,782	\$2,728	\$(2,656)
December 31, 2021				
Effects to the present value of defined benefit obligation	\$(3,181)	\$3,291	\$3,208	\$(3,119)

The sensitivity analyses above have been determined based a method that extrapolates the effects on the net defined obligation as a result of a single change in key assumptions. Practically, the changes of assumptions may be correlated. The method that the sensitivity analyses adopted is the same as what the calculation of net pension liabilities in the balance sheets do.

The method and assumptions used for the sensitivity analyses in the current period are the same as the prior period.

(i) The historical information of experience adjustments is as follows :

	2022	2021
Present value of defined benefit obligations	\$(140,156)	\$(146,108)
Fair value of plan assets	48,826	46,203
Surplus (deficit) in the plan	\$(91,330)	\$(99,905)
Experience adjustments of plan liabilities	\$(5,336)	\$457
Experience adjustments of plan assets	\$3,527	\$636

(j) The Company and subsidiaries expect to make pension fund contribution of NT\$1,619 in 2023.

2.(a) Since July 1, 2005, based on Labor Pension Act., the Company and subsidiaries have defined contribution plan covering regular employees with R.O.C. nationality, and make monthly contributions of 6% based on each individual employee's salary or wage to employees' pension accounts for employees who chose to continue to be subject to the pension mechanism under the Labor Standards Act. The contribution plan accrued dividends from an employee's individual account is paid monthly or in lump sum upon retirement of an employee.

(b) The pension costs recognized based on the aforementioned pension plan for the years ended December 31, 2022 and 2021 amounted to NT\$36,938 thousand and NT\$35,041 thousand, respectively.

(c) As for subsidiaries in China, based on the pension system regulated by the local government, the subsidiaries shall contribute a certain percentage of the salaries or wages of employees as pension. The only obligation of the subsidiaries is to make yearly contribution.

18) Share capital

	December 31, 2022	December 31, 2021
Authorized capital stock	\$2,000,000	\$2,000,000
Ordinary shares	\$1,336,934	\$1,228,817
Conversion of corporate bonds	842	108,117
Issued shares	\$1,337,776	\$1,336,934

1. The outstanding numbers of ordinary shares in the beginning and in the end of the period are reconciled as follows :

(Unit : thousands of shares)

2022	2021

Beginning number of shares	129,356	118,544
Treasury shares transferred to employees	3,377	-
Ordinary shares from conversion of corporate bonds payables	84	10,812
December 31	132,817	129,356

2. The cash capital increase by private placement was approved by the shareholders meeting on June 28, 2019, and the board of directors resolved that the base date of the private placement is on August 5, 2019, and the number of shares for the private placement is 19,400 thousand of shares with subscription price of NT\$13.7 per share. The total amount raised was NT\$265,780 thousand. The retroactive handling of public issuance procedures of the private placement of ordinary shares have been approved by Taipei Exchange on November 10, 2022.

3. Treasury shares

(a) The changes in treasury shares are as follows : (Unit : thousands of shares)

Reason of the reacquisition	For the year ended December 31, 2022			
	January	Additions	Reductions	December 31
Transfer the shares to employees	4,338	-	3,377	961

Reason of the reacquisition	For the year ended December 31, 2021			
	January	Additions	Reductions	December 31
Transfer the shares to employees	4,338	-	-	4,338

(b) The reacquisition of 4,338 thousand of treasury shares amounting to NT\$59,797 thousand has been resolved by the board of directors on March 23, 2020. The board of directors has resolved to transfer 3,377 thousand of treasury shares to employees with the consideration amounting to NT\$42,625 thousand at November 7, 2022, and recognized the costs for share-based payments of NT\$6,551 thousand. As of December 31, 2022, the balance of treasury shares amounted to NT\$13,247 thousand, 961 thousand of shares.

(c) According to the Securities and Exchange Act, the treasury shares held by the Company shall not be pledged. Before transfer, the shareholder's rights, such as dividend distribution, voting,

shall not be enjoyed.

19) Capital surplus

According to the regulation of the Company Act, where a company incurs no loss, it may distribute the income derived from the issuance of new shares at a premium, and the income from endowments received by the company, by issuing new shares or by cash. Based on the regulations of the Securities and Futures Bureau, where a company intends to capitalize the capital surplus, the total amount per year shall not exceed 10 percent of paid-in capital. An amount transferred to capital surplus may not be capitalized until the fiscal year after the competent authority for company registrations approves registration of the capital increase or whatever other matter generated that portion of capital surplus.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Additional paid-in capital	\$342,405	\$341,832
Treasury shares transactions	8,447	5,822
Employee stock options	4,027	4,027
Warrants of corporate bonds	5,058	5,118
Total	<u>\$359,937</u>	<u>\$356,799</u>

20) Retained earnings

1. Legal reserve

The legal reserve shall not be used except for making good the deficit of the company. Where a company incurs no loss, legal reserve may be distributed by issuing new shares or by cash, for the portion in excess of 25% of the paid-in capital.

2. Special reserve

(a) When distributing distributable earnings, the Company shall set aside special reserve for the net debit elements of other equity according to regulations. If any of the net debit elements under other equity is reversed, the special reserve in the amount equal to the reversal may be reversed for earnings distribution.

(b) The amounts previously set aside by the Company as special reserve at first-time adoption of

IFRSs in accordance with the approval letter with reference number Financial-Supervisory-Securities-Corporate-1010012865 issued on April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed, or reclassified subsequently. Such amounts are reversed upon disposal or reclassification if the assets are investment property of land, and reversed over the used period if the assets are investment property other than land.

3. Earnings distribution

- (a) According to the Article 20 of the Company's Articles of Incorporation, the Company shall allocate remuneration to employees at the rate of 10% to 20% of annual profits, and to directors and supervisors at the rate of no higher than 1% of annual profits during the period; provided, however, that when the Company has accumulated losses, the profits shall be preserved to make up for losses, before distributing to employees, directors, and supervisors.

If there is any net profit after closing of a fiscal year, the Company shall first pay income tax, offset losses in previous years, set aside a legal capital reserve at 10% of the profits left over; and then set aside a special reserve in accordance with regulations. If there is still remaining balance, the Company may retain part of the profits if necessary and set aside the balance as shareholders' dividends.

As the industry that the Company operates in is in the growth period, in considering the demand of future funding and shareholders' requirements of cash inflows, if there is any net profit after closing of a fiscal year, the ratio of cash dividend shall be lower than 10% of total distribution, and the others shall be paid by stock dividends.

- (b) The information about the distribution of earnings of 2021 resolved by the shareholders meeting is available at the Market Observation Post System website of TWSE.
- (c) Please refer to Note 6.25 for the information on employees', directors', and supervisors' remuneration.

21) Net revenue

1. Revenue from contracts with customers

	2022	2021
Sales revenue, net	\$5,033,669	\$4,970,897
Maintenance revenue	658,452	734,857
Construction revenue	271,052	327,758
Service revenue	101,194	20,938
Other operating revenue	30,082	138,282
Total	\$6,094,449	\$6,192,732

2. Information on revenue from contracts with customers is as follows :

(a) Classification of revenue

Time point of revenue recognition :

	2022	2021
At a point of time	\$5,058,381	\$5,035,592
Recognize over time	1,036,068	1,157,140
Total	\$6,094,449	\$6,192,732

(b) Balances of contracts

	December 31, 2022	December 31, 2021 (reclassification)
Contract assets	\$30,414	\$32,469
Contract liabilities	\$902,641	\$1,411,614

As of December 31, 2022 and 2021, the beginning balances of contract liabilities recognized as revenue in the years ended December 31, 2022 and 2021 amounted to NT\$1,090,818 thousand and NT\$295,776 thousand, respectively.

When control of goods and services has transferred to customers, but the Company and subsidiaries do not have the unconditional right to receive the consideration, contract assets shall be recognized. A contract liability shall be recognized for the obligation to transfer goods or services to a customer for which the Company and subsidiaries have received part of the consideration from the customer, and shall be transferred to revenue when the performance

obligation is fulfilled subsequently.

22) Other income

	2022	2021
Income from government grants	\$36,707	\$25,430
Miscellaneous Income	20,335	11,527
Total	\$57,042	\$36,957

23) Other gains and losses

	2022	2021
Gains (losses) on disposal and scrap of property, plant and equipment	\$219	\$336
Net foreign exchange gains (losses)	21,007	2,080
Gains (losses) on valuation of financial liabilities at fair value through profit or loss	(1,035)	1,037
Miscellaneous disbursements	(20,011)	(17,097)
Total	\$180	\$(13,644)

24) Additional information on the nature of expenses

	2022	2021
Costs of goods sold	\$4,140,381	\$4,034,039
Maintenance costs	392,182	428,340
Construction costs	250,693	257,695
Other operating costs	87,091	100,803
Employee benefits expenses	970,039	970,287
Depreciation, amortization, and impairment expenses	92,684	80,636
Travelling and insurance expenses	11,543	21,843

Other expenses	32,296	88,152
Total	<u>\$5,976,909</u>	<u>\$5,981,795</u>

25) Employee benefits expenses

	2022	2021
Payroll expenses	\$840,928	\$841,537
Labor and health insurance expenses	66,100	63,669
Pension expenses	38,846	36,613
Directors' remuneration	1,742	1,320
Other employment expenses	22,423	27,148
Total	<u>\$970,039</u>	<u>\$970,287</u>

(a) According to the Company's Articles of Incorporation, the Company shall allocate remuneration to employees at the rate of 10% to 20% of annual profits, and to directors and supervisors at the rate of no higher than 1% of annual profits during the period; provided, however, that when the Company has accumulated losses, the profits shall be preserved to make up for losses, before distributing to employees, directors, and supervisors.

(b) For the years ended December 31, 2022 and 2021, the employees' remuneration accrued amounted to NT\$22,261 thousand and NT\$30,463 thousand, respectively; the directors' and supervisors' remuneration accrued amounted to NT\$1,855 thousand and NT\$2,539 thousand, respectively. The aforementioned amounts are recognized as payroll expenses. The differences between the employees' remuneration and directors' and supervisors' remunerations for the years ended December 31, 2021 resolved by the board of directors and the amounts recognized in the financial statements for the year ended December 31, 2021 are NT\$3,593 thousand and NT\$299 thousand overestimated, respectively, which have been adjusted in the profit or loss for the year ended December 31, 2022. Employees' remuneration is paid by cash.

(c) The information about the employees', directors', and supervisors' remuneration approved by the board of directors and resolved by the shareholders meeting is available at the Market Observation

Post System website of TWSE.

26) Financial costs

	2022	2021
Interest expenses :		
Bank loans	\$10,697	\$10,893
Lease liabilities	1,012	751
Corporate bonds	2,355	3,087
	<u>\$14,064</u>	<u>\$14,731</u>

27) Income tax

1. Income tax expenses comprise :

	2022	2021
Current income tax :		
Current income tax charge	\$16,100	\$50,133
Additional tax on undistributed earnings	2,578	-
Underestimation (overestimation) of income tax of prior periods	(1,883)	1,135
Total current income tax	<u>\$16,795</u>	<u>\$51,268</u>
Deferred income tax :		
Origination and reversal of temporary differences	8,728	(1,937)
Income tax expenses (benefits)	<u>\$25,523</u>	<u>\$49,331</u>

2. Relationship between income tax expenses and accounting profits

	2022	2021
Tax payables calculated by profit (loss) before tax multiplying the enacted tax rates	\$32,724	\$44,171
Tax effect of items that shall not be included in calculating income tax	(16,624)	5,962
Additional tax on undistributed earnings	2,578	-
Tax effect of temporary difference	8,728	(1,937)
Underestimation (overestimation) of income tax of prior periods	(1,883)	1,135
Income tax expenses (benefits)	<u>\$25,523</u>	<u>\$49,331</u>

3. The amounts of deferred tax assets or liabilities arising from temporary differences, loss carryforwards, and investment tax credits are as follows :

	2022			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences :				
-Deferred tax assets				
Recognition of inventory valuation losses	\$20,309	\$(7,757)	\$-	\$12,552
Recognition of estimated litigation losses	2,456	-	-	2,456
Recognition of pension expenses	4,390	58	-	4,448
Recognition of net pension costs and actuarial gains and losses	15,563	-	(1,772)	13,791
Recognition of loss carryforwards	2,105	-	-	2,105

Others	2,608	(1,030)	-	1,578
Total	<u>\$47,431</u>	<u>\$(8,729)</u>	<u>\$(1,772)</u>	<u>\$36,930</u>
-Deferred tax liabilities				
Unrealized gains (losses) on valuation of financial liabilities at fair value through other comprehensive income	\$ (33,523)	\$-	\$(15,741)	\$ (17,782)
Total	<u>\$(33,523)</u>	<u>\$-</u>	<u>\$(15,741)</u>	<u>\$(17,782)</u>

	2021			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences :				
-Deferred tax assets				
Recognition of inventory valuation losses	\$20,446	\$(137)	\$-	\$20,309
Recognition of estimated litigation losses	2,569	(113)	-	2,456
Recognition of pension expenses	4,395	(5)	-	4,390
Recognition of net pension costs and actuarial gains and losses	15,599	-	(36)	15,563
Recognition of loss carryforwards	2,105	-	-	2,105
Others	415	2,193	-	2,608
Total	<u>\$45,529</u>	<u>\$1,938</u>	<u>\$(36)</u>	<u>\$47,431</u>
-Deferred tax liabilities				
Unrealized gains (losses) on valuation of financial liabilities at fair value through other comprehensive income	\$ (34,694)	\$-	\$1,171	\$ (33,523)
Total	<u>\$(34,694)</u>	<u>\$-</u>	<u>\$1,171</u>	<u>\$(33,523)</u>

4. The declaration of the Company and subsidiaries' profit-seeking enterprise income tax has been verified by the tax collection authority until the years as follows :

	Verification year
The Company	2020
Subsidiary – TARANTULA NETWORKS LTD.	2020
Subsidiary – FAMILY PLUS TECHNOLOGY INC.	2020
Subsidiary – S-LINK SYSTEMS INC.	2020

28) Earnings per share

	2022		
	Amount net of tax	Weighted average number of ordinary shares outstanding (thousand)	Earnings per share (NT\$)
<u>Basic earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares	\$138,097	129,957	\$1.06
<u>Effects of dilutive potential ordinary shares</u>			
The fourth convertible corporate bonds	1,883	7,189	
Employees' remuneration	-	1,830	
<u>Diluted earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares plus the effects of dilutive potential ordinary shares	\$139,980	138,976	\$1.01
2021			
	Amount net of tax	Weighted average number of ordinary shares outstanding (thousand)	Earnings per share (NT\$)
<u>Basic earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares	\$171,524	120,318	\$1.43
<u>Effects of dilutive potential ordinary shares</u>			

The fourth convertible corporate bonds	2,470	16,265	
Employees' remuneration	-	1,474	
<u>Diluted earnings per share</u>			
Profit attributable to owner of the parent company's ordinary shares plus the effects of dilutive potential ordinary shares	\$173,994	138,057	\$1.26

1. In calculating diluted earnings per share, if the Company may distribute the employees' remuneration in stock, the potential ordinary shares shall be added into the weighted average number of ordinary shares outstanding when they become dilutive. The fair value of the potential ordinary shares at the end of the reporting period is the basis for determination of number of shares issued. Before determining the number of shares distributed as employees' remuneration, in calculating diluted earnings per share, the Company shall keep considering the dilution of the potential ordinary shares.
2. If distribution of employees' remuneration by stock and the number of shares to be distribute has been resolved, it shall be added into the calculation of earnings per share in the year of the resolution.
3. It the operating results of the Company and subsidiaries are deficit or adding the potential ordinary shares of convertible bonds is antidilutive, they are not included in the calculation of diluted earnings per share.

Weighted average number of ordinary shares outstanding is calculated as follows :
(Unit : thousands of shares)

	2022	2021
Beginning number of shares	129,356	118,544
Treasury shares transferred to employees	563	-
Corporate bonds converted into ordinary shares	38	1,774
Total	129,957	120,318

(7) Related party transactions

1) Names and relationships of related parties

Name of related parties	Relationship with the Company and subsidiaries
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ADVANTECH Co., Ltd.

Associate

2) Significant transactions with related parties :

1. Purchases

	2022	2021
Associates	\$24,486	\$29,346

The purchases from related parties are based on the general purchase conditions (market price), and the payment terms are 1 to 2 months.

2. Accounts payables

	December 31, 2022	December 31, 2021
Associates	\$8,880	\$18,000

3) Information on key management personnel compensation

	2022	2021
Payroll and other short-term employee benefits	\$98,379	\$89,712

(8) Pledged assets

The assets pledged as collaterals are as follows :

Assets	Carrying amount	
	December 31, 2022	December 31, 2021
Other current assets- time deposits and reserve account	\$212,151	\$231,703
Property, plant and equipment	163,772	166,248
Total	\$375,923	\$397,951

- 1) The pledged assets are presented at carrying amount.
- 2) The pledged assets are provided for collaterals for loans from financial institutions.

(9) Significant contingencies and unrecognized contract commitments

- 1) Contingencies

	December 31, 2022	December 31, 2021
(a) Unused usance L/C issued for importing cargo	\$279,181	\$59,830
(b) Guarantee notes submitted for performance of constructions	182,545	820,324
(c) Letter of guarantee issued for bid bonds and performance bonds	589,039	637,280
Total	\$1,050,765	\$1,517,434

(d) The Company purchased equipment from NTT TAIWAN LTD. (hereinafter “NTT”) for the “building of Asia Pacific Telecom’s server room project” outsourced by NOKIA SOLUTIONS AND NETWORKS TAIWAN CO., LTD. (hereinafter “Nokia”), and dispute occurred. NTT alleged that the Company, Nokia, and Asia Pacific have the cause of not making payments, and complaint and requested joint damage or quasi-joint compensation from the aforementioned 3 companies, including the Company. The case been judged against the Company in the trial of first insurance by Taiwan Shilin District Court on January 14, 2020. The Company has recognized the relevant losses of NT\$12,846 thousand (USD428,482 thousand) for the payable amount based on the conservatism principle, which are recognized under non-current liabilities-provisions. The Company appealed and the High Court judged on September 15, 2021 that the Company shall pay NTT USD18,779 thousand and the accrued interest calculated from October 24, 2017 to the repayment date by annual interest rate of 5%. The residual USD409,703 thousand and the interests shall be paid by Asia Pacific Telecom based on the amendment to the judgment.

After consulting legal expert for legal advices, for the USD409,703 appealed by Asia Pacific Telecom and NTT, the Company did not issue purchase order to NTT, and the upstream of the Company, Nokia, did not issue purchase order to the Company. Therefore, the amount shall not be paid by the Company. However, as NTT and Asia Pacific Telecom has appealed for the third instance, and the case has been remanded to the High Court by the Supreme Court, the final result is not determined in July, 2022. Therefore, as of December 31, 2022, the balance of the provisions amounted to NT\$12,283 thousand.

(10) Losses due to major disasters : None.

(11) Significant subsequent events : None.

(12) Others

1) Capital risk management

The primary objective of the Company and subsidiaries' capital management is to ensure that it operates continuously and maintains optimal balances of debts and equity to maximize the returns to shareholders. The Company and subsidiaries maintain good profitability and financial ratios by reviewing and measuring relevant costs, risk and rate of return on a regular basis. The Company and subsidiaries balance the entire capital structure by various financing method as appropriate, to cope with the requirements to operating funds, repayments of debts, and dividends in the future.

2) Financial instruments

1. Fair value information of financial instruments

(a) All the carrying amounts of financial instruments not measured at fair value (including cash and cash equivalents, financial assets, notes receivables, accounts receivables, contract assets and liabilities, other receivables, borrowings, accounts payables, other payables, and financial liabilities) that are not measure at fair value, are the reasonable approximations of fair value.

2. Financial risk management policies

(a) The normal operation of the Company and subsidiaries is affected by various financial risks, including market risk (including foreign currency risk, interest rate risk, and price risk), credit risk, and liquidity risk. In order to decrease the potential adverse impact on the financial position and financial performance, the Company and subsidiaries' entire risk management policies put emphasis on the unpredictable events in the financial market.

(b) The financial risk management is implemented by the finance department based on the transaction authority approved by the board of directors. The Company and subsidiaries' financial departments are responsible for identifying, evaluating and hedging financial risk by closely communicating with operating units.

3. Information on significant financial risk

(a)Market risk

i. Foreign currency risk :

A. As part of the cash inflows and outflows are denominated in foreign currencies, there are natural hedging effects. The purpose of the management of foreign currency risk is for hedging, instead for profiting.

B. The strategies to manage foreign currency risk are to review the net position of assets and liabilities denominated in foreign currencies (primarily USD and JPY) on a

regular basis, and implement risk management to the position. The election of instruments to hedge foreign currency risk considers the hedging costs and hedging periods. Currently, raising debts denominated in foreign currencies is the primary tool to hedge foreign currency risk. As the liabilities denominated in foreign currencies are exposed to foreign currency risk, the Company and subsidiaries usually transform the borrowings denominated in foreign currencies into borrowings denominated in NTD.

Therefore, significant foreign currency risk is expected not to occur in general.

The information on the monetary assets and liabilities denominated in foreign currencies at the end of the reporting period is as follows :

December 31, 2022						
Foreign currency	Carrying amount		Sensitivity analysis			
			Impact on profit or loss	Variation	Impact on comprehe nsive income	Impact on other comprehe nsive income
(Note 1) (thousan d)	Exchan ge rate	(NTD)				
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$5,674	30.67	\$174,022	1%	\$1,740	\$-
CNY	1,844	4.39	8,088	1%	81	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	2,768	30.78	85,199	1%	852	-
CNY	109	4.44	484	1%	5	-
JPY	46,980	0.23	10,989	1%	110	-

Note 1 : The foreign currencies are not the functional currencies in each consolidated entity, including the transactions within the Group which are written off in the consolidated financial statements and the foreign currency risk that is unable to be written off completely.

December 31, 2021						
Foreign currency	Carrying amount		Sensitivity analysis			
			Impact on other comprehe nsive income	Impact on profit or loss	Variation	(NTD)
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$12,952	27.61	\$357,605	1%	\$3,576	\$-
CNY	1,986	4.32	8,580	1%	86	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	2,626	27.73	72,819	1%	728	-
CNY	174	4.37	760	1%	8	-
JPY	35,661	0.24	8,559	1%	86	-

The unrealized exchange gains (losses) of monetary items with significant influence due to exchange rates fluctuations for the years ended December 31, 2022 and 2021 amounted to NT\$(537) thousand and NT\$(1,998) thousand, respectively.

- ii. Price risk : As the investments held by the Company and subsidiaries are classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income in the consolidated balance sheets, the Company and subsidiaries are exposed to price risk of equity instruments. In order to manage the price risk of equity instruments, the Company and subsidiaries control the risk by diversifying the investment portfolio.
- iii. Interest rate risk : The interest rate risk is from borrowings from bank. The Company and subsidiaries are exposed to cash flow interest rate risk due to borrowings at floating interest rate, and part of the risk is offset by the cash and cash equivalents at floating interest rate. The Company and subsidiaries are exposed to fair value interest rate risk due to borrowings at fixed interest rate. The Company and subsidiaries' policy is adopting fixed interest rate.

(b) Credit risk

- i. Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial losses to the Company and subsidiaries. The Company and subsidiaries are exposed to credit risks from cash, deposited in banks and financial institutions, fixed income investments, other financial instruments and receivables arising from operating activities.
- ii. Most of the debtors of the receivables are credible companies or government agencies. As there is no significant bad debt in recent years, and the adequacy of loss allowances is reviewed on a regular basis, there is no significant credit risk.
- iii. The credit risk of bank deposits, fixed income investments and other financial instruments is measured and reviewed by operating management department. As the transaction and performance counterparties are credible banks and financial institutions, there is no significant credit risk.

(c) Liquidity risk

- i. The cash flow forecast is summarized by the financial department. The financial department monitors the forecast of working capital requirement, ensures there's enough capital to support the operating requirements, and maintains enough unused commitments of borrowings at any time, to prevent the Company and subsidiaries from breaching related credit lines of borrowings or terms.
- ii. The table below analyzed the Company and subsidiaries' non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The contractual cash flows disclosed below are not discounted.

Non-derivative financial
liabilities

December 31, 2022	Within 3 months	3 month to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Short-term borrowings	\$134,456	\$286,862	\$-	\$-	\$-
Accounts payables	461,690	596,431	18,774	3,687	-
Other payables	249,927	41,397	381	3	-

Corporate bonds payables (including the current portion)	-	-	118,800	-	-
Lease liabilities	7,476	18,206	14,721	9,596	-
Long-term borrowings (including the current portion)	1,293	3,895	5,235	16,001	5,277
Non-derivative financial liabilities					
December 31, 2021	Within 3 months	3 month to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Short-term borrowings	\$131,822	\$377,213	\$-	\$-	\$-
Accounts payables	461,682	304,504	-	-	-
Other payables	235,557	47,492	-	3	-
Corporate bonds payables (including the current portion)	587	1,779	2,415	121,221	-
Lease liabilities	6,390	16,650	13,743	8,236	-
Long-term borrowings (including the current portion)	1,292	3,888	5,214	15,853	10,614

3) Estimates of fair value

1. The valuation techniques adopted to analyze the financial instruments at fair value are as the table below. The definitions of each level are as follows :

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities that entities can access at the measurement date. An active market is the market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 : unobservable inputs for the assets or liabilities. The investment properties held by the Company are in the scope.

The financial assets and liabilities measure at fair value as of December 31, 2022 and 2021 are

as follows :

December 31, 2022	Level 1	Level 2	Level 3	Total
<u>Current financial assets at fair value through profit or loss</u>				
Stocks of listed companies	\$5,019	\$-	\$-	\$5,019
<u>Non-current financial assets at fair value through profit or loss</u>				
Stocks of unlisted companies	\$-	\$-	\$133,295	\$133,295
<u>Non-current financial liabilities at fair value through profit or loss</u>				
Derivative financial instruments	\$-	\$368	\$-	\$368
December 31, 2021	Level 1	Level 2	Level 3	Total
<u>Current financial assets at fair value through profit or loss</u>				
Stocks of listed companies	\$5,500	\$-	\$-	\$5,500
<u>Non-current financial assets at fair value through profit or loss</u>				
Derivative financial instruments	\$-	\$180	\$-	\$180
<u>Non-current financial assets at fair value through profit or loss</u>				
Stocks of unlisted companies	\$-	\$-	\$195,473	\$195,473

(a) For the years ended December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements.

(b) Changes in Level 3 financial instruments are as follows :

	Non-derivative equity instruments	
	2022	2021
January 1	\$195,473	\$210,335

	Non-derivative equity instruments	
	2022	2021
Purchase in current period	6,000	-
Recognized in other comprehensive income (Recognized as unrealized valuation gains and losses on investments in equity instruments at fair value through other comprehensive income)	(68,178)	(14,862)
December 31	\$133,295	\$195,473

2. Valuation techniques used to evaluate financial instruments include :

- (a) The quoted price in a public market or from dealers of an identical instrument.
- (b) Other valuation techniques to determine the fair value of the other financial instruments, e.g. discounted cash flow analysis.

3. The valuation process of fair value categorized in level 3 is verifying the independent fair value of financial instruments by accounting department, making the valuation results close to market condition by data from independent sources and reviewing on a regular basis, to ensure the valuation results are reasonable.

4. As the Company and subsidiaries carefully assessed and selected the valuation model and valuation parameters, the fair value measurement shall be reasonable. However, different valuation model or parameter may result in different valuation results. The quantitative information on the significant unobservable inputs used in valuation models of level 3 fair value measurement is as follows :

	December 31, 2022 Fair value	Valuation technique s	Significant unobservable inputs	Interval (Weighted- average)	Relationship between the inputs and fair value
Non-derivative equity instruments : Stocks of unlisted companies	\$133,295	Market approach	Book-to-market ratio, Price- to-sales ratio,	-	The higher the book- to-market ratio is, the higher the fair value is ; the higher the

capital structure
adjustment ratio

capital structure
adjustment ratio is,
the lower the fair
value is.

As there are changes of $\pm 1\%$ in significant unobservable input, the effects recognized in other comprehensive income amounted to NT\$1,935 thousand and NT\$(1,907) thousand.

(13) Other disclosures

1) Information on significant transactions

1. Loans to others : None.

2. Provision of endorsements and guarantees to others : None.

3. Holding of marketable securities at the end of the period (excluding investment in subsidiaries, associates, and joint ventures) :

Name of holder	Category and name of security (Note 1)	Relationship with the Company (Note 2)	Account	Ending balance				Note (Note 4)
				Shares or units	Carrying amount (Note3)	Percentage of ownership	Fair value	
HwaCom Systems Inc.	Zero One Technology Co.,Ltd.	-	Current financial assets at fair value through profit or loss	125	\$5019	0.08%	\$5,019	
HwaCom Systems Inc.	GENIE NETWORKS LIMITED	-	Non-current financial assets at fair value through other comprehensive income	906	17,751	3.53%	\$17,751	
HwaCom Systems Inc.	VeriSilicon Microelectronics(Shanghai)Co.,Ltd.	-	Non-current financial assets at fair value through other comprehensive income	713	103,886	0.14%	103,886	
HwaCom Systems Inc.	ACOM NETWORKS TECHNOLOGY CO., LTD.	-	Non-current financial assets at fair value through other comprehensive income	380	6,373	19.00%	6,373	
HwaCom Systems Inc.	Taiwan Botong Software Technology Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	500	-	11.63%	-	
HwaCom Systems Inc.	OMNI MEDIA INTERNATIONAL INCORPORATION	-	Non-current financial assets at fair value through other comprehensive income	500	2,195	0.76%	2,195	
HwaCom Systems Inc.	LEON ENERGY CO., LTD.	-	Non-current financial assets at fair value through other comprehensive income	100	1,905	0.44%	1,905	
TARANTULA NETWORKS LTD.	ZQAM COMMUNICATIONS CORPORATION -ordinary shares	-	Non-current financial assets at fair value through other comprehensive income	188	823	1.15%	823	
TARANTULA NETWORKS LTD. 司	ZQAM COMMUNICATIONS CORPORATION –preferred shares	-	Non-current financial assets at fair value through other comprehensive income	82	362	-	362	

Note 1 : The securities in the table are within the stocks, bonds, beneficiary certificates, and derivative securities of aforementioned items within the scope of IFRS 9 “Financial Instruments: Recognition and Measurement”

Note 2 : If the issuer of the security is not a related party, the column shall be left blank.

Note 3 : For those measured at fair value, the carrying amount shall be filled in the carrying balance after fair value valuation adjustments and less the accumulated impairment. For those not measured at fair value, the carrying amount shall be filled in the carrying balance of initial acquisition costs or amortized costs less accumulated impairment.

Note 4 : If the securities listed are restricted for providing guarantee or collaterals for borrowings, the number of shares provided for guarantee or collateral, the guaranteed or borrowed amount, and the restricted conditions shall be filled in the Note column.

4. Acquisition or sale of the same security with the accumulated cost exceeding NT\$300 million or 20% of the Company's paid-in capital or more : None.

5. Acquisition of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more : None.

6. Disposal of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more : None.

7. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more : None.

8. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more : None.

9. Trading in derivative instruments : None.

10. Significant transactions, prices, payments terms and unrealized gains or losses with investees in Mainland China through a holding company registered in a third region : None.

11. Business relationships among the parent company and subsidiaries, and significant intercompany transactions and amounts :

No. (Note 1)	Name of company	Name of counterparty	Relationship (Note 2)	Intercompany transactions			
				Account	Amount (Note 4)	Trading terms	Percentage accounting for the consolidated total revenue or

							total assets (Note 3)
0	HwaCom Systems Inc.	S-LINK SYSTEMS INC.	1	Prepayments to suppliers	\$1,094	Based on general terms	0.02%
0	HwaCom Systems Inc.	S-LINK SYSTEMS INC.	1	Rental income	\$34	Based on general terms	0.00%
0	HwaCom Systems Inc.	S-LINK SYSTEMS INC.	1	Sales revenue	125	Based on general terms	0.00%
0	HwaCom Systems Inc.	S-LINK SYSTEMS INC.	1	Accounts payables	3,485	Based on general terms	0.07%
0	HwaCom Systems Inc.	S-LINK SYSTEMS INC.	1	Purchase	7,680	Based on general terms	0.13%
0	HwaCom Systems Inc.	TARANTULA NETWORKS LTD.	1	Rental income	11	Based on general terms	0.00%
0	HwaCom Systems Inc.	TARANTULA NETWORKS LTD.	1	Guaranteed deposits received	3	Based on general terms	0.00%
0	HwaCom Systems Inc.	Family plus technology Inc.	1	Rental income	34	Based on general terms	0.00%
0	HwaCom Systems Inc.	Family plus technology Inc.	1	Guaranteed deposits received	10	Based on general terms	0.00%
0	HwaCom Systems Inc.	Family plus technology Inc.	1	Purchase	452	Based on general terms	0.01 %

Note 1 : Business relationships among the parent company and subsidiaries, and significant intercompany transactions shall be filled in the No. column as the way below :

1. The parent company:0
2. Investees: sequentially numbered from 1.

Note 2 : There are three types of intercompany relationships as follows. Please indicate the type by numbers :

1. Parent to subsidiary
2. Subsidiary to parent
3. Subsidiary to subsidiary

Note 3 : Concerning the calculation of percentage accounting for the consolidated net revenue or total assets, for assets and liabilities, the percentage shall be calculated by the ending balance accounting for the consolidated total assets. For profit or loss, the percentage shall be calculated by the cumulative amount accounting for consolidated total revenue

Note 4 : The transactions have been eliminated in preparing the consolidated financial statements.

2) Information on investees

1. The Information about company names, locations, etc. of Investees (excluding the investees in Mainland China) :

Investor company	Investee company (Note 1, 2)	Location	Main business	Original investment amount		Holding in the end of period			Profit (loss) of investees in the current period (Note 2(2))	Gains (losses) on investments recognized in the current period (Note 2(3))	Note
				December 31, 2022	December 31, 2021	Number of shares	Percentage	Carrying amount			
HwaCom Systems Inc.	TARANTULA NETWORKS LTD.	New Taipei City	Information software and communication engineering, etc.	\$19,980	\$19,980	2,000	100.00	\$10,432	\$(46)	\$(46)	Subsidiary
HwaCom Systems Inc.	Family technology Inc. plus	New Taipei City	Information software and communication engineering, etc.	16,000	41,000	1,600	100.00	8,106	(2,655)	(2,655)	Subsidiary
HwaCom Systems Inc.	S-LINK SYSTEMS INC.	New Taipei City	Information software and communication engineering, etc.	45,000	70,000	4,500	100.00	21,292	(10,393)	(11,695)	Subsidiary

Note 1 : If the public company has established foreign holding companies and the consolidated financial statements are the main financial statements based on local regulations, the information on the foreign investees may be disclosed only to the relevant information of the holding companies.

Note 2 : For investees not in the scope of Note 1, the information shall be filled as rules as follows :

- (1) "Investee company," "Location," "Main business," "Original investment amount," and "Holding in the end of the period" shall be filled sequentially based on the investment condition of the Company and the investment condition of the investees directly or indirectly controlled by the Company. And the relationship between the investees and the Company shall be filled in the Note column (if they are subsidiaries or sub-subsidiaries).
- (2) "Profit (loss) of investees in the current period" shall be filled in the profit or loss of each investee in the current period.
- (3) "Gain (loss) on investments recognized in the current period" shall only be filled in the profit or loss of subsidiaries accounted for using equity method. For other condition, the column shall be left blank. When filling "Gain (loss) on investments recognized in the current period," the Company shall ensure the profit or loss of each subsidiary has include the gains or losses of investments that shall be recognized in accordance with regulations.

3) Information on investees in Mainland China

Investee in Mainland China	Main business	Paid-in capital	Method of investment (Note 1)	Accumulated outward remittance for investment from Taiwan as of January 1, 2022	Remittance of funds in the		Accumulated outward remittance for investment from Taiwan as of December 31, 2022	Profit (loss) of investees in the current period	Percentage of ownership of direct or indirect investments	Gains (losses) on investments recognized in the current period (Note 2)	Carrying amount of investments as of December 31, 2022	Accumulated repatriation of gain on investment as of December 31, 2022
					Outward	Inward						
HWACOM SYSTEMS (SHANGHAI)CO.LTD.	Data processing, information supply service industry	\$15,713	(1)	\$15,713	\$-	\$-	\$15,713	\$(341)	100.00%	\$(341) B	\$7,633	\$-

Accumulated outward remittance for investment in Mainland China as of December 31, 2022	Investment amount authorized by investment commission, MOEA	Upper limit on the amount of investment stipulated by investment commission, MOEA
\$15,713	Invested in HWACOM SYSTEMS (SHANGHAI)CO.LTD. by USD	\$1,358,929

Note 1 : There are 3 types of investment method as follows. Fill in the numbers to indicate the type. :

- (1) Directly invest in invests in Mainland China.
- (2) Invest through a holding company registered in a third region. (Please indicate the holding company in the third region)
- (3) Other method.

Note 2 : In the “Gains (losses) on investments recognized in the current period” column :

(1) If the investee is under preparation without gains (losses) on investments, please indicate.

(2) There are 3 bases to recognize gains (losses) on investments as follows. Please indicate. :

A. The financial statements have been audited and attested by international CPA firms which cooperate with the CPA firms in R.O.C.

B. The financial statements have been audited and attested by the CPA of the parent company in Taiwan.

C. The financial statements are preliminary and not reviewed by CPA.

Note 3 : The amounts in the table shall be expressed in New Taiwan Dollars.

Note 4 : The Company originally directly held 100% of ownership of HWACOM SYSTEMS (SHANGHAI)CO.LTD. through HWACOM INVESTMENT INC. After approved by the approval letter with No. Investment-Committee-Auditing-II-10900005280 on January 14, 2020, the investee has been directly held by the Company. The registration of cancellation of HAWCOM INVESTMENT INC. has been completed on August 31, 2020.

4) Information on major shareholders :

Shares	Number of shares held	Percentage of ownership
Major shareholder		
Advantech Corporate Investment	24,575,000	18.37%

Note 1 : The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

Note 2 : If a shareholder delivers the shareholdings to the trust, the above information will be disclosed by the individual trustor who opened the trust account. 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.

(14) Segment information

1) General information.

As the Company and subsidiaries measure the segment performance and allocate resource by a single segment, segment information is not applicable.

2) Geographic financial information

As the Company and subsidiaries do not have foreign operations, geographic financial information shall not be disclosed.

3) Information on exporting sales

As the Company and subsidiaries primarily sell domestically, there is no significant sale to foreign customers.

4) Information on major customers

The customers with revenue accounting for at least 10% of net revenue in the statements of comprehensive income for the years ended December 31, 2022 and 2021 are as follows :

Name of customers	2022		2021	
	Amount	Percentage of net revenue	Amount	Percentage of net revenue
Customer A	\$1,348,271	22.12%	\$1,657,847	26.77%
Customer B	855,981	14.05%	-	Note
Customer C	-	Note	2,068,298	33.40%
Total	\$2,204,252	36.17%	\$3,726,145	60.17%

Note : Revenue from the customer does not account for at least 10% of the net revenue in the statements of comprehensive income.