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2022

Annual Report

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<http://www.hec-group.com.tw>

Compucase Enterprise Co., Ltd.

I. Names, titles, telephone numbers and email addresses of the spokesperson and deputy spokesperson:

	Spokesperson	Deputy spokesperson
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Website: <http://www.yuanta.com.tw>
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IV. Names of the CPAs certifying the financial report of the most recent year, and the name, address, website and telephone number of their accounting firm

CPAs: Wang Teng-Wei, Li Chi-Chen
Name of accounting firm: Deloitte Taiwan
Address: 13F, No. 189, Sec. 1, Yongfu Rd., West Central Dist., Tainan City
Website: <http://www.deloitte.com.tw>
Telephone: (06)213-9988

V. Name of the exchange where foreign securities are listed and traded, and the method of access to the information of such foreign securities: None.

VI. Company website: <http://www.hec-group.com.tw>

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One. Letter to Shareholders

Dear Shareholders,

I. Results of implementation of the 2022 business plan

(I) Results of implementation of the business plan

In 2022, we recorded a net operating revenue of NTD4,132,961 thousand, a decrease of 30% from NTD5,890,182 thousand in 2021, and a consolidated net operating revenue of NTD6,375,442 thousand, a decrease of 23% from NTD8,293,189 thousand in 2021. We also recorded a consolidated gross operating profit of NTD1,364,373 thousand, a decrease of 14% from that in 2021, and a consolidated after-tax net profit of NTD507,340 thousand, an increase of 33% from that in 2021. Our earnings per share was NTD3.28.

(II) Budget implementation

We are not required to disclose any information regarding such implementation since we did not publish any financial forecast in 2022.

(III) Analysis of financial revenues and expenses and profitability

1. Financial revenues and expenses

Unit: NTD thousand

Item/Year	2022	2022 (consolidated)
Net operating revenue	4,132,961	6,375,442
Net profit (loss) on non-operating revenues and expenses	293,974	160,012
Operating cost	3,699,487	5,011,069
Operating expense	329,491	883,922
Pre-tax net profit	405,461	640,463
After-tax net profit	368,776	507,340

2. Profitability analysis (consolidated)

Item/Year	2022	2022 (consolidated)
Return on assets (%)	6%	7%
Return on equity (%)	14%	14%
Net profit margin (%)	9%	8%
Earnings per share (NTD)	3.28	3.28

Note:

1. Prepared according to our 2022 consolidated financial statements.
2. The data of earnings per share is based on the retroactively adjusted number of outstanding shares as of the end of 2022.

(IV) Performance in research and development

Being committed to satisfying customers' demands and expectations for better quality, we invested NTD127,922 thousand in R&D. The following is our future direction in R&D:

Computer chassis:

- (1) To increase the selling points and differentiation of our products, we will introduce MicroLED and cooperate with our vendors in developing lighting panels applied to gaming products.
- (2) We will develop multi-function docking stations to expand the product lines of our group and enhance our innovation capability.
- (3) To increase the selling points and differentiation of our products, we will introduce the technology of evaporative wrapping and apply it to lighting panels for gaming products.
- (4) We will continue to invest in niche products, such as our own brand/PCs/servers, to increase the gross profit of our products.

Products of power supplies:

- (1) We will develop new models of Intel ATX to seek orders of high-end models including gold/platinum-brand ones.
- (2) We will develop the model of Titanium (80Plus level with the highest efficiency) power supplies to optimize the lines of high-end models and enhance the technological level of power supplies.
- (3) We will continue to optimize and improve the electrical specifications and characteristics of power supplies in order to gain high ratings on professional websites for our PSU products and to build a good image for our power supply technologies.
- (4) We will continue to develop power supplies and apply for patents for them. They will be applied to our products to make the products of power supplies more competitive and unique.
- (5) We will develop digital power supplies and increase the number of product lines on which we have engaged in cooperation with our current customers.

Products of our own brand COUGAR:

- (1) With regard to COUGAR case, the gaming case Cratus with an original circular tube structure has already gone into mass production and become available on the market. It has been selected as a candidate for the iF Design Award in Germany, and is expected to win the award, enhancing the design image of the COUGAR brand. The flagship product of gaming chassis Panzer 800 has strong hardware compatibility and a unique design of military-style appearance. Its development has been completed and is expected to be mass-produced and launched in April, driving growth in the revenue from COUGAR in Q2 of 2023. With regard to new products, we are currently developing the gaming case FV270. With 270-degree panoramic glass, it has unique visual effects and cooling performance, and will be able to keep attracting market attention increasing brand exposure. Another new chassis product incorporating the mini-LED technology makes it possible to develop a panel design featuring the functions of display, ventilation and cooling, which is an original technology in the market.
- (2) With regard to COUGAR power supplies, the platinum-brand 1050/1200W and gold-brand 850W/1000W high-end power supplies that meet the requirements of the latest Intel ATX3.0/PCI-E5.0 went into mass production and became commercially available in March, and they are expected to generate new momentum of growth and profits for

COUGAR PSU. For now, we will continue to expand the ATX3.0 gold-brand 1200W and 750W and keep improving the product plan of COUGAR for high-end PSU.

- (3) With regard to COUGAR gaming chairs, several new entry-level products: Armor Air, Fusion S and Armor Elite have hit the market through mass production. They are expected to replace the original models and provide new momentum of growth for COUGAR gaming chairs. The Armor X with an original design in the market and the active cooling gaming chair Air Pro, both of which feature RGB lighting effects, are currently the only models with such concept in the market. In addition, the flagships Armor EVO and gaming couch Ranger S/Pro will begin mass production in Q2 of 2023 to continue to provide momentum of growth for COUGAR. Its differentiated design concept will also be able to enhance the market-leading position and image of the COUGAR brand.
- (4) With regard to COUGAR cooling, we plan to develop Apolar, a wireless connected fan, to provide a solution to the disturbing issue of cable management arising from fan connection. We have proposed a design that is both aesthetic and functional, and the fan is expected to be released in May. With a full range of new water-cooling and air-cooling products, we will have more complete cooling products for COUGAR before this year's Computex.

II. Overview of the 2023 business plan and the strategy for future development

(I) Overview of 2023 Business Plan

1. We will introduce automated manufacturing processes to save time and reduce costs.
2. We will develop digital power supplies and increase the number of product lines on which we have engaged in cooperation with our current customers.
3. We will develop new models of Intel ATX and Titanium (80Plus level with the highest efficiency) power supplies to actively seek orders of high-end power supplies.
4. We will continue to optimize and improve the electrical specifications and characteristics of power supplies in order to gain high ratings on professional websites for our PSU products and to build a good image for our power supply technologies.
5. We will develop benchmark gaming computer chassis as flagship products and actively seek orders for them to increase our revenue and profit.
6. We will continue to introduce a complete product line for the COUGAR brand, such as gaming chairs, headsets and water-cooled products, with the aims of enhancing the reputation and market share of the brand and increasing our revenue and profit.

(II) Future strategy for development of HEC

1. We will strengthen cooperation with high-quality customers to generate profits and expand our market share.
2. To meet customer demand and attract orders, we will actively integrate the internal core technological advantages of our suppliers and group and add multiple elements of design.
3. We will integrate the resources of all subsidiaries under our group to raise the status of HEC among its peer companies.
4. We will optimize our human resources and organizational arrangement and engage in more effective management and decision-making to improve our operating performance.
5. We will seek growth and stable revenues and profits to enhance the interests of our shareholders and the welfare of our employees.

III. Effects of external competition, legal environment and overall business environment

- (I) With regard to external competition, facing rapidly changing industrial technologies and diverse customer demands, we will continue to expand the scale and scope of R&D and effectively integrate our resources to enhance our R&D capability. We will meet the demands of different customers through product diversification, and we will extend our market reach to various areas to explore new markets, with the expectation of accelerating growth in our revenues and profits.
- (II) With regard to the legal environment, in response to increasingly stringent requirements for environmental protection and labor rights worldwide and in Mainland China, we will continue to improve and keep fulfilling our social responsibilities as a green business and in caring for our employees in order to reduce the restrictions of the legal environment. Our management team will constantly stay informed and take the most appropriate measures in response in a timely manner.
- (III) With regard to the overall business environment, 2023 will be a difficult year for most of the world, as the three major engines driving global economic growth – the U.S., Europe and China – are all facing economic slowdown.

In October 2022, the International Monetary Fund downgraded its outlook for global economic growth in 2023 due to the Russia–Ukraine war, inflationary pressure and the high interest rate measures taken by central banks including the Federal Reserve. At the same time, China began to gradually loosen its “zero COVID” policy and moving toward recovery while “coexisting with the virus.” However, the surge in confirmed COVID cases in a short period of time has led to wariness on the part of Chinese consumers. Even after the lifting of strict lockdown measures, economic activities and the labor market have not yet improved significantly.

Compared to China, the U.S. economy is standing out and has a chance to avoid an outright recession that could affect as many as one-third of the world’s economies. The U.S. economy is the most resilient, apparently because its labor market remains fairly strong. Still, this gives us “mixed feelings,” as the Federal Reserve is likely to tighten its monetary policy more aggressively to mitigate inflation if the labor market is too strong.

Presently, there is no sign of a ceasefire in the Russia–Ukraine war, which may end up like the wars in Iraq and Afghanistan. If the main war ends with sporadic low-intensity guerrilla battles ongoing for several years, the world is unlikely to start emerging from war-induced inflation until next year.

We will keep strengthening the integration of external and internal resources in order to enhance our advantage in market competition, improve our overall operating performance, increase the welfare of our employees and satisfy the interests of our shareholders under an overall constantly changing business environment.

Best wishes

to you all,

Chairman and President: Wang Chun-Tung

Two. About HEC

I. Date of incorporation: February 16, 1979

II. History of HEC

1. 1979 – HEC was founded with an amount of capital of NTD3 million as a company manufacturing and selling automotive wheel rim covers.
2. 1982 – The amount of capital of HEC increased to NTD6 million.
3. 1983 – A factory dedicated to manufacturing automotive wheel rim covers was established on Beian Rd., Tainan City.
4. 1987 – The amount of capital of HEC increased to NTD15 million.
5. 1989 – HEC introduced technologies for development and design of computer chassis.
6. 1991 – The amount of capital of HEC increased to NTD28 million.
 - HEC purchased automated machines and equipment, including automated stamping presses and automated painting equipment, for the production of computer chassis.
7. 1994 – The amount of capital of HEC increased to NTD50 million.
8. 1996 – Due to widening of the road on which HEC was originally located, it moved to its current location on Anhe Rd., Tainan City.
 - A factory dedicated to manufacturing computer chassis was established in Shenzhen, Mainland China.
 - CompuCase Investment Co., Ltd. acquired 3,000,000 shares of HEC.
 - HEC received the ISO-9002 certification.
9. 1997 – The amount of capital of HEC increased to NTD150 million.
 - HEC introduced technologies for development and design of power supplies.
10. 1998 – Heroichi Electronics Co., Ltd., Wei Shun Int'l Investments Co., Ltd. (B.V.I.) and Grand Victory Group Ltd. (Samoa) were established as investee companies. HEC made indirect investments in Mainland China for the production of computer chassis and power supplies.
 - AOPEN Inc. acquired 10% of the shares of HEC.
11. 1999 – In February, HEC established a British subsidiary with a shareholding of 75% therein.
 - In June, HEC purchased the shares of its US sales branch UCC, acquiring a shareholding of 69.57% therein.
 - In June, HEC established a sales branch in Shanghai, Mainland China.
 - In July, HEC completed a capital increase by cash totaling NTD170 million and a capital increase from earnings totaling NTD60 million, with its capital amounting to NTD380 million. HEC also engaged in public offerings.
 - In December, HEC received the ISO 9001 quality certification.
12. 2000 – In January, HEC established a Japanese subsidiary (JCC) with a shareholding of 60% therein.

- In April, HEC established Wei Chang Xing Electronics (Shen Zhen) Co., Ltd. as its third manufacturing branch in Mainland China.
- In July, the company was renamed Compucase Enterprise Co., Ltd.; HEC purchased 30.43% of the shares of UCC.
- In December, HEC's application for OTC trading of its shares was approved.

13. 2001 — In April, the shares of HEC officially became OTC-listed for trading.

- In May, HEC purchased 62% of the shares of GCC.

14. 2002 — In April, HEC completed a capital increase by cash totaling NTD30 million, with its paid-in capital amounting to NTD626 million.

- In June, HEC applied for public listing of its OTC-listed shares.
- In August, the shares of HEC officially became publicly listed.

15. 2003 — In August, HEC's application to the Industrial Development Bureau, Ministry of Economic Affairs for establishment of an operational headquarters was approved.

- In September, HEC completed the renovation of its headquarters.

16. 2004 — In June, HEC established Yu Shuo Electronics (Shenzhen) Co., Ltd. as a manufacturing branch and Wei Yu International Trading (Shenzhen) Co., Ltd. as a trading company for domestic sales in Mainland China.

17. 2005 — In July, HEC purchased 8% of the shares of GCC with its shareholding therein totaling 70%, and purchased 25% of the shares of ECC with its shareholding therein totaling 100%.

18. 2006 — In June, HEC established Power Master Co., Ltd. with a shareholding of 60% therein to create channels for domestic sales.

- In November, HEC established Heroichi International Trading Co., Limited as a Hong Kong subsidiary with a shareholding of 100% therein.
- In December, HEC merged with its wholly owned subsidiary Heroichi Electronics Co., Ltd., with the latter being defunct.

19. 2007 — In March, HEC established HEC Korea Co. Ltd. as a South Korean subsidiary with a shareholding of 51% therein to expand the sales channels in South Korea.

- In November, HEC adjusted the structure of its investment in manufacturing in Mainland China by establishing Global Treasure Holdings Co., Limited and Global Plenum Holdings Co., Limited in Hong Kong, with a shareholding of 100% in each of them.

20. 2008 — In February, HEC consolidated its CASE manufacturers in Mainland China by merging Wei Chang Xing Electronics (Shen Zhen) Co., Ltd. and Wei Shun Computers (Shenzhen) Co., Ltd., with the former continuing to exist and the latter being defunct.

21. 2009 — In January, HEC purchased 5% of the shares of Compucase Japan Co., Ltd. with its shareholding therein totaling 80%.

- In June, HEC sold 20% of the shares of Compucase UK Ltd. to the manager of its local subsidiary, with its shareholding therein following the sale totaling 80%.

22. 2010 — In October, HEC established Wei Sheng Feng Technology (Ji An) Co., Ltd. in Jiangxi Province, Mainland China with a shareholding of 100% therein.

- In December, HEC received the ISO14001 certification for environmental

management system.

23. 2011 – In November, HEC purchased 20% of the shares of Compucase Japan Co., Ltd. with its shareholding therein totaling 100%.
24. 2012 – In November, HEC received the OHSAS18001 certification for occupational safety and health management system.
25. 2013 – In March, with the decease of HEC’s founder Hsu Tung-Fu due to illness, the Board of Directors elected Ko Chi-Yuan, the representative of Compucase Investment Co., Ltd., as the new Chairman.
 - In October, HEC purchased 20% of the shares of Unity Industrial Co., Ltd. in Thailand to expand its reach into the automotive market.
26. 2015 – In May, HEC established Dongguan Weichiao Electronics Co., Ltd. in Mainland China with a shareholding of 100% therein.
27. 2016 – In January, WCX, HEC’s manufacturing branch in Mainland China, signed an agreement on relocation and compensation with a local developer and was expected to complete relocation in June 2018.
 - In April, HEC acquired 46.43% of the privately placed shares of LFE and became a major shareholder with a shareholding of no less than 10% therein.
 - In April, HEC acquired 60% of the shares of OPT, making the latter a subsidiary of HEC with an investment of no less than 50%.
 - In June, HEC acquired 50.48% of the privately placed shares of LFE, making the latter a subsidiary of HEC with an investment of no less than 50%.
 - In August, HEC and nine banks, including CTBC Bank, signed a 5-year agreement on medium- to long-term syndicated loans totaling NTD1 billion.
 - In September, HEC engaged in a capital increase by cash through private placement of 10 million shares and introduced MiTAC International Corporation as a strategic investor.
 - In October, MiTAC International Corporation completed its payment for the privately placed shares, with HEC’s capital amounting to NTD1.133 billion following the capital increase.
28. 2017 – In March, HEC fully repaid the syndicated loans from CTBC Bank. In August, HEC terminated the 5-year agreement on medium- to long-term syndicated loans with nine banks including CTBC Bank.
29. 2018 – In May, HEC established Anyuan Weijia Electronic Co., Ltd in Jiangxi Province, Mainland China with a shareholding of 100% therein.
 - In June, the relocation of WCX and WSE in Mainland China was completed, with the production capacity for computer chassis and power supplies transferred to LFDG.
 - In November, WCX participated in a capital increase by cash at LFDG with RMB85.32 million and acquired 20.13% of the shares of LFDG following the capital increase.
30. 2019 – In May, HEC made a capital increase of USD500 thousand in Anyuan Weijia Electronic Co., Ltd.
 - In June, HEC set up an MIT factory at its headquarters in Tainan.
 - In December, HEC made a capital increase of USD4.5 million in Anyuan Weijia

Electronic Co., Ltd.

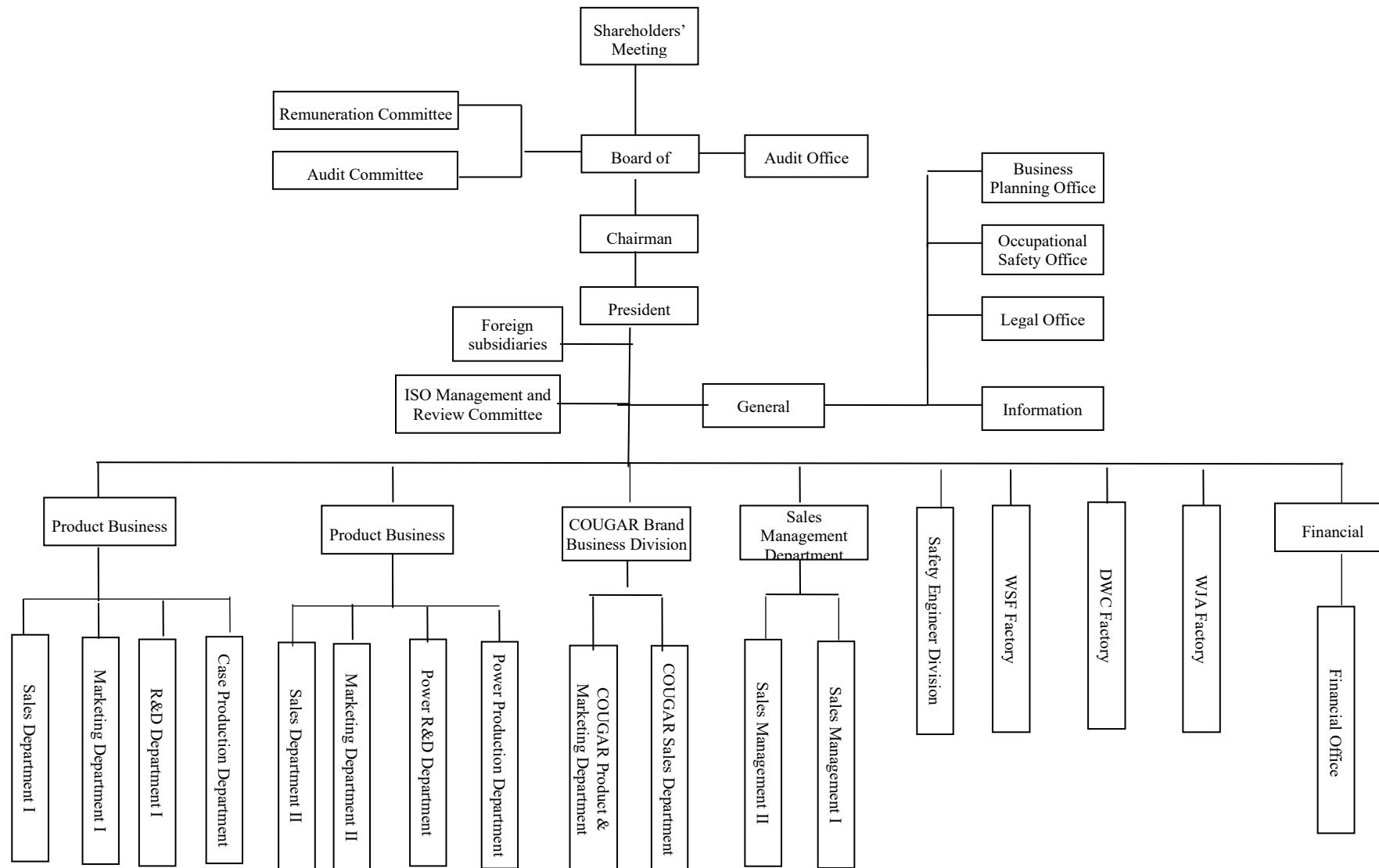
- 31. 2020 – In March, HEC’s application for an invention patent in Taiwan for “power supplies capable of limiting inrush current” was approved.
- In August, HEC established Anyuan Weichangfeng Electronic Co., Ltd. in Jiangxi Province, Mainland China with a shareholding of 100% therein.
- In September, HEC received the certification of RBA (Responsible Business Alliance Code of Conduct).
- 32. 2021 – In January, HEC made a capital decrease of USD8 million in WCX
 - In March, HEC’s application for an invention patent in Mainland China for “power supplies capable of extending the hold-up time” was approved
- 33. 2022 – In June, with the term of the former chairman Ko Chi-Yuan expires, the Board of Directors elected Wang Chun-Tung, the representative of Compucase Investment Co., Ltd., as the new Chairman.

III. Mergers or acquisitions, investments in affiliates and reorganizations, substantial transfers or changes of shares held by directors, supervisors or shareholders with a shareholding of more than 10%, changes in management, significant changes in the method of management or the scope of business, and other important events sufficiently to affect shareholders’ equity and their effects on HEC: **None**.

Three. Corporate Governance Report

I. Organization

(I) Organizational system



(II) Responsibilities of the main departments

Department	Responsibilities
Audit Office	Implementation of internal controls and internal audits at HEC and its investee companies.
General Administration Department	<ol style="list-style-type: none"> Planning, management and implementation of strategies for long-term and short-term management of HEC. Management of the organization and by-laws of the committees under HEC. Management and planning of human resources. Management and planning of operations and investments. Planning and management of matters concerning computerization. Purchase of raw materials, machines and equipment.
Financial Office	<ol style="list-style-type: none"> Arrangement and management of the finance and funding of HEC, and business dealings with banks. Establishment of accounting systems, and management of accounting and tax matters. Coordination and management of cases of fundraising from the capital market. Management of affairs relating to the shareholders' meeting and shareholding.
Product Business Units (Product Business Unit I, Product Business Unit II and COUGAR Brand Business Division)	<ol style="list-style-type: none"> Promotion of current and new products. Survey and development of markets and promotion and analysis of sales channels for the business above. Collection and analysis of the information of peer competitors, and development of strategies in response. Sales of new products, and formulation and analysis of their sales plans. Development of new customers, and planning of domestic and foreign collaborative projects. Research and development of new business, products and technologies. Control of the costs and prices of current and new products. Research and improvement of the technologies for production of current products. Selling and promoting products to achieve the operating and profit targets set by HEC. Drawing up business expansion plans and developing appropriate and necessary strategies, including determining the target customers, products, territories and sales volumes. Investigating customer credit and creating customer information, and arranging, making statistics of and analyzing sales records. Managing accounts receivable from customers, handling customer complaints, coordinating services, production and sales, and managing shipments to customers.
Production Department (WJA, DWC and WSF)	<ol style="list-style-type: none"> Manufacturing and production of IT products including power supplies and computer peripherals. Purchase of required raw materials and management of materials. Establishment and implementation of a quality assurance system. Reduction of labor costs and improvement of production efficiency. Development and enhancement of production and engineering technologies. Other activities relating to production and manufacturing.

II. Information of directors, president, vice president, assistant vice presidents and managers of departments and branches

Information of directors

April 16, 2023

Title	Nationality or country of registration	Name	Age Gender	Date of election (taking office)	Term	Date of first election	Shareholding at time of election		Current shareholding		Current shareholding of spouse or minor children		Nominee shareholding		Main experience (education)	Concurrent positions at HEC and other companies	Other managers, directors or supervisors with a spousal relationship or a relationship within the second degree of consanguinity			Remarks (Note)
							Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)			Title	Name	Relationship	
Chairman and President	R.O.C.	Compucase Investment Co., Ltd. Representative: Wang Chun-Tung	Male 51–60	2022.06.23	3	2014.6.20	23,835,605	21.04%	23,835,605	21.04%	-	-	-	-	MBA Program, National Chengchi University Bachelor of Electrical Engineering, National Chiao Tung University Product Manager, BenQ Corporation Vice President for Production, HEC	Corporate representative of a subsidiary of HEC Representative of director at LFE and OPT Director, FCC	- - - - -	- - - - -	- - - - -	- - - - -
							424,000	0.37%	414,000	0.37%	-	-	-	-						
Director	R.O.C.	Compucase Investment Co., Ltd. Representative: Huang Hsiao-Ling	Female 61–70	2022.06.23		2019.6.20	23,835,605	21.04%	23,835,605	21.04%	-	-	-	-	Department of Finance and Tax, National Chung Hsing University Manager, Department of General Administration, Han Rui Technology Co., Ltd. Director, Loyal Fidelity Aerospace Corp. Supervisor, MIO Technology Corporation Supervisor, Tzu Feng Investment Co., Ltd. Vice President for Finance, MiTAC Holdings Corporation		- - - - -	- - - - -	- - - - -	- - - - -
							-	-	-	-	-	-	-	-						
Director	R.O.C.	Cheng Li Investment Co., Ltd. Representative: Ko Chi-Yuan	Male 71–75	2022.06.23		2013.6.14	6,638,193	5.86%	6,638,193	5.86%	-	-	-	-	Department of Economics, National Chung Hsing University Chairman, San Shing Fastech Corp.	Corporate representative of a South Korea subsidiary of HEC Representative of director at OPT, LFE and its subsidiaries	- - - - -	- - - - -	- - - - -	- - - - -
							230,000	0.20%	230,000	0.20%	-	-	-	-						

Title	Nationality or country of registration	Name	Age Gender	Date of election (taking office)	Term	Date of first election	Shareholding at time of election		Current shareholding		Current shareholding of spouse or minor children		Nominee shareholding		Main experience (education)	Concurrent positions at HEC and other companies	Other managers, directors or supervisors with a spousal relationship or a relationship within the second degree of consanguinity			Remarks (Note)
							Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)			Title	Name	Relationship	
Director	R.O.C.	Cheng Li Investment Co., Ltd. Representative: Li Ssu-Chia	Female 41-50	2022.06.23		2013.6.14	6,638,193	5.86%	6,638,193	5.86%	-	-	-	-	Master of Accounting, University of Illinois Urbana-Champaign CFO, AB Value Asset Management Co., Ltd.	Supervisor at Compucase Investment Co., Ltd., Cheng Li Investment Co., Ltd., AB Value Investment Co., Ltd. and OPT Director, SAN SHING	- - - -	- - - -	- - - -	- - - -
							3,000	-	3,000	-	-	-	-	-						
Director	R.O.C.	Li Li-Sheng	Male 61-70	2022.06.23		2013.6.14	602,000	0.53%	602,000	0.53%	-	-	-	-	Graduated from senior high school Chairman, Zong Sinc Industries Inc.	Representative of director at LFE Representative of director at OPT	-	-	-	-
Director	R.O.C.	Chung Ding-Chun	Male 51-60	2022.06.23		2013.6.14	200,000	0.18%	200,000	0.18%	420,000	0.37%	-	-	Master of Business Administration, College of Management, National Taiwan University President, Japan Asia Asset Management Co., Ltd.	Director at WCX, WSE and WYT Representative of director at LFE and OPT	-	-	-	-
Independent director	R.O.C.	Hua Chih-Chiang	Male 51-60	2022.06.23		2022.6.23	-	-	-	-	-	-	-	-	PhD in Electrical Engineering, University of Missouri Bachelor of Electrical Engineering, National Cheng Kung University Distinguished Professor, Department of Electrical Engineering, National Yunlin University of Sciences and Technology Chief Administrator, Office of Research and Development, National Yunlin University of Sciences and Technology Dean, College of Engineering, National Yunlin University of Science and Technology		-	-	-	-

Title	Nationality or country of registration	Name	Age Gender	Date of election (taking office)	Term	Date of first election	Shareholding at time of election		Current shareholding		Current shareholding of spouse or minor children		Nominee shareholding		Main experience (education)	Concurrent positions at HEC and other companies	Other managers, directors or supervisors with a spousal relationship or a relationship within the second degree of consanguinity			Remarks (Note)
							Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)			Title	Name	Relationship	
Independent director	R.O.C.	Chen Jung-Chao	Male 51–60	2022.06.23		2022.6.23	-	-	-	-	-	-	-	-	LLM, National Chung Cheng University Department of Accounting, College of Law and Commerce, National Chung Hsing University CPA, Water Accountants' Firm Manager and Assistant Vice President, KPMG Taiwan		-	-	-	-
Independent director	R.O.C.	Hsu Chia-Te	Male 41–50	2022.06.23	3	2022.6.23	-	-	-	-	-	-	-	-	Certificate of International Business Administration, Harvard Extension School Master of International Trade Management, Boston University President, Well-Spring Enterprise Corp. Supervisor, Speed Tech Corp. Director, Ho Li Investment Co., Ltd. Member of Remuneration Committee, Kwong Lung Enterprise Co., Ltd.	Representative of director at SpeedTech	-	-	-	-

Note: Where the chairman and the president or any officer with equivalent position (the top manager) at HEC are the same person, in a spousal relationship or related within the first degree of consanguinity, information relating to the reason, reasonableness and necessity of such situation and the measures in response (e.g. increasing the number of independent directors, with a majority of directors not serving concurrently as employees or managers) must be described: **Due to the Chairman's complete industrial experience, understanding of the industry and market, leadership skills and good familiarity with customers, as well as his ability in overall business planning, our measure in response is to increase the number of independent directors.**

1. The following are the major shareholder(s) of each corporate shareholder listed in the table above and the percentage of its shareholding:

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Name of corporate shareholder	Major shareholder of corporate shareholder	Shareholding (%)
Cheng Li Investment Co., Ltd.	Compucase Investment Co., Ltd.	100.00

2. The representative of a corporate shareholder serving as the major shareholder of a corporate shareholder:

April 16, 2023

Name of corporate	Major shareholder of corporate	Shareholding (%)
Compucase Investment Co., Ltd.	AB Value Investment Co., Ltd.	100.00

3. The representative of a corporate shareholder serving as the major shareholder of a corporate shareholder:

April 16, 2023

Name of corporate shareholder	Major shareholder of corporate shareholder
AB Value Investment Co., Ltd.	Fubridge Asset Management Co., Ltd. (40.22%), Ant Value Capital Investment Limited (21.21%), AB Value Investment Company (10.73%), Li Li-Yu (9.99%), Ho Hsiu-Chen (9.99%), Li Jui-Mei (1.96%), Kao Fen-Fen (1.64%), Kao Ming-Chang (1.64%), Chang Chia-Hao (1.26%), Li Yu-Ying (0.98%), Chang Ching-Wen (0.38%)

4. Disclosure of information about the professional qualifications of directors and the independence of independent directors:

Criteria Name	Professional qualifications and experience (Note 1)	Independence (Note 2)	Also an independent director at the following number of other public company(ies)
Chairman and President Representative of Compucase Investment Co., Ltd.: Wang Chun-Tung	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business President, Compucase Enterprise Co., Ltd. 	N/A	-
Director Representative of Compucase Investment Co., Ltd.: Huang Hsiu-Ling	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business. Vice President for Finance, MiTAC Holdings Corporation. 	N/A	-
Director Representative of Cheng Li Investment Co., Ltd.: Ko Chi-Yuan	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business. Chairman, San Shing Fastech Corp. 	N/A	-
Director Representative of Cheng Li Investment Co., Ltd.: Li Ssu-Chia	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business. A professional or technician who has passed the national examination required for judge, prosecutor, lawyer, accountant or any other business of HEC and has received a certificate thereof. CFO, AB Value Asset Management Co., Ltd. 	N/A	-

Criteria Name	Professional qualifications and experience (Note 1)	Independence (Note 2)	Also an independent director at the following number of other public company(ies)
Director Li Li-Sheng	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business. Chairman, Zong Sine Industries Inc. 	N/A	-
Director Chung Ding- Chun	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business. Senior Partner, AB Value Asset Management Co., Ltd. 	N/A	-
Independent director Hua Chih- Chiang	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business. Dean, College of Engineering, National Yunlin University of Science and Technology 	Note 2	-
Independent director Chen Jung- Chao	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business. A professional or technician who has passed the national examination required for judge, prosecutor, lawyer, accountant or any other business of HEC and has received a certificate thereof. CPA, Water Accountants' Firm. 	Note 2	2

Criteria Name	Professional qualifications and experience (Note 1)	Independence (Note 2)	Also an independent director at the following number of other public company(ies)
Independent director Hsu Chia-Te	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business President, Well-Spring Enterprise Corp. 	Note 2	1

Note 1: None of the circumstances under Article 30 of the Company Act applies to any director.

Note 2: Also an independent director at less than three other public companies.

The criteria of independence are as follows:

- (1) Not an employee of HEC or any of its affiliates.
- (2) Not a director or supervisor of HEC or any of its affiliates (except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (3) Not a natural-person shareholder whose shareholding, including the shares held by his/her spouse or minor children or through nominees, equals or exceeds 1% of the total outstanding shares of HEC, or who is among the top 10 shareholders of HEC.
- (4) Not a spouse, any relative within the second degree of consanguinity or any lineal relative within the third degree of consanguinity of any manager under (1) or any of the persons under (2) or (3).
- (5) Not a director, supervisor or employee of any corporate shareholder who holds at least 5% of the outstanding shares of HEC, is among the top 5 shareholders or has appointed a representative as a director or supervisor of HEC in accordance with paragraph 1 or 2, Article 27 of the Company Act (except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (6) Not a director, supervisor or employee of another company where a majority of the seats of director or voting shares are under the control of the same person (except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (7) Not a director, supervisor or employee of another company or institution who is also the chairman, president or any officer with equivalent position at HEC or is his/her spouse (except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (8) Not a director, supervisor or manager or a shareholder with a shareholding of no less than 5% at any company or institution with a financial or business relationship with HEC (except where that company or institution holds no less than 20% and no more than 50% of the total outstanding shares of HEC, and where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (9) Not a professional or an owner, partner, director, supervisor or manager of any sole proprietorship, partnership, company or institution specialized in commercial, legal, financial, accounting or other related services, who provides auditing services to HEC or any of its affiliates or who has received a cumulative amount of less than NTD500,000 as remuneration in the most recent 2 years, and not his/her spouse, except for any of the members of the Remuneration Committee, Review Committee for Public Acquisitions or Special Committee for Mergers who perform their duties in accordance with the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
- (10) Not a spouse or any relative within the second degree of consanguinity of any other director.
- (11) Not elected as a government agency, a corporation or its representative under Article 27 of the Company Act.

5. Diversity and independence of the Board of Directors:

(1) Diversity of the Board of Directors: To strengthen corporate governance and facilitate well-developed composition and structure of the Board of Directors, we promote and respect a policy of diversity of directors, and we believe that a diversification policy is helpful for improving our overall performance. In principle, election of the members of the Board of Directors is exclusively merit based. All of them must have diverse and complementary capabilities in cross-industry areas, and are required to possess industrial experience and relevant skills and the abilities in operational judgment, business management, leadership, decision-making and crisis management. In order to strengthen the functions of the Board of Directors and achieve the ideal goals of corporate governance, all members of the Board of Directors must possess the following abilities:

A. Ability in operational judgment B. Ability in accounting and financial analysis C. Ability in business management D. Ability in crisis management E. Industrial knowledge F. An international market vision G. Leadership ability H. Decision-making ability.

The following is the status of implementation of the policy for diversity of the current members of the Board of Directors:

Age distribution	Gender	
	Male	Female
41–50	2	
51–60	4	
61–70	2	
71–75	1	

(2) Independence of the Board of Directors:

Our directors serve an average term of 5.4 years, and none of our independent directors has served for more than three consecutive terms. The composition of our directors, all of whom are nationals of the Republic of China (Taiwan), includes three independent directors (33%) and one director who is also our employee (11%). The ranges of distribution of the ages of our directors are shown in the table above. Furthermore, we stress the importance of gender equality in the composition of the Board of Directors, whose current members include two women, meaning female directors account for 22% of them. In the future, we will continue to focus on increasing the percentage of female directors.

No spousal relationship or relationship within the second degree of consanguinity exists among our directors.

6. Information of president, vice president, assistant vice presidents and managers of departments and branches

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Title	Nationality	Name	Gender	Date of Appointment (taking) office	Shareholding		Shareholding of spouse or minor children		Nominee shareholding		Main experience (education)	Concurrent position at another company	Manager with a spousal relationship or a relationship within the second degree of consanguinity			Remarks (Note)
					Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)			Title	Name	Relationship	
Chairman and President	R.O.C.	Wang Chun-Tung	Male	2006.09.01	414,000	0.37%	-	-	-	-	MBA Program, National Chengchi University Bachelor of Electrical Engineering, National Chiao Tung University Product Manager, BenQ Corporation Vice President for Production, HEC	Director at the South Korean and Japanese subsidiaries Chairman, FCC President, LFE Chairman, OPT	-	-	-	-
Vice President for Business Unit	R.O.C.	Li Chun-Liang	Male	2007.10.01	53,670	0.05%	-	-	-	-	Graduate Institute of Mechanical Engineering, National Taiwan Ocean University Assistant Manager, R&D Division, Catcher Technology Co., Ltd.	-	-	-	-	-
Vice President for Business Unit	R.O.C.	Lee Chia-Ching	Male	2014.07.01	-	-	-	-	-	-	MBA Program, Southern Taiwan University of Science and Technology Project Manager, Hon Hai Precision Industry Co., Ltd.	-	-	-	-	-
Assistant Vice President for Business Unit	R.O.C.	Liu Chang-Wei	Male	2019.02.01	-	-	-	-	-	-	Master of E-commerce and Marketing, Victoria University, Australia Manager, COUGAR Brand Business Division, HEC	-	-	-	-	-
Assistant Vice President for Business Unit	R.O.C.	Huang Li-Chun	Male	2019.02.01	2,000	-	-	-	-	-	Graduate Institute of Industrial Design, Chang Gung University Manager, COUGAR Brand Business Division, HEC	-	-	-	-	-

Title	Nationality	Name	Gender	Date of Appointment (taking) office	Shareholding		Shareholding of spouse or minor children		Nominee shareholding		Main experience (education)	Concurrent position at another company	Manager with a spousal relationship or a relationship within the second degree of consanguinity			Remarks (Note)
					Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)			Title	Name	Relationship	
Assistant Vice President for Business Unit	R.O.C.	Lin Yung-Chung	Male	2021.02.01	-	-	-	-	-	-	Graduate Institute of Electronic Engineering, National Kaohsiung University of Applied Sciences	-	-	-	-	-
Assistant Vice President for Business Planning Office	R.O.C.	Lin Yung-Hsiang	Male	2023.01.03	-	-	-	-	-	-	Department of Industrial Management, National Cheng Kung University Special Assistant, HEC	-	-	-	-	-
Chief corporate governance officer	R.O.C.	Li Yu-Ming	Male	2023.03.23	-	-	-	-	-	-	Institute of Financial and Economic Law, Southern Taiwan University of Science and Technology Manager of the Legal Section, HEC	Chief Corporate Governance Officer, Loyalty Founder Enterprise Co., Ltd.	-	-	-	-

Note: Where the president or any officer with equivalent position (the top manager) and the chairman are the same person, in a spousal relationship or related within the first degree of consanguinity, information relating to the reason, reasonableness and necessity of such situation and the measures in response (e.g. increasing the number of independent directors, with a majority of directors not serving concurrently as employees or managers) must be disclosed:
Due to the Chairman's complete industrial experience, understanding of the industry and market, leadership skills and good familiarity with customers, as well as his ability in overall business planning, our measure in response is to increase the number of independent directors.

7. Remuneration for directors, independent directors, supervisors, president and vice presidents

As the average percentage of pledge created by our directors exceeds 50% in any 3 months of the most recent year, the names and remuneration ranges of our directors will be disclosed on an individual basis. Since no such situation exists with regard to our supervisors, The remuneration of the supervisors shall be voluntarily disclosed by disclosing their names individually.:

1. Where the average percentage of pledge created by directors or supervisors exceeds 50% in any 3 months of the most recent year, the remuneration of the individual directors or supervisors whose percentage of pledge exceeds 50% in each of the months must be disclosed.
2. Where the remuneration received by all directors and supervisors from all companies in the financial report accounts for more than 2% of the after-tax net profit and where any director or supervisor has received an amount of remuneration exceeding NTD15 million, the remuneration of the individual director or supervisor must be disclosed.

(1) Remuneration for directors and independent directors

December 31, 2022; Unit: NTD thousand

Title	Name	Remuneration for directors				Sum of A, B, C and D as a % of after-tax net profit	Remuneration received for concurrent service as an employee				Remuneration received from non-subsidiary investee companies or the parent company				
		Remuneration (A)	Post-employment pension (B)	Remuneration for director (C) (Note 1)	Business execution expenses (D) (Note 2)		Salaries, bonuses, special allowances, etc. (E)	Post-employment pension (F)	Remuneration for employees (G) (Note 3)		Sum of A, B, C, D, E, F and G as a % of after-tax net profit		All companies in the financial report		
									HEC	Amount of cash	Amount of shares	HEC			
		HEC	HEC	HEC	HEC	HEC	HEC	HEC	Amount of cash	Amount of shares	Amount of cash	Amount of shares	HEC		
Corporate director	Compucase Investment Co., Ltd.	-	-	-	-	1,974	1,974	-	1,974 0.54%	1,974 0.54%	-	-	1,974 0.54%		
Chairman	Wang Chun-Tung	-	-	-	-	-	70	70	70 0.02%	70 0.02%	4,374	20,229	-	7,360 12,821 11,804 33,120 3.20% 8.98%	
Representative	Huang Hsiu-Ling	-	-	-	-	-	70	70	70 0.02%	70 0.02%	-	-	-	70 70 0.02% 0.02%	
Director	Cheng Li Investment Co., Ltd.	-	-	-	-	1,974	1,974	-	1,974 0.54%	1,974 0.54%	-	-	-	1,974 1,974 0.54% 0.54%	
Representative	Ko Chi-Yuan	1,759	17,475	-	-	-	70	70	1,829 0.5%	17,545 4.76%	-	-	-	1,829 17,545 0.5% 4.76%	
Representative	Li Ssu-Chia	-	-	-	-	-	40	40	40 0.01%	40 0.01%	-	-	-	40 40 0.01% 0.01%	
Director	Chung Ding-Chun	-	-	-	-	880	880	70	70	950 0.26%	950 0.26%	-	-	-	950 950 0.26% 0.26%
Director	Li Li-Sheng	-	-	-	-	429	429	70	70	499 0.14%	499 0.14%	-	-	-	499 499 0.14% 0.14%
Independent director	Hua Chih-Chiang	-	-	-	-	429	429	90	90	519 0.14%	519 0.14%	-	-	-	519 519 0.14% 0.14%
Independent	Chen Jung-	-	-	-	-	429	429	90	90	519	519	-	-	-	519 519 -

Title	Name	Remuneration for directors				Sum of A, B, C and D as a % of after-tax net profit	Remuneration received for concurrent service as an employee				Sum of A, B, C, D, E, F and G as a % of after-tax net profit	Remuneration received from non-subsidiary investee companies or the parent company	
		Remuneration (A)	Post-employment pension (B)	Remuneration for director (C) (Note 1)	Business execution expenses (D) (Note 2)		Salaries, bonuses, special allowances, etc. (E)	Post-employment pension (F)	Remuneration for employees (G) (Note 3)				
		HEC	HEC	HEC	HEC		HEC	HEC	HEC	Amount of cash	Amount of shares		
director	Chao					0.14%	0.14%					0.14% 0.14%	
Independent director	Hsu Chia-Te	-	-	-	-	429	429	90	90	519 0.14%	-	- 519 0.14%	
Director	Chen Yao-Ming	-	-	-	-	451	451	30	30	481 0.13%	-	- 481 0.13%	
Independent director	Chen Chung-Lin	-	-	-	-	331	331	40	40	371 0.10%	-	- 371 0.10%	
Independent director	Hsu Chih-Jen	-	-	-	-	331	331	40	40	371 0.10%	-	- 371 0.10%	

Note 1: On March 23, 2023, the Board of Directors adopted a resolution to distribute NTD9,010 thousand as remuneration for directors and supervisors in 2022. The amount received by directors is an estimation, which has yet to be distributed as of the date of publication of the annual report.

Note 2: The business execution expense consists of travel allowances for attendance in meetings of the Board of Directors and the Remuneration Committee and Audit Committee, totaling NTD770 thousand.

Note 3: Note 2: On March 23, 2023, the Board of Directors adopted a resolution to distribute NTD36,041 thousand as the remuneration for employees in 2022. The amount of remuneration for employees received by the president and vice presidents is an estimation, which has yet to be distributed as of the date of publication of the annual report.

Note 4: Additional information regarding the election of all directors in 2022:

- (1) The director Li Li-Sheng was the corporate representative of Cheng Li Investment Co., Ltd. from January 1 to June 19, 2022.
- (2) Li Ssu-Chia, the corporate representative of Cheng Li Investment Co., Ltd., was its supervisor from January 1 to June 19, 2022.
- (3) Chen Yao-Ming, Chen Chung-Lin and Hsu Chih-Jen served as directors and independent directors until June 19, 2022.
- (4) Hua Chih-Chiang, Chen Jung-Chao and Hsu Chia-Te were independent directors on June 23, 2022.
- (5) On June of the 2022 year, Chairman Ko Chi-Yuan 's term expired, after the election, Wang Chun-Tung was appointed as the new Chairman..

(2) Remuneration for supervisors

December 31, 2022; Unit: NTD thousand

Title	Name	Remuneration for supervisors						Sum of A, B and C as a % of after-tax net profit	Remuneration received from non-subsidiary investee companies or the parent company		
		Remuneration (A)		Remuneration (B) (Note 1)		Business execution expenses (C) (Note 2)					
		HEC	All companies in the financial report	HEC	All companies in the financial report	HEC	All companies in the financial report				
Supervisor	Li Ssu-Chia	-	-	451	451	30	30	481 0.13%	481 0.13% -		
Supervisor	Li Li-Yu	-	-	451	451	20	20	471 0.13%	471 0.13% -		
Supervisor	Hsieh Chia-Hung	-	-	451	451	30	30	481 0.13%	481 0.13% -		

Note 1: On March 23, 2023, the Board of Directors adopted a resolution to distribute NTD9,010 thousand as remuneration for directors and supervisors in 2022.

The amount received by supervisors is an estimation, which has yet to be distributed as of the date of publication of the annual report.

Note 2: The business execution expense consists of travel allowances for attendance of supervisors in meetings of the Board of Directors, totaling NTD80 thousand.

Note 3: The term of all supervisors expired on June 22, 2022. The system of supervisors has been replaced by the Audit Committee.

(3) Remuneration for president and vice presidents

December 31, 2022; Unit: NTD thousand

Title	Name	Salary (A)		Post-employment pension (B)		Bonuses, special allowances, etc. (C)		Amount of remuneration for employee (D)				Sum of A, B, C and D as a % of after-tax net profit (%)		Remuneration received from non- subsidiary investee companies or the parent company	
		HEC	All companies in the financial report	HEC	All companies in the financial report	HEC	All companies in the financial report	HEC		All companies in the financial report		HEC	All companies in the financial report		
								Amount of cash dividend	Amount of stock dividend	Amount of cash dividend	Amount of stock dividend				
President	Wang Chun-Tung	2,391	13,194	63	63	1,983	7,035	7,360	0	12,821	0	11,797 3.20%	33,113 8.98%	0	
Vice President	Li Chun-Liang	1,700	1,700	99	99	760	760	951	0	951	0	3,510 0.95%	3,510 0.95%	0	
Vice President	Lee Chia-Ching	1,952	1,952	106	106	934	934	1,229	0	1,229	0	4,221 1.14%	4,221 1.14%	0	

Note 1: "Bonuses, special allowances, etc." include a sedan used by the president for traveling, which was purchased at a cost of NTD3,713 thousand, with a carrying value of NTD2,723 thousand at the end of 2022.

Note 2: On March 23, 2023, the Board of Directors adopted a resolution to distribute NTD36,041 thousand as the remuneration for employees in 2022. The amount of remuneration for employees received by the president and vice presidents is an estimation, which has yet to be distributed as of the date of publication of the annual report.

(4) Remuneration for managers receiving the top 5 amounts of remuneration

December 31, 2022; Unit: NTD thousand

Title	Name	Salary (A)		Post-employment pension (B)		Bonuses, special allowances, etc. (C)		Amount of remuneration for employee (D)				Sum of A, B, C and D as a % of after-tax net profit (%)	Remuneration received from non- subsidiary investee companies or the parent company			
		HEC	All companies in the financial report	HEC	All companies in the financial report	HEC	All companies in the financial report	HEC		All companies in the financial report						
								Amount of cash dividend	Amount of stock dividend	Amount of cash dividend	Amount of stock dividend					
President	Wang Chun-Tung	2,391	13,194	63	63	1,983	7,035	7,360	0	12,821	0	11,797 3.20%	33,113 8.98%	0		
Vice President	Li Chun-Liang	1,700	1,700	99	99	760	760	951	0	951	0	3,510 0.95%	3,510 0.95%	0		
Vice President	Lee Chia-Ching	1,952	1,952	106	106	934	934	1,229	0	1,229	0	4,221 1.14%	4,221 1.14%	0		
Assistant Vice President	Liu Chang-Wei	1,381	1,381	83	83	585	585	977	0	977	0	3,026 0.82%	3,026 0.82%	0		
Assistant Vice President	Lin Yong-zong	1,268	1,268	72	72	664	664	951	0	951	0	2,955 0.80%	2,955 0.80%	0		

Note 1: "Bonuses, special allowances, etc." include a sedan used by the president for traveling, which was purchased at a cost of NTD3,713 thousand, with a carrying value of NTD2,723 thousand at the end of 2022.

Note 2: On March 23, 2023, the Board of Directors adopted a resolution to distribute NTD36,041 thousand as the remuneration for employees in 2022. The amount of remuneration for employees received by the president, vice presidents and Assistant Vice President is an estimation, which has yet to be distributed as of the date of publication of the annual report.

(5) Analysis of the total remuneration paid by HEC and all companies in the consolidated financial statements to the directors, supervisors, president and vice presidents of HEC within the most recent 2 years as a percentage of after-tax net profit, and a description of the policy, criteria and combinations for payment of remuneration, the procedures for determination of remuneration, and the relevance to the operating performance and future risks:

Unit: NTD thousand

Year	2022				2021				
	Title	Total remuneration		The total as a % of after-tax net profit		Total remuneration		The total as a % of after-tax net profit	
		HEC	All companies in the financial report	HEC	All companies in the financial report	HEC	All companies in the financial report	HEC	All companies in the financial report
Director	Director	10,186	25,902	2.76%	7.02%	7,559	22,254	2.55%	7.50%
Supervisor	Supervisor	1,433	1,433	0.39%	0.39%	1,667	1,667	0.56%	0.56%
President and vice president	President and vice president	19,528	40,844	5.30%	11.08%	16,278	33,254	5.49%	11.21%
Total	Total	31,147	68,179	8.45%	18.49%	25,504	57,175	8.59%	19.27%

1. Analysis of percentage: The information above indicates that in 2022, the total remuneration paid to our directors, supervisors, president and vice presidents was higher than in 2021, and that the percentage of distribution was higher than in 2021, as a result of an increase in our profit in 2022 leading to the payment of more bonuses and allocation of more remuneration for employees. Therefore, such change is considered reasonable.
2. The policy, criteria and combinations for payment of remuneration, the procedures for determination of remuneration, and the relevance to the operating performance and future risks:

(1) Policy, criteria and combinations for payment of remuneration

1. According to Article 29 of the Articles of Incorporation, the remuneration for each director performing his/her duties shall be determined by the Board of Directors based on the level of his/her participation and the value of his/her contribution, taking into account the general standards of peer companies. Where HEC has a profit in a year, no more than 4% of the profit will be allocated as the remuneration for directors in accordance with Article 29 of the Articles of Incorporation. We regularly assess the remuneration for directors in accordance with the “Regulations for Evaluation of the Performance of the Board of Directors,” with the reasonableness of relevant performance evaluations and remuneration reviewed by the Remuneration Committee and the Board of Directors. Based on the level of a director’s participation in and the value of his/her contribution to the operations of HEC, his/her remuneration will be allocated according to the weight granted and the weighted result. A director will be granted a basic weight of 1, and an additional weight of 0.5 if he/she serves as the Chairman, with his/her remuneration paid annually. The weight for any director who has served for less than one year will be calculated based on the length of his/her service.

2. Regarding the remuneration for our managers, the “Regulations Governing Remuneration” has specified allowances and bonuses as consideration and reward for the efforts and

contributions made by our employees in their jobs, and bonuses are paid based on our annual operating performance, financial conditions and operations and personal job performance. Where HEC has a profit in a year, 2%–10% of the profit will be allocated as the remuneration for employees in accordance with Article 29 of the Articles of Incorporation. We pay bonuses to our managers based on the results of performance evaluation conducted in accordance with the “Regulations Governing Performance Evaluation.” The scope of performance evaluation for managers consists of: 1. financial indicators: the level of contribution of each business unit to our profit according to our management and income statements; 2. non-financial indicators: the remuneration for operating performance is calculated based on the abilities in fulfillment of our core values and operations management and the participation in sustainable management, and the remuneration system is reviewed from time to time based on the actual condition of our operations and relevant laws.

3. According to the organizational by-laws of the Remuneration Committee, the combinations of remuneration paid by HEC includes cash remuneration, stock options, dividends, retirement benefits or severance pay, allowances and other tangible incentives. Their scope is consistent with the remuneration for directors and managers as stipulated in the Regulations Governing Information to be Published in Annual Reports of Public Companies.

(2) Procedures for determination of remuneration:

1. The remuneration for our directors and managers is regularly assessed based on the results of evaluation conducted in accordance with the “Regulations for Evaluation of the Performance of the Board of Directors” and the “Regulations Governing Performance Evaluation,” while the remuneration for the Chairman and the President is determined by the Board of Directors with reference to the standards of peer companies in connection with the indicators for our operating performance. To fully reflect the fulfillment of the operating performance indicators, the performance of the Chairman and the President is measured on the basis of the operating, governance and financial results relating to our operating indicators, the scope of whose evaluation includes pre-tax net profit, management of operational safety, supervision over implementation of financial plans, management of revenues, enhancement of internal control, implementation of quality assurance and management and other performance targets relating to the primary job responsibilities, or customer satisfaction as an indicator.

2. The reasonableness of relevant performance evaluations and remuneration for our directors and managers is regularly assessed and reviewed by the Remuneration Committee and the Board of Directors on an annual basis. Consideration is given to the rate of personal achievement of performance and the level of personal contribution to HEC, taking into account the overall performance of our operations and the future risks and development trends of the industry, with the remuneration system reviewed from time to time based on the actual condition of our operations and relevant laws. To maintain a balance between sustainable management and risk control, we also provide reasonable remuneration based on a comprehensive consideration of the current trend in corporate governance. The actual amount of remuneration distributed to our directors and managers in 2022 has been reviewed by the Remuneration Committee and submitted to the Board of Directors for approval.

(3) Relevance to the operating performance and future risks:

1. In reviewing the relevant payment criteria and system of our remuneration policy, we mainly take into account the overall condition of our operations, and we determine the payment criteria based on the rate of achievement of performance and the level of contribution in order to improve the overall effectiveness of the organizations and teams

of the Board of Directors and managerial departments. Consideration is also given to the remuneration standards of the industry to ensure the remuneration of our management is competitive in the industry and to retain outstanding managers.

2. The performance targets of our managers are associated with “risk control” to ensure all possible risks within the scope of their responsibilities are manageable and preventable, and the results of rating are based on their actual performance and connected with the relevant human resources and remuneration policies. Important decisions by our management are made after considering all relevant risk factors. The performance of relevant decisions is reflected in our profit, creating a link between the remuneration for our management and the performance in risk control.

(6) Names of managers to whom the remuneration for employees is distributed, and the remuneration distributed

December 31, 2022; Unit: NTD thousand

	Title	Name	Amount of stock dividend	Amount of cash dividend (Note)	Total	The total as a % of after-tax net profit (%)
Managers	President	Wang Chun-Tung	-	12,463	12,463	3.38%
	Vice President	Li Chun-Liang				
	Vice President	Lee Chia-Ching				
	Assistant Vice President	Liu Chang-Wei				
	Assistant Vice President	Huang Li-Chun				
	Assistant Vice President	Lin Yung-Chung				
	Accounting and Financial Manager	Chen Hui-Shan				

Note: On March 23, 2023, the Board of Directors adopted a resolution to distribute NTD36,041 thousand as the remuneration for employees in 2022. The amount of remuneration for employees received by managers is an estimation, which has yet to be distributed as of the date of publication of the annual report.

III. Information of corporate governance

(I) Information of operation of the Board of Directors

In 2022, the Board of Directors held 7 meetings (A), and the attendance of directors in these meetings is as follows:

Title	Name	Actual number of meetings attended (B)	Number of meetings attended by proxy	Actual rate of attendance (%) [B/A]	Remarks
Chairman	Representative of Compucase Investment Co., Ltd.: Wang Chun-Tung	7	-	100%	Date of re-election 2022.06.23
Director	Representative of Cheng Li Investment Co., Ltd.: Ko Chi-Yuan	7	-	100%	Date of re-election 2022.06.23
Director	Representative of Cheng Li Investment Co., Ltd.: Li Li-Sheng	3	-	100%	Former
Director	Representative of Cheng Li Investment Co., Ltd.: Li Ssu-Chia	4	-	100%	New 2022.06.23
Director	Representative of Compucase Investment Co., Ltd.: Huang Hsiu-Ling	7	-	100%	Date of re-election 2022.06.23
Director	Chung Ding-Chun	7	-	100%	Date of re-election 2022.06.23
Director	Li Li-Sheng	7	-	100%	New 2022.06.23
Independent director	Hua Chih-Chiang	4	-	100%	New 2022.06.23
Independent director	Chen Jung-Chao	4	-	100%	New 2022.06.23
Independent director	Hsu Chia-Te	4	-	100%	New 2022.06.23
Director	Chen Yao-Ming	3	-	100%	Former
Independent director	Chen Chung-Lin	3	-	100%	Former
Independent director	Hsu Chih-Jen	3	-	100%	Former

Other information required:

I. Where any of the following applies to the operations of the Board of Directors, the date and session of the relevant Board of Directors meeting, the proposal(s) for the meeting, all opinions of independent directors and the actions taken by HEC in response to the opinions

of independent directors must be specified:

(I) Matters set forth under Article 14-3 of the Securities and Exchange Act subject to resolutions of the Board of Directors: See Table (1)-1 “Matters set forth under Article 14-3 of the Securities and Exchange Act subject to resolutions of the Board of Directors” below.

(II) Matters other than the foregoing ones, for which the Board of Directors have adopted resolutions and for which objections or reservations have been expressed by independent directors in records or written statements: **None**.

II. With respect to the recusal of any director with a stake in a proposal, the name of the director, the proposal, the reason for recusal and his/her participation in the voting must be specified:

(1) 15th term, 16th meeting on March 24, 2022

Proposal:

Amount of bonuses and remuneration for managers distributed during November 2021 to February 2022.

Director(s) recused due to personal stake:

The Chairman and the director serving as the President.

Reason for recusal and participation in voting:

In accordance with Article 206 of the Company Act, the Chairman and the President did not participate in the discussion due to recusal and had appointed an acting chairperson, and the proposal was approved with no objection raised by any of the other attending directors following a consultation by the acting chairperson.

(2) 16th term, 4th meeting on November 9, 2022

Proposal:

Amount of bonuses and remuneration for directors, supervisors and managers distributed during March to October 2022.

Director(s) recused due to personal stake:

Director and President.

Reason for recusal and participation in voting:

Since the remuneration for directors and supervisors is distributed to all directors and supervisors, the President did not participate in the discussion due to recusal in accordance with Article 206 of the Company Act, and the proposal was approved with no objection raised by any of the other attending directors.

III. The following is the status of implementation with regard to information including the cycle, period, scope, method and content of self-evaluation (or peer evaluation) of the Board of Directors:

1. The cycle, period, scope, method and content of self-evaluation (or peer evaluation) of the Board of Directors:

Cycle of evaluation	Period of evaluation	Scope of evaluation	Method of evaluation	Content of evaluation
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Once each year	2022.06.23~2022.12.31	The Board of Directors, individual directors and members of the Remuneration Committee and the Audit Committee	Internal self-evaluation of the Board of Directors, the Remuneration Committee and the Audit Committee, and self-evaluation of directors	Report on the result of internal evaluation of the performance of the Board of Directors	
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2. Aspects evaluated and scores:

(1) Evaluation of the performance of the Board of Directors:

Item evaluated	Number of questions	Average score
A. Level of participation in the operations of HEC	12	4.73
B. Improvement of the quality of decision-making by the Board of Directors	12	4.93
C. Composition and structure of the Board of Directors	7	4.98
D. Election and continuing training of directors	7	4.59
E. Internal control	7	4.76
Total/Average score	45	4.80

(2) Evaluation of the performance of directors:

Item evaluated	Number of questions	Average score
A. Understanding of the goals and missions of HEC	3	5.00
B. Awareness of the responsibilities of a director	3	4.96
C. Level of participation in the operations of HEC	8	4.93
D. Management and communication regarding internal relationship	3	4.93
E. Professionalism and continuing training of directors	3	4.52
F. Internal control	3	5.00
Total/Average score	23	4.90

(3) Evaluation of the performance of the functional committees (Remuneration Committee):

Item evaluated	Number of questions	Average score
A. Level of participation in the operations of HEC	4	5.00
B. Awareness of the responsibilities of a functional committee	8	4.83
C. Improvement of the quality of decision-making by a functional committee	7	4.95
D. Composition and election of members of a functional committee	4	5.00
E. Internal control	3	4.67
Total/Average score	26	4.90

3. Result of evaluation:

The overall operations of the Board of Directors, directors and the functional committee (the Remuneration Committee and the Audit Committee) have been effective and met the requirements of corporate governance.

IV. The goals of enhancing the functions of the Board of Directors (e.g. establishment of the Audit Committee, improvement of information transparency) in the current and the most recent years, and the evaluation of their implementation:

- (1) Pursuant to the rules of procedure for the Board of Directors, the Board of Directors convenes meetings and has included three independent directors to participate in the adoption of resolutions by the Board of Directors. If there is any resolution that includes material information after each meeting of the Board of Directors, it will be disclosed on the MOPS to investors and the public as required.
- (2) We have established the “Standard Operating Procedures for Handling Requests from Directors,” which designates the Finance Department as the department responsible for handling matters related to the meetings of the Board of Directors: any request from any director at a meeting must be promptly handled by the Financial Office within 7 days. To ensure compliance with the procedures for and all laws and rules applicable to the Board of Directors and maintain good exchange of information between members of the Board of Directors and between directors and managerial departments, all directors will be able to receive assistance from our accounting manager.
- (3) We have established organizational by-laws of the Remuneration Committee and the Audit Committee, and set up the Remuneration Committee and the Audit Committee, whose members are composed of independent directors. The by-laws stipulate that the Remuneration Committee and the Audit Committee must fulfill their responsibilities as administrators, faithfully perform their duties, enhance supervisory functions and increase information transparency.
- (4) We have obtained liability insurance for all directors. For further information, see p. 47 or visit the MOPS.

(I)-1 Matters set forth under Article 14-3 of the Securities and Exchange Act subject to resolutions of the Board of Directors

Session/Date of Board of Directors meeting	Resolutions	Opinions of independent directors	Actions taken by HEC in response to the opinions of independent directors
15th term, 16th meeting 2022.03.24	1. Loaning of funds to the South Korean subsidiary. 2. Loaning of funds to the US subsidiary. 3. Amendment to certain provisions of the “Regulations Governing Acquisition or Disposal of Assets.”	No objections.	None
15th term, 17th meeting 2022.05.13	1. Endorsements/guarantees from HEC to the limit provided by Cathay United Bank for FD.		
15th term, 18th meeting 2022.06.08	1. Capital reduction of USD5 million by WJA in Mainland China. 2. Capital increase of USD5 million by WCF in Mainland China. 3. Loaning of funds totaling USD3.5 million from HEC to Optima Healthcare Inc.		
16th term, 1st meeting 2022.06.23	1. Appointment of the members of the Remuneration Committee. 2. Appointment of the members of the Audit Committee. 3. Proposal for authorizing the Chairman to approve any loan totaling no more than NTD500 million granted by a financial institution. 4. Transfer of the debt of USD1 million of the US subsidiary to the subsidiary GVG. 5. Transfer of the debt of USD1.2 million of the South Korean subsidiary to the subsidiary HIT. 6. Election of the Chairman and appointment of the President.	No objections.	None

Session/Date of Board of Directors meeting	Resolutions	Opinions of independent directors	Actions taken by HEC in response to the opinions of independent directors
16th term, 3rd meeting 2022.08.10	<ol style="list-style-type: none"> 1. Change of the limit of funds loanable from HEC to the US subsidiary. 2. Cancellation of the limit of funds loanable from HEC to the South Korean subsidiary. 3. Cancellation of the limit of funds loanable from the subsidiary HIT to the South Korean subsidiary. 4. Loaning of funds totaling RMB30 million from the subsidiary WCX to WCF. 5. Endorsements/guarantees totaling USD5 million from HEC to LFDG. 	No objections.	None
16th term, 4th meeting 2022.11.09	<ol style="list-style-type: none"> 1. Evaluation of the independence and competence of the CPAs. 2. Cancellation of the limit of funds loanable from the subsidiary GVG to the US subsidiary. 3. Loaning of funds totaling RMB10 million from the subsidiary WCX to WYT. 4. Loaning of funds totaling RMB30 million from the subsidiary WJA to WCF. 5. Loaning of funds totaling RMB30 million from the subsidiary WJA to WSE. 6. Appointment of the new chief auditor. 7. Amendments to the “internal control system” and “internal audit system.” 	No objections.	None

(II) Operations of the Audit Committee or participation of supervisors in the operations of the Board of Directors

1. Operations of the Audit Committee:

Information of operations of the Audit Committee

In 2022, the Audit Committee held three meetings (A), and the attendance of members in these meetings is as follows:

Title	Name	Actual number of meetings attended in non-voting capacity (B)	Number of meetings attended by proxy	Actual rate of attendance (%) [B/A]	Remarks
Independent director	Hsu Chia-Te	3	-	100%	New 2022.06.23
Independent director	Chen Jung-Chao	3	-	100%	New 2022.06.23
Independent director	Hua Chih-Chiang	3	-	100%	New 2022.06.23

Other information required:

- I. Where any of the following applies to the operations of Audit Committee, the date and number of session of the relevant Audit Committee meeting, the proposal(s) for the meeting, the objections, reservations or material suggestions of independent directors, the relevant resolution of the Audit Committee and the actions taken by HEC in response to the opinions of the Audit Committee must be specified.
 - (I) Matters set forth under Article 14-5 of the Securities and Exchange Act.
 - (II) Matters other than the foregoing ones, which have not been approved by the Audit Committee but have been approved in resolutions by at least two-thirds of all directors.
- II. With respect to the recusal of any independent director with a stake in a proposal, the name of the independent director, the proposal, the reason for recusal and his/her participation in the voting must be specified: **None**.
- III. Communication between independent directors and the chief internal auditor and CPAs:
 - (I) Communication with the chief internal auditor
 - (1) The chief auditor submitted an audit report to the independent directors before the end of the next month following the completion of audits, and the independent directors had no objections after reviewing the report.
 - (2) The chief auditor attended the meetings of the Audit Committee held at least quarterly to give reports on audit activities to the independent directors, and to communicate with its members regarding the results of the audit reports and the implementation of the follow-up reports. The following are the details of communication in the current year:

Date	Meeting session	Details of communication	Result of communication
2022/11/09	1st Audit Committee, 3rd meeting	(1) Report on the implementation of internal audit activities in 2022.	No objections

		(2) Discussion of the 2023 internal audit plan. (3) Amendments to the “internal control system” and “internal audit system.”	
2022/11/09	One-on-one communication meeting	(1) Description of the deficiencies in the internal control system and their improvement in 2022. (2) Description of the amendments to the internal control and audit systems.	No objections
2022/08/10	1st Audit Committee, 2nd meeting	Report on the implementation of internal audit activities in 2022.	No objections

(II) Communication with CPAs

The independent directors and CPAs hold at least two regular meetings each year. The CPAs give reports on the financial conditions of HEC, the financial conditions and overall operations of domestic and foreign subsidiaries and the status of internal audit to the independent directors, and adequately communicate whether there are any significant adjusting journal entries or impact on the account records due to the amendment of related laws. In the event of any material irregularity, they may hold a meeting at any time.

Date	Meeting session	Details of communication	Result of communication
2022/11/09	One-on-one communication meeting	(1) The CPAs described the plan, scope and method of the annual audit. (2) The CPAs communicated and discussed with the independent directors regarding the details of risk assessment and key audit matters. (3) The CPAs described the status of self-preparation of financial statements by HEC. (4) Description of issues relating to the independence of the CPAs and Corporate Governance 3.0 – Roadmap of Sustainable Development.	No objections

2. Participation of supervisors in the operations of the Board of Directors:

Participation of supervisors in operations of the Board of Directors

In 2022, the Board of Directors held seven meetings (A), and the attendance of supervisors in these meetings is as follows:

Title	Name	Actual number of meetings attended in non-voting capacity (B)	Actual rate of attendance (%) [B/A]	Remarks
Supervisor	Li Ssu-Chia	3	100%	Former
Supervisor	Li Li-Yu	2	66%	Former
Supervisor	Hsieh Chia-Hung	3	100%	Former

Other information required:

I. Composition and responsibilities of supervisors:

(I) Communication between supervisors and employees and shareholders (e.g. channels and methods of communication):

If necessary, the supervisors may communicate with our employees and shareholders by telephone or mail.

(II) Communication between supervisors and the chief internal auditor and CPAs (e.g. the matters, methods and results of communication regarding the financial and business conditions of your company):

The Board of Directors meets on a quarterly basis. All meetings of the Board of Directors are attended by independent directors and the chief auditor, who will give a report on internal audit activities at each such meeting.

II. Where any supervisor attending a Board of Directors meeting has expressed an opinion, the date and session of the relevant Board of Directors meeting, the proposal(s) for the meeting, the resolution adopted by the meeting and the actions taken by HEC in response to the opinion of the supervisor must be specified: None.

(III) Information of corporate governance:

Implementation of corporate governance, differences with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences
	Yes	No	Summary	
I. Does your company establish and disclose its corporate governance best practice principles in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies”?	✓		We have implemented the “Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies” and followed its spirit in the internal control system and relevant regulations, and relevant information has been disclosed on the MOPS and our website.	No significant differences
II. The shareholding structure and shareholders' equity of your company				
(I) Does your company establish internal procedures for handling shareholders' suggestions, questions, disputes, and lawsuits? Does your company follow such procedures?	✓		(I) We have appointed a spokesperson and a deputy spokesperson responsible for contacting and communicating with our shareholders and handling shareholders' suggestions, questions, disputes, and lawsuits.	No significant differences
(II) Does your company keep a list of major shareholders actually controlling your company and the ultimate controllers of the major shareholders?	✓		(II) All changes in the shareholdings of directors, supervisors and major shareholders with a shareholding of no less than 10% have been reported to HEC on a monthly basis as required, and HEC and its management have been able to keep clear track of such changes.	No significant differences
(III) Has your company established and implemented a system for risk control and	✓		(III) We have established the “Regulations Governing Establishment and Management of Subsidiaries” as	No significant differences

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences
	Yes	No	Summary	
firewalls with its affiliates?			the basis of risk control regarding transactions with our affiliates and their operations, and for the management of internal controls.	
(IV) Has your company established internal regulations that prevent insiders from trading securities using non-public market information?	✓		(IV) We have established the “Ethical Corporate Management Best Practice Principles” and the “Code of Ethical Conduct,” according to which any director, supervisor or manager who has obtain important non-public information must abide by their requirements to prevent insider trading from occurring.	No significant differences
III. Composition and responsibilities of the board of directors				
(I) Has your board of directors established a diversity policy and specific goals of management? Have such policy and goals been implemented?	✓		(I) 1. In accordance with our diversity policy, the 15th Board of Directors elected on June 22, 2022 is composed of eight directors (including three independent directors and two female directors), where women account for 22.2% of all directors. 2. All of our directors possess multicultural backgrounds and international visions, and they are sufficiently experienced in corporate governance and industrial technologies. Our directors have professional knowledge and skills in multiple areas including industry, finance, accounting, technology and management.	No significant differences

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	Yes	No	Summary	
(II) Has your company, apart from establishing a remuneration committee and an audit committee, voluntarily set up any other functional committee?	✓		(II) Our operations are currently smooth, and we will assess whether to establish any other functional committee depending on the actual situation.	No significant differences
(III) Has your company established regulations and methods for evaluation of the performance of the board of directors? Does your company conduct such performance evaluation on a regular basis each year? Are the results of such performance evaluation submitted to the board of directors and used as reference for the remuneration for individual directors and for their nomination or re-election?	✓		(III) We have established the “Regulations for Evaluation of the Performance of the Board of Directors” and the methods of such evaluation, and we have determined that the remuneration for each director will be based on the result of evaluation of his/her performance. Each year, we conduct a regular evaluation of the performance of the Board of Directors, and such evaluation for 2022 had been completed, with a report on the results of evaluation of the performance of the Board of Directors submitted to the Board of Directors meeting on March 23, 2023.	No significant differences
(IV) Does your company assess the independence of CPAs on a regular basis?	✓		(IV) The Audit Committee assesses the independence and competence of the CPAs on an annual basis. The CPAs are required to provide “Audit Quality Indicators (AQIs),” and the assessment is conducted according to the criteria in Note 1 and 13 AQIs. It has been confirmed that none of the CPAs has any financial interest or business relationship with HEC other than the fees for certification and financial and tax cases, and that	No significant differences

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences										
	Yes	No	Summary											
			<p>none of the family members of the CPAs is in violation of the independence requirements. Base on the information of AQIs, it has been confirmed that the CPAs and their firm are above the average level of peers in terms of auditing experience and training hours. On November 9, 2022, the result of assessment for the most recent year was discussed and approved by the Audit Committee. In addition, the Board of Directors adopted a resolution on the same day to approve the assessment of the independence and competence of the CPAs. :</p> <p>Note 1:</p> <table border="1"> <thead> <tr> <th>Item evaluated</th> <th>Independence criteria are met</th> </tr> </thead> <tbody> <tr> <td>Whether the CPA has a direct or material indirect financial interest with HEC</td> <td>✓</td> </tr> <tr> <td>Whether the CPA has engaged in financing or guarantees with HEC or any of its directors</td> <td>✓</td> </tr> <tr> <td>Whether the CPA has a close business relationship and a potential employment relationship with HEC</td> <td>✓</td> </tr> <tr> <td>Whether the CPA or any member of his/her audit service team currently serves, or</td> <td>✓</td> </tr> </tbody> </table>	Item evaluated	Independence criteria are met	Whether the CPA has a direct or material indirect financial interest with HEC	✓	Whether the CPA has engaged in financing or guarantees with HEC or any of its directors	✓	Whether the CPA has a close business relationship and a potential employment relationship with HEC	✓	Whether the CPA or any member of his/her audit service team currently serves, or	✓	
Item evaluated	Independence criteria are met													
Whether the CPA has a direct or material indirect financial interest with HEC	✓													
Whether the CPA has engaged in financing or guarantees with HEC or any of its directors	✓													
Whether the CPA has a close business relationship and a potential employment relationship with HEC	✓													
Whether the CPA or any member of his/her audit service team currently serves, or	✓													

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences										
	Yes	No	Summary											
			<p>served within the most recent two years, as a director or manager or in a position with material effect on audit cases at HEC</p> <table border="1" data-bbox="999 579 1695 1135"> <thead> <tr> <th>Item evaluated</th> <th>Independence criteria are met</th> </tr> </thead> <tbody> <tr> <td>Whether the CPA has provided any non-audit service likely to directly affect audit cases</td> <td>✓</td> </tr> <tr> <td>Whether the CPA has acted as a broker for the shares or other securities issued by HEC</td> <td>✓</td> </tr> <tr> <td>Whether the CPA has served as a defense counsel for HEC or represented HEC in mediating any conflict with any other third party</td> <td>✓</td> </tr> <tr> <td>The CPA is a relative of a director, manager or person serving in a position with material effect on audit cases at HEC</td> <td>✓</td> </tr> </tbody> </table>	Item evaluated	Independence criteria are met	Whether the CPA has provided any non-audit service likely to directly affect audit cases	✓	Whether the CPA has acted as a broker for the shares or other securities issued by HEC	✓	Whether the CPA has served as a defense counsel for HEC or represented HEC in mediating any conflict with any other third party	✓	The CPA is a relative of a director, manager or person serving in a position with material effect on audit cases at HEC	✓	
Item evaluated	Independence criteria are met													
Whether the CPA has provided any non-audit service likely to directly affect audit cases	✓													
Whether the CPA has acted as a broker for the shares or other securities issued by HEC	✓													
Whether the CPA has served as a defense counsel for HEC or represented HEC in mediating any conflict with any other third party	✓													
The CPA is a relative of a director, manager or person serving in a position with material effect on audit cases at HEC	✓													
IV. Does your TWSE/TPEx listed company appoint an appropriate number of competent corporate governance officers and designate a chief corporate governance officer to be in	✓		(1) The company, based on the resolution of the board of directors on March 23 2023, has appointed Manager Li Yu Ming as the dedicated corporate governance. The corporate governance possesses	No significant differences										

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences
	Yes	No	Summary	
charge of corporate governance affairs (including but not limited to providing the information required for directors or supervisors to perform their duties, assisting directors or supervisors in compliance, managing affairs for board of directors meetings and shareholders' meetings as required by law, and preparing minutes for board of directors meetings and shareholders' meetings)?			<p>over three years of experience in holding executive positions related to legal affairs in publicly traded companies. The primary responsibilities of the corporate governance supervisor include handling matters related to board of directors and shareholders' meetings in compliance with the law, preparing minutes of board of directors and shareholders' meetings, assisting directors in their appointment and continuing education, providing necessary information for directors to carry out their duties, and assisting directors in complying with laws and regulations. The board of directors has designated the finance department as the secretariat, and the finance department provides the necessary information to directors according to the "Rules of Procedure for the Board of Directors. " If necessary, the audit department provides assistance.</p> <p>(2) In any year when a new election is held, we will provide each of the newly elected directors (including independent directors) and supervisors with a handbook of information on laws governing directors and supervisors, and will send emails on a non-regular basis to provide information on laws and announcement by the competent authority to assist in compliance, such as reminding all directors and supervisors not to sell the shares of HEC during</p>	

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences
	Yes	No	Summary	
			<p>the period when HEC purchases treasury stocks.</p> <p>(3) We have also established the “Standard Operating Procedures for Handling Requests from Directors” to assist the directors in performing their duties whenever necessary and enhance the effectiveness of the Board of Directors.</p> <p>Note: The corporate governance did not receive any further education or training in the fiscal year 2023.</p>	
V. Does your company establish channels of communication with stakeholders (including but not limited to shareholders, employees, customers and suppliers)? Does your company create a section for stakeholders on its website and give proper responses regarding important issues of corporate social responsibility that concern stakeholders?	✓		<p>(1) We consider the issues that concern stakeholders and the channels of communication with them to be of great importance. We regularly maintain good communication with stakeholders, including banks, shareholders, employees, customers and upstream and downstream suppliers, and matters relating to communication with specific stakeholders are managed by persons from the relevant departments.</p> <p>(2) We have created a section for stakeholders under “Investor Information” on our website (http://www.hec-group.com.tw/index.php?id=170&L=1) to give proper responses to questions from stakeholders.</p>	No significant differences

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	Yes	No	Summary	
VI. Does your company engage any professional shareholder services agent to manage affairs for shareholders' meetings?	✓		We have engaged Yuanta Securities Co., Ltd. as our shareholder services agent to manage affairs for shareholders' meetings.	No significant differences
VII. Information disclosure				
(I) Does your company set up a website to disclose financial, business and corporate governance information?	✓		(I) A section for investors has been set up on our website for disclosure of our financial business within at least the most recent three years, with the content thereof updated by designated personnel (our website: http://www.hec-group.com.tw/).	No significant differences
(II) Does your company use other means to disclose information (e.g. setting up an English website, assigning specialized personnel to collect and disclose corporate information, implementing a spokesperson system, uploading the proceedings of investor conferences to your company's website)?	✓		(II) 1. We have set up an English website to disclose information of our products and business. Our website: http://www.hec-group.com.tw/ 2. We have appointed a spokesperson and a deputy spokesperson, and information relating to shareholders' meetings and investor conferences has been published on our website (our website: https://www.hec-group.com.tw/index.php?id=100&L=1).	No significant differences
(III) Does your company publish and submit an annual financial report within two months after the end of each fiscal year? Does your company publish and submit financial reports of the first, second and third quarters	✓		(III) We have published and submitted an annual financial report, financial reports of the first, second and third quarters and the monthly status of operations before the required deadline. For further details, see the information submitted to the MOPS	No significant differences

Item evaluated	Implementation			Differences with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences	
	Yes	No	Summary		
and the monthly status of operations before the required deadline?			(website: https://mops.twse.com.tw/).		
VIII. Does your company have other important information useful for understanding the status of corporate governance of your company (including but not limited to employees' rights, employee care, investor relations, supplier relationship, stakeholders' rights, continuing training of directors and supervisors, implementation of risk management policies and risk measurement standards, implementation of customer policies, purchase of liability insurance for directors and supervisors by your company, etc.)?	✓		See the descriptions below.		

VIII. Important information useful for understanding the status of corporate governance of your company (including but not limited to employees' rights, employee care, investor relations, supplier relationship, stakeholders' rights, continuing training of directors and supervisors, implementation of risk management policies and risk measurement standards, implementation of customer policies, purchase of liability insurance for directors and supervisors by your company):

(I) Employees' rights and employee care:

In accordance with the relevant laws and regulations, we have established work rules expressly setting out the protection of employees' rights and prohibiting sexual discrimination and harassment against employees to provide a harmonious and safe working environment for employees. Furthermore, we organize non-regular domestic and foreign incentive trips and year-end banquets in which the family

members of our employees are invited to participate, and we care about our employees with regard to marriage, funerals and festivities.

(II) Supplier relationship:

We maintain good relationships of mutual assistance and cooperation with suppliers and customers dealing with us. We communicate our policies for environmental safety and energy conservation to all suppliers with the expectation that they follow our policies to meet requirements of the code of conduct for corporate social responsibilities.

(III) Continuing training of directors:

Since our directors have possessed relevant expertise, we will arrange, as appropriate and in accordance with our corporate governance principles, for them to continue to attend courses on corporate governance, and we will advise them to take part in any training course on legal awareness, if available.

(IV) Implementation of risk management policies and risk measurement standards:

We have established a strict internal control system as required by law, whose implementation is audited by our internal auditors on a regular or non-regular basis. We have also taken out the relevant property insurance to avoid risks.

(V) Protection of consumers or implementation of customer policies:

Under the policy of “consumer and customer first,” our relevant internal regulations have been established according to the spirit of the Consumer Protection Act and other applicable laws to be implemented by our employees.

(VI) The following indicates the liability insurance we have purchased for our directors and supervisors:

The insured	Insurance company	Amount insured	Insurance period	Remarks
All directors and supervisors	Cathay Century Insurance Co., Ltd.	NTD31,135 thousand (USD1 million)	September 15, 2022 to September 15, 2023	Renewed

IX. Please specify the result of corporate governance evaluation released by the Corporate Governance Center of the Taiwan Stock Exchange in the most recent year and describe the improvements made, and please specify the priorities and measures for improvement with respect to matters for which improvement has yet to be made.

(I) Improvements made with respect to the result of corporate governance evaluation released in the most recent year:

1. At the 2022 annual shareholders' meeting, electronic voting had been adopted, and voting had been held on a proposal-by-proposal basis.
2. Our employee welfare measures and retirement system and their implementation have been disclosed on our website.

(II) Priorities and measures for improvement with respect to the result of corporate governance evaluation:

1. An annual report is expected to be uploaded 16 days prior to an annual shareholders' meeting.
2. A meeting handbook is expected to be uploaded 30 days prior to a shareholders' meeting.

(IV) Where your company has established a remuneration committee, information regarding its composition, responsibilities and operations must be disclosed:

On October 26, 2011, the Board of Directors adopted the “Organizational Regulations for the Remuneration Committee” and established a Remuneration Committee consisting of three elected members, whose term is the same as that of directors. On June 23, 2022, the shareholders’ meeting held a new election of directors, and members of the Remuneration Committee were elected by the Board of Directors on the same day. The following is the information of its members and operations:

(1) Information of members of the Remuneration Committee

April 16, 2023

Position (Note 1)	Name	Criteria	Independence	Also a remuneration committee member at the following number of other public company(ies)
		Professional qualifications and experience		
Independent director/Convener	Hsu Chia-Te	<ol style="list-style-type: none"> Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC’s business President, Well-Spring Enterprise Corp. 	Note 1	1

Independent director	Chen Jung-Chao	<ol style="list-style-type: none"> 1. Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business 2. A professional or technician who has passed the national examination required for judge, prosecutor, lawyer, accountant or any other business of HEC and has received a certificate thereof. 3. CPA, Water Accountants' Firm 	Note 1	3
Independent director	Hua Chih-Chiang	<ol style="list-style-type: none"> 1. Having at least 5 years of working experience and the following professional qualifications: commerce, law, finance, accounting, or other work experience required for HEC's business 2. Dean, College of Engineering, National Yunlin University of Science and Technology 	Note 1	-

Note 1: We have obtained a written statement from each independent director confirming the independence of himself/herself and his/her lineal relatives vis-à-vis HEC.

The criteria of independence are as follows:

- (1) Not an employee of HEC or any of its affiliates.
- (2) Not a director or supervisor of HEC or any of its affiliates (except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (3) Not a natural-person shareholder whose shareholding, including the shares held by his/her spouse or minor children or through nominees, equals or exceeds 1% of the total outstanding shares of HEC, or who is among the top 10 shareholders of HEC.
- (4) Not a spouse, any relative within the second degree of consanguinity or any lineal relative within the third degree of consanguinity of any manager under (1) or any of the persons under (2) or (3).
- (5) Not a director, supervisor or employee of any corporate shareholder who holds at least 5% of the outstanding shares of HEC, is among the top 5 shareholders or has appointed a representative as a director or supervisor of HEC in accordance with paragraph 1 or 2, Article 27 of the Company Act

(except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).

- (6) Not a director, supervisor or employee of another company where a majority of the seats of director or voting shares are under the control of the same person (except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (7) Not a director, supervisor or employee of another company or institution who is also the chairman, president or any officer with equivalent position at HEC or is his/her spouse (except where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (8) Not a director, supervisor or manager or a shareholder with a shareholding of no less than 5% at any company or institution with a financial or business relationship with HEC (except where that company or institution holds no less than 20% and no more than 50% of the total outstanding shares of HEC, and where the person serves as an independent director concurrently at HEC and its parent company, any of its subsidiaries or any subsidiary of the same parent company in accordance with the Securities and Exchange Act or the laws of the local country).
- (9) Not a professional or an owner, partner, director, supervisor or manager of any sole proprietorship, partnership, company or institution specialized in commercial, legal, financial, accounting or other related services, who provides auditing services to HEC or any of its affiliates or who has received a cumulative amount of less than NTD500,000 as remuneration in the most recent 2 years, and not his/her spouse, except for any of the members of the Remuneration Committee, Review Committee for Public Acquisitions or Special Committee for Mergers who perform their duties in accordance with the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
- (10) None of the circumstances under Article 30 of the Company Act applies.

(2) Information of operations of the Remuneration Committee

I. The Remuneration Committee of HEC consists of 3 members.

II. The term of the current members commenced on June 23, 2022 and expires on June 22, 2025. In 2022, the Remuneration Committee held three meetings (A), and the qualifications of the members and their attendance in these meetings are as follows:

Title	Name	Actual number of meetings attended (B)	Number of meetings attended by proxy	Actual rate of attendance (%) [B/A] (Note)	Remarks
Independent director	Hsu Chia-Te	2	0	100%	New 2022.06.23
Independent director	Chen Jung-Chao	2	0	100%	New 2022.06.23
Independent director	Hua Chih-Chiang	2	0	100%	New 2022.06.23
Independent director/Convener	Chen Chung-Lin	1	0	100%	Former 2019/6/20-2022/6/19
Independent director	Hsu Chih-Jen	1	0	100%	Former 2019/6/20-2022/6/19
Member	Hsieh Shih-Hua	1	0	100%	Former 2019/6/20-2022/6/19

Other information required:

I. Where the board of directors has declined to adopt or amend the suggestions of the remuneration committee, the date and session of the relevant board of directors meeting, the proposal(s) for the meeting, the relevant resolution of the board of directors and the actions taken by your company in response to the opinions of the remuneration committee must be specified (if the remuneration approved by the board of directors is higher than that suggested by the remuneration committee, the difference and its reason must be specified): None.

II. Where members of the remuneration committee have expressed objections or reservations in records or written statements to any matter subject to a resolution of the remuneration committee, the date and session of the relevant remuneration committee meeting, the proposal(s) for the meeting, all opinions of the members and the actions taken in response to the opinions of the members must be specified: None.

III. The following is a summary of the main matters communicated and resolutions in 2022:

Remuneration Committee	Proposal and subsequent actions taken in response	Resolution	Actions taken by HEC in response to the opinions of

				the Remuneration Committee	
	4th term, 6th meeting 2022.03.24	1. Percentage and amount of the remuneration for employees, directors and supervisors in 2021. 2. Amount of bonuses and remuneration for managers distributed during November 2021 to February 2022.	Reviewed and approved by all members, and submitted to the 16th meeting of the 15th Board of Directors on March 24, 2022 for a resolution.	Submitted to and approved by the Board of Directors.	
	5th term, 1st meeting 2022.08.10	1. Establishment of the “Regulations Governing the Remuneration for Directors and Managers.”	Reviewed and approved by all members, and submitted to the 3rd meeting of the 16th Board of Directors on August 10, 2022 for a resolution.	Submitted to and approved by the Board of Directors.	
	5th term, 2nd meeting 2022.11.09	1. Amount of bonuses and remuneration for directors, supervisors and managers distributed during March to October 2022.	Reviewed and approved by all members, and submitted to the 4th meeting of the 16th Board of Directors on November 9, 2022 for a resolution.	Submitted to and approved by the Board of Directors.	

We have adopted the “Organizational Regulations for the Remuneration Committee” as required to assist the Board of Directors in performing its duties concerning the remuneration for our internal managers. The Remuneration Committee shall supervise all material matters relating to our remuneration and advise the Board of Directors on such matters, and is expected to meet at least twice each year to perform the following duties as authorized by the Board of Directors:

1. Establishing and periodically reviewing the annual and long-term performance targets of our directors and managers and the policy, system, standards and structure of their remuneration.
2. Periodically evaluating the achievement of the performance targets of our directors and managers, and assessing the reasonableness of the content and amounts of their individual remuneration.

(V) Promotion of sustainable development: The systems and measures adopted by HEC regarding environmental protection, community participation, social contribution, social services, social charity, consumer rights, human rights, safety, health and other social responsibility activities and their implementation.

Promotion of sustainable development, differences with the Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences
	Yes	No	Summary	
I. Does your company establish a governance framework to promote sustainable development? Does your company establish a specialized (or designate an existing) department to promote sustainable development, which the senior management is authorized by the board of directors to manage under the supervision of the board of directors?	✓		<ol style="list-style-type: none"> 1. Adhering to the vision and mission of the ESG policy, we have established a governance framework for sustainable development, where a number of our senior managers specialized in different areas jointly review our core operating capabilities in order to develop medium- to long-term sustainable development plans. 2. We have designated the Business Planning Office as the department responsible for promotion of sustainable development. It has begun to submit regular reports to the Board of Directors regarding its supervision over relevant matters since Q2 of 2022. 	No significant differences
II. Does your company conduct any risk assessment regarding environmental, social and corporate governance issues related to your company's operations according to the materiality principle? Does your company establish any relevant risk management policy or strategy?	✓		<ol style="list-style-type: none"> 1. The boundary of our risk assessment is focused on HEC, including our current branches in Taiwan, Mainland China, other Asian regions and Americas, and has included our subsidiaries in its scope based on their relevance to our primary business operations and the level of their influence on material issues. 2. We have established the "Handbook on the 	No significant differences

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
			Environment," "Handbook on Occupational Safety and Health," "Regulation Governing Emergency Responses" and "Handbook on RBA Social Responsibilities" as the basis for promotion of sustainable development.	
III. Environmental issues				
(I) Does your company create an appropriate environmental management system based on the industrial characteristics of your company?	✓		(I) 1. The Business Planning Office is the department responsible for environmental management, and in December 2010 we received the ISO 14001 certification for environmental management system. We have established the following environmental policies: pollution prevention, compliance with environmental laws, continuous improvement, production of green products and implementation of environmental goals including: (1) compliance with relevant requirements of the Waste Disposal Act; (2) prevention of environmental pollution and continuous improvement; (3) compliance with applicable legal requirements, with re-certification received in July 2015.	No significant differences
(II) Is your company committed to achieving more efficient use of energy and using renewable materials with low impact on environmental burdens?			(II) 1. We are committed to improving the recycling and reuse of resources, such as reusing recycled paper and envelopes, and making our best efforts to use renewable materials, such as the recycling and reuse of	No significant differences

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
			<p>packaging materials (cartons, bubble wrap, etc.) To prevent environmental pollution and waste of resources caused by disposal of toner cartridges, all such cartridges used by photocopiers or printers are delivered to their original manufacturers for recycling and disposal, and we have chosen to use eco-friendly toner.</p> <p>2. For energy conservation and carbon reduction, we sort garbage, set air conditioning at specific temperature and use energy-saving LED light bulbs.</p> <p>3. We encourage our employees to bring their own water cups and reusable chopsticks to reduce the amount of disposable waste.</p>	
(III) Does your company assess the present and future potential risks and opportunities arising from climate change for your company? Does your company take any measures in response to climate-related issues?	✓		<p>(III) 1. We are committed to the management of energy conservation and carbon reduction in our day-to-day operations. We have been reminding our employees to partially turn off lighting and air conditioning when fewer people are in an office in order to reduce the amount of CO2 generated by unnecessary electricity consumption and lessen its environmental impact.</p> <p>2. We periodically engage testing companies to conduct environmental sampling and testing in our workplace, the scope of which includes the testing of the concentration of</p>	No significant differences

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
			organic chemical solvents/dust/CO2. All results of such testing have met legal requirements, ensuring effective improvement and optimization of the working environment to protect the physical health of our employees.	
(IV) Does your company make statistics of the greenhouse gas emissions, water consumption and total weight of waste over the previous two years? Does your company establish policies for energy conservation and carbon reduction, greenhouse gas reduction, reduction of water usage or management other waste?	✓		(IV) We have established the “Regulations for Definition of Environmental Aspects,” “Regulations Governing Environmental Monitoring” and other relevant regulations to keep attention to environmental and climate change issues. The Business Planning Office is responsible for making statistics of greenhouse gas emissions, water and electricity consumption and total waste weight for the establishment of relevant control measures. We are expected to complete the ISO14064-1 greenhouse gas inventory on December 31, 2023.	No significant differences
IV. Social issues				
(I) Does your company establish relevant management policies and procedures in accordance with applicable laws and regulations and international human rights conventions?			(I) 1. In accordance with the Labor Standards Act, international human rights conventions and other applicable labor laws, we have established personnel management regulations and work rules for employees, and we have handled matters concerning labor insurance, the National Health Insurance and pensions for employees	No significant differences

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
			<p>pursuant to applicable laws and regulations. Furthermore, we have established the “Regulations for Prevention of Sexual Harassment” in accordance with the Sexual Harassment Prevention Act and the Act of Gender Equality in Employment to provide our employees with a working and service environment free from sexual harassment.</p> <p>2. To ensure gender equality in employment, we offer paid pregnancy checkup, paternity, maternity and parental leave and convene non-periodical meetings of the labor-management committee to safeguard the rights of our employees.</p> <p>3. On September 15, 2020, we acquired the certification for RBA Social Responsibilities.</p>	
(II) Does your company establish and implement reasonable employee welfare measures (including remuneration, leave and other benefits)? Is the operating performance or result appropriately reflected in the remuneration for employees?	✓		<p>(II) 1. Our policy is to determine the remuneration for each employee based on personal competencies, the level of his/her contribution to HEC, his/her performance and his/her competitiveness, taking into account the future operating risks of HEC. Article 29 of the Articles of Incorporation stipulates that where HEC has a profit in a year, it shall allocate 2% to 10% thereof as the remuneration for employees, which shall be distributed in shares or cash subject to a</p>	

Item promoted	Implementation		Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	
		<p>resolution of the Board of Directors. The recipients of such remuneration may include the employees of foreign and domestic affiliates. The Board of Directors may adopt a resolution to allocate no more than 4% of the amount of the foregoing profit as the remuneration for directors and supervisors. We have established the “Employee Work Rules,” “Regulations Governing Performance Evaluation” and “Regulations Governing Labor–Management Committee.” In addition to communicating the relevant business ethics and the systems for employee performance, rewards and penalties, we have included talents, systems and future planning as evaluation indicators, consistent with the key mission of people-oriented corporate sustainable development as a corporate social responsibility, in order to enhance our competitiveness internationally in the future.</p> <p>2. For other employee welfare measures, see p. 78.</p> <p>3. Workplace diversity and equality: We aim to achieve remuneration based on “equal pay for equal work” and ensure equal opportunity for promotion for both genders to facilitate sustainable and inclusive economic development. In 2022, women</p>	

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
			accounted for an average of 52% of our employees, and an average of 30% of our managers.	
(III) Does your company provide employees with a safe and healthy work environment and give safety and health training to employees regularly?	✓		<p>(III) 1. Attaching great importance to the working environment of our employees, we periodically engage professional agencies to conduct testing at HEC by monitoring the concentration of organic solvents, dust, noise and CO2 in our workplace. All results of such testing have met relevant requirements, ensuring effective improvement and optimization of the working environment to protect the physical health of our employees. (see the summary in (3) on p. 40)</p> <p>2. We periodically organize training sessions on safety and health. We conducted a fire drill/emergency response exercise on October 26, 2021, and we organized a health examination for employees on December 2, 2022.</p> <p>3. We have set up a lactation room for our female employees and provided them with proper childcare measures, and we have signed special contracts with kindergartens and infant care centers nearby HEC.</p> <p>4. In response to COVID-19, we have established pandemic prevention measures</p>	No significant differences

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	Yes	No	Summary	
			<p>on a rolling basis and been supervising their implementation by our employees.</p> <p>5. We have engaged nurses and physicians from Sinlau Hospital to our factories for management of employees' health by level.</p>	
(IV) Does your company establish an effective plan for development and training of the career abilities of employees?	✓		<p>(IV) At the end of each year, we carry out a year-end evaluation. Our employees may indicate to us the training programs and courses they intend to attend, and we will organize appropriate internal training sessions or apply for external training based on job requirements.</p>	No significant differences
(V) Regarding customer health and safety, customer privacy, marketing and labeling in relation to products and services, does your company comply with applicable laws and international standards? Does your company establish policies and complaint procedures for the protection of consumer or customer rights?	✓		<p>(V) 1. All our products are attached with labels in compliance with applicable laws and international rules, e.g. labels indicating safety certification, based on which consumers can choose what to buy.</p> <p>2. We have taken out product liability insurance for our customers, and a section for stakeholders has been created on our website. We have also set up a customer service hotline and a service email box (hec-service@hec-group.com.tw) to provide channels for consumer complaints and protect consumer rights.</p>	No significant differences
(VI) Does your company establish any supplier management policy that requires suppliers to comply with relevant regulations with regard to	✓		<p>(VI) 1. We have established the "Regulations for Management of Vendors," which requires us to conduct an evaluation of any new</p>	No significant differences

Item promoted	Implementation			Differences with the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
issues of environmental protection, occupational safety and health or labor rights? What is the status of its implementation?			<p>supplier prior to dealing with it. The scope of such evaluation includes not only its production equipment and delivery capability, but also its quality level and quality assurance, while also taking into account whether it has any history of affecting the environment and society.</p> <p>2. All suppliers are required to abide by our policies in the “Ethical Corporate Management Best Practice Principles,” and each of them must conclude a contract with us detailing the rights and obligations of both parties, including compliance with our ethical management policies and the requirement that the supplier must make improvement or terminate the contract where the counterparty is involved in violation of our policies for corporate social responsibility and has caused an effect on the environment and society.</p>	
V. Does your company prepare a sustainable development report and other reports that disclose non-financial information of your company based on internationally accepted standards or guidelines for preparation of reports? Do the foregoing reports receive the assurance or guarantee opinions of any third-party certifying agency?		✓	<p>We are expected to prepare a sustainability report on September 30, 2023. We will keep close attention to relevant issues at all times, and such report will be prepared depending on our operations in the future. All matters concerning implementation of corporate governance, development of a sustainable environment and maintenance of public interest have been handles</p>	Under assessment.

Item promoted	Implementation		Differences with the Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	
			according to the spirit and requirements of the “Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies.”
VI. Where your company has established its own principles of sustainable development in accordance with the “Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies,” the differences between the operations of your company and such principles must be described:			
(I) We have placed great emphasis on the importance of occupational safety, environmental protection, safety and health. In addition to receiving the ISO14001 and OHSAS18001 certifications, we periodically engage in monitoring of the air, noise, waste and energy use in our factory areas, with an improvement plan promptly implemented if the criteria level is exceeded.			
(II) We have created plenty of job opportunities, and we have established the Employee Welfare Committee, implemented a pension system, organized training courses and taken out group insurance for our employees and periodically arranged for health examinations to demonstrate our commitment to harmonious labor relations.			
VII. Other important information useful for understanding the status of promotion of sustainable development:			<p>Our focus on the promotion of sustainable development includes the original aspect of environmental management as well as risk assessments and measures concerning labor safety and health, promotion of labor rights, encouragement for a balance between work and leisure, prohibition of sexual harassment and other violations against employees, concern for occupational safety and the physical health of employees, adherence to business ethics and protection of intellectual property rights and trade secrets.</p>

(VI) Status of ethical management and the measures taken

For many years, we have been committed to complying with the “Electronic Industry Code of Conduct” (EICC), in which the requirements of business ethics constitute one of its five key components. The following is the main content included in the requirements of business ethics:

1. Business integrity: Monitoring and regulatory measures must be implemented to prevent corruption, extortion and embezzlement.
2. No improper advantage: Bribes or other improper advantages must not be offered/accepted.
3. Disclosure of information: Information regarding business activities, performance, etc. must be disclosed in accordance with applicable regulations and industry practices.
4. Intellectual property: Intellectual property rights must be protected and respected.

5. Fair business, advertising and competition: Customer information must be safeguarded in accordance with applicable standards.
6. Protection of identity: The identity of any whistleblower must remain confidential.

Based on the above, the status of implementation of our business philosophy and the EICC is as follows:

Status of ethical management, differences with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, and the reasons for such differences

Item evaluated	Implementation			Differences with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
I. Establishment of ethical management policies and plans				
(I) Does your company establish any ethical management policy adopted by the board of directors? Do the regulations and external documents of your company specify the policy and practices of ethical management and the commitments by the board of directors and the senior management to actively implementing the ethical management policy?	✓		(I) We have established the “Ethical Corporate Management Best Practice Principles” and the “Code of Ethical Conduct,” according to which our directors, supervisors, managers and employees are required to implement our ethical management policies and ensure compliance with the Company Act, the Securities and Exchange Act, the Business Entity Accounting Act and other applicable laws and regulations which publicly listed companies must adhere to. We have also designated the Audit Office as the responsible department in this regard to submit regular reports to the Board of Directors.	No significant differences
(II) Does your company established any mechanism for assessment of the risks of unethical behavior to perform regular analysis and assessment of operating activities with higher risks of unethical behavior within the scope of business of your company? Does your company establish, on the basis of the foregoing,	✓		(II) The “Ethical Corporate Management Best Practice Principles” includes relevant measures for prevention of the behavior under paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and requires	No significant differences

Item evaluated	Implementation			Differences with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
any plan for prevention of unethical behavior, including at least measures for prevention of the behavior under Paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”?			all relevant departments to implement such measures. To prevent unethical behavior, we also conduct periodic or non-periodic sampling audits of whether HEC adheres to ethical principles and continue to follow up on the implementation of improvements, with periodic reports submitted quarterly to the Board of Directors.	
(III) Does your company specify and implement the operating procedures, guidelines of behavior, penalties for violations and complaint system in the plan for prevention of unethical behavior? Is the foregoing plan reviewed and amended on a regular basis?	✓		(III) The “Ethical Corporate Management Best Practice Principles” clearly prohibits unethical behavior. To ensure ethical management, we have established effective accounting and internal control systems, and our internal auditors have been conducting regular or non-regular audits on transaction processes and communicating our ethical management principles to all companies dealing with HEC. To completely prevent improper business conduct, bribes and the acceptance of gifts and kickbacks are prohibited.	No significant differences
II. Implementation of ethical management				
(I) Does your company assess the history of integrity of its business counterparties? Does the contract between your company and a business counterparty include any provision governing ethical behavior?	✓		(I) Before conducting any business transaction, we are required to consider the legality of the relevant agent, supplier or customer or other relevant business counterparty and whether it has engaged in any unethical behavior, and all contracts we have signed with other parties	No significant differences

Item evaluated	Implementation			Differences with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
			include a provision that the contract may be terminated or canceled at any time if any unethical behavior is involved.	
(II) Does your company set up (or designate) any unit under the board of directors that is responsible for the promotion of corporate ethical management and that gives a report to the board of directors regarding its ethical management policy and unethical behavior prevention plan and their supervision and implementation on a regular basis (at least annually)?	✓		(II) Formed under the Board of Directors, the Audit Office is responsible for prevention measures under our ethical management policies and supervision of their implementation, and gives periodic reports to the Board of Directors.	
(III) Does your company establish any policy for prevention of conflict of interest, provide any appropriate channel for representation, and implement such policy?	✓		(III) The “Ethical Corporate Management Best Practice Principles” includes a system for recusal of directors, supervisors and managers in case of conflict of interest. Any director, supervisor or manager who has a personal stake or who represents a corporation with a stake in any proposal to a meeting of the Board of Directors may, if such stake is likely to prejudice the interests of HEC, provide his/her opinion and answer questions at the meeting without participating in the discussion and voting on that proposal, and must recuse himself/herself from such discussion and voting. In addition, he/she may not exercise voting rights on behalf of any other director on that proposal.	No significant differences
(IV) Does your company establish effective accounting	✓		(IV) To ensure the implementation of ethical	No significant differences

Item evaluated	Implementation			Differences with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
and internal control systems to ensure the implementation of ethical management? Does the internal audit department establish any relevant audit plan based on the result of assessment of the risks of unethical behavior? Does your company, in accordance with the foregoing plan, conduct an audit of the compliance with the unethical behavior prevention plan, or engage a CPA to conduct such audit?			management, we have established effective accounting and internal control systems, with the internal auditors regularly conducting audits of the compliance with the aforementioned systems. Furthermore, in accordance with the requirements of the Company Act, the Securities and Exchange Act and other applicable laws, the CPAs are responsible for auditing and certifying relevant accounting statements and books.	
(V) Does your company organize internal and external training sessions on ethical management on a regular basis?	✓		(V) We have integrated the requirements of ethical management into our corporate culture, and they are promoted from time to time at Board of Directors meetings, weekly meetings or annual management meetings.	No significant differences
III. Operations of the whistleblowing system of your company				
(I) Does your company establish specific systems for whistleblowing and rewards? Does your company establish any convenient whistleblowing channel and appoint any appropriate person to handle the case of a person reported?	✓		(I) We have established the “Ethical Corporate Management Best Practice Principles,” which provides for wrongdoing reporting channels and reward and complaint systems managed by a designated department in accordance with required procedures and included in the scope of annual performance evaluation. To make it possible for our employees and relevant personnel to report cases of improper business conduct, we have set up an internal	No significant differences

Item evaluated	Implementation			Differences with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
			whistleblowing mailbox, and we have created a section for investment services on our website that provides contact information and a business hotline for shareholders to keep the relevant channels of communication open. Senior managers have been appointed to handle such cases.	
(II) Does your company establish standard operating procedures for investigation of cases reported by whistleblowers, including subsequent measures required after the completion of investigation and the relevant confidentiality measures?	✓		(II) We have established the “Ethical Corporate Management Best Practice Principles” and the “Code of Ethical Conduct,” which provide for the channels and methods for accepting reported cases, with a designated department responsible for handling such cases and communication of opinions. The relevant manager is responsible for maintaining confidentiality over the information of the persons involved and making the whistleblowers aware that HEC will do its best to protect the safety of persons reporting in good faith.	No significant differences
(III) Does your company take measures to protect whistleblowers from improper retaliation as a result of whistleblowing?	✓		(III) Same as the description in (2).	No significant differences
IV. Enhancement of information disclosure				
(I) Does your company disclose the contents of its ethical management principles and the results of their promotion on its website and the Market Observation	✓		1. We have disclosed, as appropriate, the information of our financial business and corporate governance the MOPS and our	No significant differences

Item evaluated	Implementation			Differences with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, and the reasons for such differences
	<u>Yes</u>	<u>No</u>	Summary	
Post System?			<p>website, and we have disclosed the status of implementation of our ethical management principles and the results of their promotion in our annual reports.</p> <p>2. We have appointed specialized personnel for disclosure of information and have established a spokesperson system.</p>	
V. Where your company has established its own principles of ethical management in accordance with the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies,” the differences between the operations of your company and such principles must be described:				<p>We have established and implemented the “Ethical Corporate Management Best Practice Principles” in accordance with the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” to create good systems for corporate governance and risk control and build a business environment based on sustainable development. There are no significant differences with the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.”</p>
VI. Other important information useful for understanding the status of ethical management at your company:				<ol style="list-style-type: none"> 1. We have been in compliance with the Company Act, the Securities and Exchange Act, the Fair Trade Act, the Business Entity Accounting Act, the applicable regulations for TWSE/TPEX listed companies or other regulations concerning business activities, which have served as the basis for implementation of ethical management. 2. We communicate relevant laws and regulations to our internal employees on a non-periodic basis to make sure they understand our determination in and policies of ethical management and the consequences of unethical behavior. 3. We have established the “Code of Ethical Conduct,” according to which any director, supervisor or manager who has obtain important non-public information is prohibited from trading relevant securities and must abide by the laws governing insider trading. Any individual or company violating the requirements regarding insider trading will be subject to civil and criminal penalties. 4. We periodically review and amend the “Code of Ethical Conduct” and the “Ethical Corporate Management Best Practice Principles,” which were approved by the Board of Directors to be amended on May 8, 2020.

(VII) Methods of access to the corporate governance principles and relevant regulations established by your company:

1. Corporate governance principles and relevant regulations:

We have established the “Corporate Governance Principles,” “Ethical Corporate Management Best Practice Principles,” “Procedures for Management of Material Information,” “Code of Ethical Conduct,” “Procedures on Application for Suspension and Resumption of Transactions,” “Regulations for Evaluation of the Performance of the Board of Directors,” “Rules of Procedure for Shareholders’ Meeting,” “Rules of Procedure for the Board of Directors,” “Regulations for Elections of Directors and Supervisors,” “Standard Operating Procedures for Handling Requests from Directors” and other relevant regulations, the contents of which have been disclosed on our website.

2. We have created the sections of “Investor Information” and “Social Responsibilities,” where our annual financial reports, handbooks of shareholders’ meetings, annual reports, information of investor conferences and announcements of material information are published, with reference to appropriate locations on the MOPS for investors to search for them.

(VIII) Other important information useful for understanding the status of corporate governance

1. Employees’ rights and employee care:

We firmly believe that employees are a force driving the growth of a company, so we attach great importance to employees’ rights and adhere to all legal rights of our employees. We have established regulations governing employee retirement and an employee remuneration system, and have formed an Employee Welfare Committee responsible for employee benefits.

2. Investor relations:

Committed to the principles of integrity and fair disclosure of information and the transparency of corporate governance, we regularly publish information related to our operations and finance to shareholders and the public, and has established a system of spokesperson and deputy spokesperson to fulfill our responsibilities and obligations in disclosing corporate information. We have created a section of “Investment Services” on our website to disclose financial, business and corporate governance information. We have also appointed personnel responsible for investor relations and set up a dedicated email box to handle suggestions and questions from investors.

3. Supplier relationship and stakeholders’ rights:

We keep long-term and close cooperation with our suppliers to ensure there is no shortage of the sources of our materials.

4. Our important information has been disclosed on the MOPS as required by the competent authority.

5. In order to create a good mechanism for the management and disclosure of material insider information, avoid improper disclosure of information and ensure the consistency and accuracy of our information published externally, we have established the “Ethical Corporate Management Best Practice Principles,” “Procedures for Management of Material Information,” “Code of Ethical Conduct” and “Procedures on Application for Suspension and Resumption of Transactions” and other relevant procedures, which have been approved by the Board of Directors.

6. Participation of our directors, supervisors, accounting and financial managers and chief internal auditor in training on corporate governance:

Title	Name	Date	Organizer	Course title	Duration
Director	Chung Ding- Chun	2022/09/29	Securities and Futures Institute (SFI)	Capturing information security threats to supply chains – opportunities for startups in Taiwan	3 hours
Director	Chung Ding- Chun	2022/10/11	Securities and Futures Institute (SFI)	On issues of M&A integration in the process of business M&A	3 hours
Director	Chung Ding- Chun	2022/10/26	Securities and Futures Institute (SFI)	2022 Conference on Awareness of Compliance with the Laws Governing Trading of Equity by Insiders	3 hours
Director	Huang Hsiu- Ling	2022/09/12	Accounting Research and Development Foundation (ARDF)	Analysis of Common Deficiencies in the Review of Financial Statements and Practices in Important Laws and Regulations Governing Internal Control	6 hours
Director	Huang Hsiu- Ling	2022/10/12	Securities and Futures Institute (SFI)	2022 Conference on Awareness of Compliance with the Laws Governing Trading of Equity by Insiders	3 hours
Director	Huang Hsiu- Ling	2022/11/02	Accounting Research and Development Foundation (ARDF)	Practices in the Detection and Prevention of Corporate Frauds: Legal Responsibility, Forensics and Big Data Analysis	6 hours
Director	Li Ssu- Chia	2022/04/22	Taiwan Institute for Sustainable Energy	Taishin Summit for Sustainability and Net Zero 2030 – Transform to Net Zero 2030	3 hours
Director	Li Ssu- Chia	2022/05/20	Securities and Futures Institute (SFI)	2022 Conference on Awareness of Prevention of Insider Trading	3 hours
Director	Li Ssu- Chia	2022/07/27	Taiwan Stock Exchange	Conference on Awareness of the Industrial Issues in the Sustainable Development Roadmap	2 hours

Title	Name	Date	Organizer	Course title	Duration
Director	Li Ssu-Chia	2022/10/19	Securities and Futures Institute (SFI)	2022 Conference on Awareness of Compliance with the Laws Governing Trading of Equity by Insiders	3 hours
Director	Li Ssu-Chia	2022/10/21	Securities and Futures Institute (SFI)	2022 Conference on Awareness of Prevention of Insider Trading	3 hours
Director	Li Ssu-Chia	2022/11/13-2022/11/14	Taiwan Stock Exchange	2022 Cathay Sustainable Finance and Climate Change Summit	3 hours
Independent director	Hua Chih-Chiang	2022/10/06	Taiwan Stock Exchange	Conference on Release of the Guidelines for the Powers Exercised by Independent Directors and Audit Committees and Its Promotion to Directors and Supervisors	3 hours
Independent director	Hsu Chia-Te	2022/10/11	Securities and Futures Institute (SFI)	On issues of M&A integration in the process of business M&A	3 hours
Independent director	Hsu Chia-Te	2022/10/12	Securities and Futures Institute (SFI)	2022 Conference on Awareness of Compliance with the Laws Governing Trading of Equity by Insiders	3 hours
Independent director	Hsu Chia-Te	2022/10/18	Securities and Futures Institute (SFI)	Practices in Business M&A – Focusing on Hostile M&A	3 hours
Independent director	Hsu Chia-Te	2022/11/03	Taiwan corporate governance association	How the board of directors oversees ESG risks and builds corporate sustainability competitiveness.	3 hours
Independent director	Hsu Chia-Te	2022/12/15	Taiwan corporate governance association	Introduction to the Sustainable Development Blueprint and Audit Criteria Indicators	3 hours
Independent director	Chen Jung-Chao	2022/06/27	Accounting Research and Development Foundation (ARDF)	“Crime of Breach of Trust”: Analysis of Practical Cases and Legal Responsibilities	3 hours

Title	Name	Date	Organizer	Course title	Duration
Independent director	Chen Jung-Chao	2022/07/26	Accounting Research and Development Foundation (ARDF)	On Disputes Over “Management Rights” from the Perspectives of Corporate Governance and Shareholder Structure	3 hours
Independent director	Chen Jung-Chao	2022/10/07	Taiwan Institute of Directors	On ESG from the Perspectives of Tax Governance and Risk Management	3 hours
Independent director	Chen Jung-Chao	2022/11/11	Taiwan Institute of Directors	ESG Governance and New Circular Economy	3 hours
Accounting Manager	Chen Hui-Shan	2022/12/01-2022/12/02	Accounting Research and Development Foundation (ARDF)	Program for Continuing Training of the Accounting Managers of Securities Issuers, Dealers and Exchanges	12 hours
Chief Auditor	Hsu Ya-Hui	2022/10/24	The Institute of Internal Auditors – Chinese Taiwan	Reading, Analysis and Application of Financial Statements	6 hours
Chief Auditor	Hsu Ya-Hui	2022/11/18	The Institute of Internal Auditors – Chinese Taiwan	How Auditors Detect Fraud in Financial Statements	6 hours

(IX) Operations of the internal control system:

Compucase Enterprise Co., Ltd.

Statement of Internal Control System

Date: March 23, 2023

Based on the results of self-audit of our internal control system in 2022, we hereby issue the following statement:

- I. We acknowledge that our Board of Directors and managers are responsible for establishment, implementation and maintenance of the internal control system, and that we have established such system, whose purpose is to provide reasonable assurance for achievement of the goals of operational effectiveness and efficiency (including profits, performance and protection of asset security), reliable, timely and transparent reporting in compliance with applicable regulations, and compliance with applicable laws and regulations.
- II. The internal control system has its inherent limits. Regardless of how perfect its design is, an effective internal control system can only provide reasonable assurance for the achievement of the above-mentioned three goals. Moreover, due to changes in the environment and circumstances, the effectiveness of the internal control system may also change. Nonetheless, our internal control system has a self-monitoring mechanism. Once a deficiency is identified, we will take action to correct it.
- III. We determine whether the design and implementation of our internal control system are effective based on the criteria specified in the “Regulations Governing Establishment of Internal Control Systems by Public Companies” (hereinafter the “Regulations”) for determination of the effectiveness of an internal control system. The criteria adopted by the “Regulations” for determination of an internal control system divide such system into five elements based on the process of management and control: 1. control environment; 2. risk assessment; 3. control operations; 4. information and communication; and 5. supervision. Each of the elements further includes several criteria. For the foregoing criteria, please see the requirements of the “Regulations.”
- IV. We have adopted the above-mentioned criteria for determination of an internal control system to assess the effectiveness of the design and implementation of our internal control system.
- V. Based on the results of the foregoing assessment, we consider that our internal control system (including the supervision and management of subsidiaries) as of December 31, 2022, including the design and implementation of the internal control system in relation to the understanding of the level of accomplishment of the goals of operational effectiveness and efficiency, reliable, timely and transparent reporting in compliance with applicable regulations and compliance with applicable laws and regulations, is effective and able to reasonably ensure the achievement of the above-mentioned goals.
- VI. This statement will form part of the main content of our annual report and prospectus and will be published. In the event that any of the above published information involves falsification, concealment or other illegality, we will be subject to the legal liabilities under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
- VII. We declare that this statement was approved by a Board of Directors meeting on March 23, 2023. None of the nine directors attending the meeting expressed any objection, and all of them approved the information in this statement.

Compucase Enterprise Co., Ltd.

Chairman and President: Wang Chun-Tung

2. Where a CPA has been engaged to review the internal control system, the review report of the CPA must be disclosed: **None**.

(X) Penalties legally imposed on HEC and its internal employees or penalties imposed by HEC on its internal employees for violation of the requirements of its internal control system in the most recent year and as of the date of publication of the annual report, and the main deficiencies and the status of their improvement: **None**.

(XI) Important resolutions adopted by the shareholders' meeting and the Board of Directors in the most recent year and as of the date of publication of the annual report:

1. Important resolutions adopted by the shareholders' meeting and their implementation:

Date	Important resolution	Implementation of resolution of the shareholders' meeting
2022.06.23	1. 2021 statements of final accounts.	Implemented according to the resolution.
	2. Distribution of earnings for 2021.	1. An amount of NTD2 per share was distributed as cash dividends to shareholders in a total of NTD226,571 thousand, and July 22, 2022 was set as the ex-dividend date according to the resolution adopted by the Board of Directors on June 23, 2022. Distribution of the cash dividends was completed on August 19, 2022.
	3. Amendment to certain provisions of the "Articles of Incorporation."	The procedures after amendment shall apply.
	4. Amendment to certain provisions of the "Regulations Governing Acquisition or Disposal of Assets."	The procedures after amendment shall apply.
	5. New election of all directors and supervisor	Registration of the change with the MOEA was completed on July 7, 2022.
	6. Lifting of non-compete restrictions on directors	Implemented according to the resolution.

2. Important resolutions adopted by the Board of Directors

Date	Important resolution
15th term, 16th meeting 2022.03.24	1. The 2021 business report and financial report. 2. Distribution of earnings for 2021. 3. Percentage and amount of the remuneration for employees, directors and supervisors in 2021. 4. Approval of the remuneration for newly appointed managers. 5. Amount of bonuses and remuneration for managers distributed during

Date	Important resolution
	<p>November 2021 to February 2022.</p> <p>6. The 2021 statement of internal control system.</p> <p>7. Matters concerning distribution of the accumulated earnings of foreign subsidiaries with investments from HEC.</p> <p>8. Content of the “Overview of the 2022 Business Plan and the Strategy for Future Development.”</p> <p>9. Loaning of funds to the South Korean subsidiary.</p> <p>10. Loaning of funds to the US subsidiary.</p> <p>11. Amendment to certain provisions of the “Articles of Incorporation.”</p> <p>12. Amendment to certain provisions of the “Regulations Governing Acquisition or Disposal of Assets.”</p> <p>13. New election of all directors.</p> <p>14. List of nominated candidates for directors.</p> <p>15. Lifting of non-compete restrictions on directors.</p> <p>16. Convening of the 2022 annual shareholders’ meeting.</p>
15th term, 17th meeting 2022.05.13	<p>1. The financial statements for Q1 of 2022.</p> <p>2. Extension of the endorsements/guarantees from HEC to the limit provided by Cathay United Bank for FD.</p>
15th term, 18th meeting 2022.06.08	<p>1. Capital reduction of USD5 million by WJA in Mainland China.</p> <p>2. Capital increase of USD5 million by WCF in Mainland China.</p> <p>3. Loaning of funds totaling USD3.5 million from HEC to Optima Healthcare Inc.</p>
16th term, 1st meeting 2022.06.23	<p>1. Appointment of the members of the Remuneration Committee.</p> <p>2. Establishment of the Organizational Rules for the Audit Committee.</p> <p>3. Appointment of the members of the Audit Committee.</p> <p>4. Proposal for authorizing the Chairman to approve any loan totaling no more than NTD500 million granted by a financial institution.</p> <p>5. Determination of the ex-dividend date for 2022.</p> <p>6. Contribution to National Yunlin University of Science and Technology.</p> <p>7. Transfer of the debt of USD1 million of the US subsidiary to the subsidiary GVG.</p> <p>8. Transfer of the debt of USD1.2 million of the South Korean subsidiary to the subsidiary HIT.</p> <p>9. Election of the Chairman and appointment of the President.</p>
16th term, 2nd meeting 2022.07.05	<p>1. Establishment of the 6th “Regulations for Transfer of Repurchased Shares to Employees.”</p> <p>2. Repurchase of HEC’s shares for treasury shares.</p>
16th term, 3rd meeting 2022.08.10	<p>1. The financial statements for Q2 of 2022.</p> <p>2. Amendment to the 6th “Regulations for Transfer of Repurchased Shares to Employees.”</p> <p>3. Change of the limit of funds loanable from HEC to the US subsidiary.</p> <p>4. Cancellation of the limit of funds loanable from HEC to the South Korean subsidiary.</p> <p>5. Cancellation of the limit of funds loanable from the subsidiary HIT to</p>

Date	Important resolution
	<p>the South Korean subsidiary.</p> <p>6. Loaning of funds totaling RMB30 million from the subsidiary WCX to WCF.</p> <p>7. Endorsements/guarantees totaling USD5 million from HEC to LFDG.</p> <p>8. Establishment of the “Regulations Governing the Remuneration for Directors and Managers.”</p>
16th term, 4th meeting 2022.11.09	<p>1. The financial statements for Q3 of 2022.</p> <p>2. Amount of bonuses and remuneration for directors, supervisors and managers distributed during March to October 2022.</p> <p>3. Evaluation of the independence and competence of the CPAs.</p> <p>4. Cancellation of the limit of funds loanable from the subsidiary GVG to the US subsidiary.</p> <p>5. Loaning of funds totaling RMB10 million from the subsidiary WCX to WYT.</p> <p>6. Loaning of funds totaling RMB30 million from the subsidiary WJA to WCF.</p> <p>7. Loaning of funds totaling RMB30 million from the subsidiary WJA to WSE.</p> <p>8. Appointment of the new chief auditor.</p> <p>9. Establishment of the 2023 audit plan.</p> <p>10. Amendment to the “Procedures for Management of Material Information.”</p> <p>11. Amendments to the “internal control system” and “internal audit system.”</p>
16th term, 5th meeting 112.03.23	<p>1. The 2022 business report and financial report.</p> <p>2. Distribution of earnings for 2022.</p> <p>3. Percentage and amount of the remuneration for employees, directors and supervisors in 2022.</p> <p>4. Approval of the remuneration for newly appointed managers.</p> <p>5. Appointment of a chief corporate governance officer.</p> <p>6. Lifting of non-compete restrictions on the chief corporate governance officer.</p> <p>7. Amount of bonuses and remuneration for managers distributed during November 2022 to February 2023.</p> <p>8. The 6th transfer of repurchased shares of HEC to employees in 2022.</p> <p>9. The 2022 statement of internal control system.</p> <p>10. Matters concerning distribution of the accumulated earnings of foreign subsidiaries with investments from HEC.</p> <p>11. Content of the “Overview of the 2023 Business Plan and the Strategy for Future Development.”</p> <p>12. Election of one additional independent director.</p> <p>13. Review of the list of nominated candidates for independent directors by the Board of Directors.</p> <p>14. Lifting of non-compete restrictions on new independent directors.</p> <p>15. Amendment to certain provisions of the “Articles of Incorporation.”</p>

Date	Important resolution
	<p>16. Amendment to certain provisions of the “Standard Operating Procedures for Handling Requests from Directors.”</p> <p>17. Amendment to certain provisions of the “Regulations Governing Loaning of Funds to Others.”</p> <p>18. Amendment to certain provisions of the “Regulations Governing the Remuneration for Directors and Managers.”</p> <p>19. Establishment of the “Corporate Governance Best Practice Principles.”</p> <p>20. Convening of the 2023 annual shareholders’ meeting.</p>

(XII) Where directors or supervisors have expressed different opinions in records or written statements with regard to important resolutions adopted by the board of directors during the most recent year and as of the date of publication of the annual report, the main contents of such opinions must be specified: **None**.

(XIII) Summary of the resignations or discharges of the chairman, president, accounting manager, financial manager, chief internal auditor, chief corporate governance officer and chief R&D officer of HEC during the most recent year and as of the date of publication of the annual report:

Summary of resignations or discharges of relevant personnel of HEC

April 17, 2023

Title	Name	Date of appointment	Date of discharge	Reason for resignation or discharge
Chief Auditor	Cheng Wen-Hsing	2021.07.01	2022.01.13	Family-related reason
Chairman	Ko Chi-Yuan	2023.06.14	2022.06.23	Term expired

IV. Information of professional fees for CPAs:

Information of professional fees for CPAs

Unit: NTD thousand

Name of CPA firm	Name of CPA	CPA audit period	Audit fees	Non-audit fees	Total	Remarks
Deloitte Taiwan	Wang Teng-Wei	2022	3,250	1,015	4,265	Note
	Li Chi-Chen					

Note: NTD340 thousand for transfer pricing in 2022; NTD350 thousand for the master file of 2022; NTD325 thousand for payment of expenses for our branches.

1. Where the CPA firm is changed and the audit fees paid for the year when such change occurs are less than those paid for the year prior to such change, the amounts of the audit fees before and after such change and the reasons for such decrease must be disclosed: **None**.
2. Where the decrease in the audit fees is no less than 10% from the previous year, the amount and percentage of and the reasons for such decrease in the audit fees must be disclosed: **None**.

V. Information of change of CPAs:

To maintain the independence of CPAs and implement the mechanism for internal rotation of CPAs, Deloitte Taiwan has changed the CPAs for HEC starting from Q3 of 2021, with the original CPAs Wu Chiu-Yen and Yang Chao-Chin replaced by Wang Teng-Wei and Li Chi-Chen.

VI. Where the chairman, president or financial or accounting manager of your company has served at the firm of the CPAs or any of its affiliates during the most recent year, his/her name and title and the period of his/her service at the firm of the CPAs or any of its affiliates must be disclosed:

None.

VII. Changes in transfers and pledges of shares held by directors, supervisors, managers and shareholders with a shareholding of more than 10% during the most recent year and as of the date of publication of the annual report:

(I) Changes in shares held by directors, supervisors, managers and shareholders with a shareholding of more than 10%

Title	Name	2022		2023, as of April 17	
		Increase (Decrease) in the number of shares held	Increase (Decrease) in the number of shares pledged	Increase (Decrease) in the number of shares held	Increase (Decrease) in the number of shares pledged
Director	Compucase Investment Co., Ltd.	-	(3,900,000)	-	-
Representative of Director	Wang Chun-Tung	-	-	(10,000)	-
Representative of Director	Huang Hsiu-Ling	-	-	-	-
Director	Cheng Li Investment Co., Ltd.	-	(100,000)	-	-
Representative of Director	Ko Chi-Yuan	-	-	-	-
Representative of Director	Li Ssu-Chia	-	-	-	-

Title	Name	2022		2023, as of April 17	
		Increase (Decrease) in the number of shares held	Increase (Decrease) in the number of shares pledged	Increase (Decrease) in the number of shares held	Increase (Decrease) in the number of shares pledged
Director	Chung Ding-Chun	-	-	-	-
Director	Li Li-Sheng	-	473,000	-	-
Independent director	Hsu Chia-Te	-	-	-	-
Independent director	Chen Jung-Chao	-	-	-	-
Independent director	Hua Chih-Chiang	-	-	-	-
Chairman and President	Wang Chun-Tung	-	-	-	-
Vice President	Li Chun-Liang	(10,000)	-	(89,000)	-
Vice President	Lee Chia-Ching	(4,954)	-	-	-
Assistant Vice President	Liu Chang-Wei	-	-	-	-
Assistant Vice President	Huang Li-Chun	(32,000)	-	(26,000)	-
Assistant Vice President	Lin Yung-Chung	-	-	-	-
Assistant Vice President	Lin Yung-Hsiang	-	-	-	-
Chief corporate governance officer	Li Yu-Ming	-	-	-	-
Accounting and Financial Manager	Chen Hui-Shan	(13,000)	-	(21,000)	-

(II) Information of related parties who are the counterparties in transfers or pledges of shares:
None.

VIII. Information of shareholders with the top 10 shareholdings who are related parties or are spouses or relatives within the second degree of consanguinity

Information of the relationship between shareholders with the top 10 shareholdings

April 17, 2023

Name	Personal shareholding		Shareholding of spouse or minor children		Total nominee shareholding		Names and relationship of shareholders with the top 10 shareholdings who are related parties or are spouses or relatives within the second degree of consanguinity		Remarks
	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Name	Relationship	
Representative of Compucase Investment Co., Ltd.: Ko Chi-Yuan	23,835,605	21.42%	-	-	-	-	-	-	-
Representative of MiTAC International Corporation: Miao Feng-Chiang	10,000,000	8.99%	-	-	-	-	-	-	-
Miao Feng-Chiang	-	-	-	-	-	-	-	-	-
Representative of Cheng Li Investment Co., Ltd.: Ko Chi-Yuan	6,638,193	5.97%	-	-	-	-	-	-	-
Ko Chi-Yuan	230,000	0.21%	-	-	-	-	-	-	-
Lin Kun-da	3,000,000	2.70%							-
Hsu Chien Chiu-Hsiang	1,306,036	1.17%	775,000	0.70%	-	-	Hsu Tung-Jung	Husband and wife	-
Tahua Investment Co., Ltd.	973,000	0.87%	-	-	-	-	-	-	-
Chang Lien-Sheng	-	-	-	-	-	-	-	-	-
Zhang Hong-zhou	963,000	0.87%	-	-	-	-	-	-	-
Representative of King's Town Bank Co., Ltd.: Tai Cheng-Chih	827,000	0.74%	-	-	-	-	-	-	-
Tai Cheng-Chih	-	-	-	-	-	-	-	-	-

Name	Personal shareholding		Shareholding of spouse or minor children		Total nominee shareholding		Names and relationship of shareholders with the top 10 shareholdings who are related parties or are spouses or relatives within the second degree of consanguinity		Remarks
	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Number of shares	Shareholding (%)	Name	Relationship	
Hsu Tung-Jung	775,000	0.70%	1,306,036	1.17%	-	-	Hsu Chien Chiu-Hsiang	Husband and wife	-
Hsu Cheng-Fu	740,344	0.67%	-	-	-	-			-

IX. Numbers of shares held by HEC, its directors, supervisors and managers and companies directly or indirectly controlled by HEC in a single investee company, and the comprehensive shareholding percentage calculated on a consolidated basis: None.

Four. Financing

I. Capital and shares of HEC:

(I) Sources of share capital

April 17, 2023

Date	Par value per share (NTD)	Authorized share capital		Paid-in share capital		Remarks			
		Number of shares (thousand shares)	Amount (NTD thousand)	Number of shares (thousand shares)	Amount (NTD thousand)	Sources of share capital	Non-cash property used as share payment	Other	
1997/08	10	15,000	150,000	15,000	150,000	Capital increase by cash NTD70,000 thousand Capital increase from earnings NTD30,000 thousand	-	-	October 22, 1997 Letter Jing-(1997)-Shang-Zi No. 121094
1999/07	10	75,000	750,000	38,000	380,000	Capital increase by cash NTD170,000 thousand Capital increase from earnings NTD60,000 thousand	-	-	August 9, 1999 Letter Jing-(1999)-Shang-Zi No. 088128766
2000/12	10	75,000	750,000	49,400	494,000	Capital increase from earnings NTD114,000 thousand	-	-	January 3, 2001 Letter Jing-(2001)-Shang-Zi No. 089148759
2001/07	10	75,000	750,000	59,493	594,930	Capital increase from earnings NTD100,930 thousand	-	-	August 29, 2001 Letter Jing-(2001)-Shang-Zi No. 09001343520
2002/04	10	85,000	850,000	62,618	626,180	Capital increase by cash NTD31,250 thousand	-	-	May 2, 2002 Letter Jing-(2002)-Shang-Zi No. 09101154380
2002/10	10	85,000	850,000	76,184	761,846	Capital increase from earnings NTD135,666 thousand	-	-	October 16, 2002 Letter Jing-(2002)-Shang-Zi No. 09101416830
2003/12	10	110,000	1,100,000	86,038	860,378	Capital increase from earnings NTD98,532 thousand	-	-	December 1, 2003 Letter Jing-Shou-Shang-Zi No. 09201326140
2004/08	10	110,000	1,100,000	89,876	898,759	Capital increase from earnings NTD38,381 thousand	-	-	August 9, 2004 Letter Jing-Shou-Shang-Zi No. 09301146740
2005/08	10	110,000	1,100,000	91,352	913,520	Capital increase from earnings NTD14,761 thousand	-	-	August 1, 2005 Letter Jing-Shou-Shang-Zi No. 09301146740
2006/07	10	110,000	1,100,000	93,320	933,195	Capital increase from earnings NTD19,675 thousand	-	-	July 26, 2006 Letter Jing-Shou-Shang-Zi No. 09501159850

2007/07	10	110,000	1,100,000	96,211	962,109	Capital increase from earnings NTD28,914 thousand	-	-	July 23, 2007 Letter Jing-Shou-Shang-Zi No. 09601175190
2008/07	10	110,000	1,100,000	101,116	1,011,164	Capital increase from earnings NTD49,054 thousand	-	-	July 24, 2008 Letter Jing-Shou-Shang-Zi No. 09701184210
2010/08	10	110,000	1,100,000	102,813	1,028,130	Capital increase from earnings NTD16,966 thousand	-	-	August 16, 2010 Letter Jing-Shou-Shang-Zi No. 09901185530
2011/08	10	150,000	1,500,000	104,648	1,046,476	Capital increase from earnings NTD18,346 thousand	-	-	August 22, 2011 Letter Jing-Shou-Shang-Zi No. 10001192030
2011/12	10	150,000	1,500,000	103,286	1,032,856	Cancellation of treasury stocks NTD13,620 thousand	-	-	December 28, 2011 Letter Jing-Shou-Shang-Zi No. 10001290090
2016/10	10	150,000	1,500,000	113,286	1,132,856	Capital increase by cash from private placement NTD100,000 thousand	-	-	October 24, 2016 Letter Jing-Shou-Shang-Zi No. 10501251030

Type of shares	Authorized share capital			Remarks
	Outstanding shares (Note)	Unissued shares	Total	
Common shares	113,285,626	36,714,374	150,000,000	None

Note: The outstanding shares include 10,000,000 privately placed shares, and 2,000,000 Treasury shares, with the remaining being publicly traded shares.

(II) Shareholder structure

April 17, 2023

Shareholder structure Number	Government agency	Financial institution	Other corporation	Individual	Foreign institution and person	Total (Note)
Number of persons (persons)	0	2	122	19,871	66	20,061
Number of shares held (shares)	0	940,000	45,760,168	63,473,547	3,111,911	113,285,626
Shareholding (%)	0.00	0.83	40.39	56.03	2.75	100.00

Note: The outstanding shares include 10,000,000 privately placed shares, and 2,000,000 Treasury shares, with the remaining being publicly traded shares.

(III) Distribution of shareholding (par value of NTD10 per share)

April 17, 2023

Shareholding range	Number of shareholder s	Number of shares held	Shareholding (%)
1 to 999	13,624	316,956	0.28
1,000 to 5,000	4,838	9,612,972	8.49
5,001 to 10,000	770	6,168,698	5.45
10,001 to 15,000	204	2,610,983	2.30
15,001 to 20,000	141	2,651,549	2.34
20,001 to 30,000	164	4,267,925	3.77
30,001 to 40,000	67	2,407,629	2.13
40,001 to 50,000	53	2,449,503	2.16
50,001 to 100,000	93	6,925,866	6.11
100,001 to 200,000	47	6,763,725	5.97
200,001 to 400,000	34	9,689,391	8.55
400,001 to 600,000	9	4,445,538	3.92
600,001 to 800,000	8	5,432,057	4.80
800,001 to 1,000,000	3	2,763,000	2.44
If the number of shares held equals or exceeds 1,000,001, the range is determined based on the actual circumstances	6	46,779,834	41.29
Total	20,061	113,285,626	100.00

Note: The outstanding shares include 10,000,000 privately placed shares, and 2,000,000 Treasury shares, with the remaining being publicly traded shares.

(IV) List of major shareholders

Names of shareholders with a shareholding of no less than 5% or shareholders with the top 10 shareholdings, the numbers of shares held by them, and their shareholding percentages:

April 17, 2023

Shares Name of major shareholder	Number of shares held	Shareholding (%)
1. Compucase Investment Co., Ltd.	23,835,605	21.42%
2. MiTAC International Corporation	10,000,000	8.99%
3. Cheng Li Investment Co., Ltd.	6,638,193	5.97%
4. Lin Kun-da	3,000,000	2.70%

Name of major shareholder	Shares	Number of shares held	Shareholding (%)
5. Hsu Chien Chiu-Hsiang		1,306,036	1.17%
6. Tahua Investment Co., Ltd.		973,000	0.87%
7. Zhang Hong-zhou		963,000	0.87%
8. King's Town Bank Co., Ltd.		827,000	0.74%
9. Hsu Tung-Jung		775,000	0.70%
10. Hsu Cheng-Fu		740,344	0.67%

(V) Information of the market price, net value, earnings and dividend per share in the most recent two years:

Unit: NTD

Item	Year	2021 (Note 8)	2022 (Note 8)	As of March 31, 2023
Market price per share (Note 1)	Highest	50.70	34.40	45.85
	Lowest	30.30	26.05	29.75
	Average	43.45	29.93	38.92
Net value per share (Note 2)	Before distribution	21.96	23.59	-
	After distribution	19.96	Yet to be determined by the shareholders' meeting	-
Earnings per share	Weighted average number of shares (thousand shares)	112,984	112,478	N/A
	Earnings per share (Note 3)	2.63	3.28	
Dividends per share	Cash dividends	2	2	
	Bonus shares	Distributed from earnings	-	
		Distributed from capital reserves	-	
	Accumulated unpaid dividends (Note 4)	-	-	
Analysis of return on investment (ROI)	Price-to-earnings ratio (Note 5)	16.52	9.13	
	Price-to-dividend ratio (Note 6)	21.73	14.97	
	Cash dividend yield (Note 7)	4.60%	6.68%	

*If shares are distributed in connection with a capital increase from earnings or capital reserves, the information of the market price and cash dividends adjusted retroactively based on the number of shares distributed must be disclosed.

Note 1: The listed are the highest and lowest market prices of common shares for each year, and the average market price of each year is calculated based on the closing value and trading volume of each year.

- Note 2: Please use the number of outstanding shares as of the end of each year based on the distribution approved by the board of directors or the next annual shareholders' meeting.
- Note 3: Where a retroactive adjustment is required due to any distribution of bonus shares, the earnings per share before and after such adjustment must be indicated.
- Note 4: If the terms of issuance of equity securities state that dividends undistributed in the current year may be accumulated for distribution in a year with earnings, the accumulated unpaid dividends as of the current year must be disclosed separately.
- Note 5: Price-to-earnings ratio = Average closing price per share of the current year / Earnings per share.
- Note 6: Price-to-dividend ratio = Average closing price per share of the current year / Cash dividend per share.
- Note 7: Cash dividend yield = Cash dividend per share / Average closing price per share of the current year.
- Note 8: For "net value per share" and "earnings per share," please enter the information audited by the CPAs for the most recent quarter as of the date of publication of the annual report.

(VI) The dividend policy of your company and its implementation

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

Where HEC has earnings in the final accounts of a fiscal year, it shall set aside 10% thereof as legal reserves after paying taxes and offsetting losses as legally required, unless the amount of such legal reserves equals or exceeds HEC's paid-in capital. The remaining amount of the foregoing earnings shall be set aside or reversed as special reserves. If there are still any remaining earnings, the Board of Directors shall, depending on the operating performance, retain such earnings plus the accumulated undistributed earnings, and shall prepare a proposal for distribution of earnings and submit the proposal to a shareholders' meeting for a resolution on distribution of bonuses to shareholders.

In consideration of its future investment funding needs and its financial structure, HEC has adopted a balanced and stable dividend policy for the purposes of sustainable management and long-term development, with shareholders' interests and other factors taken into account. Each year, no less than 10% of the distributable earnings shall be appropriated for distribution of bonuses to shareholders. No such distribution is required if the cumulative distributable earnings amount to less than 2% of the paid-in share capital. For distribution of dividends in any future year, it is expected that the amount of cash dividends distributed will be no less than 10% of the total dividends distributed in that year, and that such dividends will, based on the investment funding needs and the level of dilution of earnings per share, be distributed in stock or cash, as appropriate.

Regarding the preceding paragraph, HEC may determine the most appropriate dividend policy and manner of distribution based on the actual condition of its operations in the current year, taking into account the capital budget plan for the next year.

2. Distribution of dividends proposed at the current shareholders' meeting

The proposal for distribution of earnings in 2022 was approved by a resolution of the Board of Directors on March 23, 2023, with the distribution of NTD2 per share as cash dividends. Such distribution will be made upon its approval by a resolution of the annual shareholders' meeting and after the ex-dividend date is determined by the Board of Directors has authorized.

3. The expected dividend policy is anticipated to undergo significant changes:None.

(VII) Effects of the current distribution of bonus shares on the business performance, earnings per share and shareholder's return on investment of your company: N/A.

(VIII) Remuneration for employees, directors and supervisors

1. The percentage or range of the remuneration for employees, directors and supervisors as specified in the Articles of Incorporation
 - I. The remuneration for employees shall be 2% to 10% of HEC's profit, and the recipients of such remuneration may include the employees of any domestic or foreign company affiliated to HEC.
 - II. The remuneration for directors and supervisors shall be no more than 4% of HEC's profit.
2. The basis of estimate of the remuneration for employees, directors and supervisors, the basis of calculation of the number of shares distributed as stock dividends, and the accounting treatment in case of any difference between the actual amount of distribution and the estimate for the current period
 - (1) The basis of estimate of the remuneration for employees, directors and supervisors:

The amount of the remuneration for employees, directors and supervisors in the current year is estimated, recognized and accounted for according to the percentage set forth under the Articles of Incorporation and based on past practices.
 - (2) The basis of calculation of the number of shares distributed as stock dividends

If the Board of Directors has adopted a resolution to distribute the remuneration for employees in shares, the number of shares for such remuneration will be calculated according to the closing price on the day prior to the date of resolution of the Board of Directors.
 - (3) The accounting treatment in case of any difference between the actual amount of distribution and the estimate

Subject to a resolution of the Board of Directors, any difference between the actual amount of distribution and that accounted for will be treated as a change in accounting estimates and recognized as a profit/loss in the year of actual distribution.
3. Information regarding distribution of the remuneration for employees approved by the Board of Directors:
 - (1) Amount of the remuneration distributed for employees, directors and supervisors

The following is the amount of the remuneration distributed for employees, directors and supervisors approved by a resolution of the Board of Directors on March 23, 2023:

Remuneration for employees: NTD36,040,996, to be distributed in cash.
Remuneration for directors and supervisors: NTD9,010,249, to be distributed in cash.
 - (2) The proposed amount of the remuneration for employees distributed in shares and its share of the sum of the after-tax net profit and total remuneration for employees in the current period: N/A.
 - (3) The estimated earnings per share following consideration of the proposal for distribution of the remuneration for employees, directors and supervisors is NTD3.28.
4. Actual distribution of the remuneration for employees, directors and supervisors (including the number of shares distributed, amount and share price) in 2021. Where there is any difference with the recognized remuneration for employees, directors and supervisors, the amount of such difference and its reasons and treatment must be described:

(1) The following are the actual amounts of the remuneration distributed for employees, directors and supervisors in 2021:

In 2021, the actual amounts of the remuneration distributed for employees and for directors and supervisors were NTD25,787,442 and NTD5,525,880 respectively.

(2) Where any of the amounts above is different from the recognized remuneration for employees, directors and supervisors, the amount of such difference and its reasons and treatment must be described:

There is no difference between the distributed amount of the remuneration for employees, directors and supervisors and that approved by the Board of Directors and accounted for.

(IX) Repurchase by your company of its own shares:

(1) Repurchase by HEC of its own shares (completed)

April 17, 2023

Repurchase tranche	6th
Purpose of repurchase	Transfer to employees
Repurchase period	July 14 to September 2, 2022
Repurchase price range	Between NTD21.5 and NTD35. HEC may continue to repurchase shares where the price of its shares is lower than the minimum price of the set range.
Type and number of repurchased shares	Common shares/2,000,000
Amount of shares repurchased	NTD59,144,179
Percentage of the repurchased number in the number planned to be repurchased (%)	50%
Number of shares canceled and transferred (Note)	0
Cumulative number of HEC's shares held	2,000,000
Percentage of the cumulative number of HEC's shares held in the number of total outstanding shares (%)	1.77%

Note: The cumulative 2,000,000 treasury shares held have not been transferred to employees.

(2) Repurchase by HEC of its own shares (currently in progress):None.

II. Issuance of corporate bonds (including foreign corporate bonds):

None.

III. Issuance of preferred shares:

None.

IV. Issuance of global depositary receipts:

None.

V. Issuance of employees' stock warrants:

None.

VI. Issuance of new restricted employee shares:

None.

VII. Issuance of new shares with shares acquired or transferred from other companies:

None.

VIII. Implementation of the fund usage plan:

None.

Five. Overview of operations

I. Information of business activities

(I) Scope of business

1. Our registered scope of business includes:

Business activities not prohibited or restricted by law, other than those permitted.

2. The percentage each of our main products accounts for in our operations is as follows:

December 31, 2022

Product	Share of operations (%)
Computers, server chassis and their components	45%
Power supplies	25%
Private brands of computer and gaming peripherals	15%
Medical and home beds	5%
Other	10%
Total	100%

3. Current products (services)

- A. Computer and gaming peripherals.
- B. Power supplies and other IT products.

4. New products planned for development

- A. PSU: We will introduce MCU to achieve more accurate functions. We can use firmware programs to adjust the requirements of customers, develop PSU models that apply third-generation semiconductors, and take advantage of the excellent characteristics of new materials to continue to improve the performance of existing PSUs.
- B. Case: Through modularization, new-concept chassis can be freely combined. In this way, computer assembly will no longer remain the same and will be defined and completed by users themselves. The use of Micro LED not only gives a good look to the panel, but also enables it to provide instant information.
- C. Cougar case: We plan to develop a new product incorporating the mini-LED technology, so that it is possible to develop a panel design featuring the functions of display, ventilation and cooling, which is an original technology in the market.
- D. Gaming chair: The original, active cooling gaming chair, which features RGB lighting effects, is currently the only model with such concept in the market.
- E. Gaming peripherals: We have complete product lines for headsets, gaming microphones, mice and water-cooled and air-cooled products. We plan to develop Apolar, a wireless connected fan, to provide a solution to the disturbing issue of cable management arising from fan connection. We have proposed a design that is both aesthetic and functional.

(II) Overview of industry

1. Current status and development of industry

PC industry

During the first half of 2023, the overall environment is becoming clearer as a result of the Russia–Ukraine war, which however continues to affect consumer spending, while repetition of the pandemic in China will further impact economic activities, affecting the shipment demand of consumer electronics. According to the forecast of IHS Markit, the global economic growth rate will be 1.5% in 2023, a slowdown compared with 2.9% in 2022. Although it is expected that the possibility of continued interest rate hikes in 2023 is not high, inflation will remain relatively high and lead to weakened end-consumer demand, which is disadvantageous to the demand for computer peripherals.

In terms of the industry, continued expansion of new-type markets including gaming, cloud services and AI in Taiwan, coupled with the fact that most companies have gradually adopted a hybrid work model, is conducive to continued growth of the demand for gaming, commercial and other related computer peripherals, driving simultaneous growth in shipments and revenue. In addition, the boom in live streaming is beneficial to the sales performance of computer peripherals. The need for better quality and effect of live streaming has driven growth of the demand for specialized and customized products, which will boost the sales performance of the computer peripheral and equipment manufacturing industry in Taiwan. Moreover, the computer peripherals manufacturers in Taiwan have not only continued to increase their production capacity and actively develop new products and technologies, but have also been gradually expanding to non-PC peripheral market and multiple fields such as IoT, smart homes, medical care and in-vehicle electronics, which helps them spread risks and boost their operating performance. Major manufacturers in Taiwan are also actively expanding their overseas markets and committed to building a complete global supply chain. Aside from the Chinese market, they have expanded their factories in Southeast Asian countries such as Thailand to increase their production capacity while expanding their global market, which is conducive to further improving their operating performance.

In general, the overall situation is full of variables that have weakened the demand for consumer electronics, which is disadvantageous to the sales performance of the computer peripherals and equipment manufacturing industry. However, continued expansion of gaming, cloud service and other markets and the rise of a hybrid work model, along with the facts that major manufacturers of computer peripherals and equipment in Taiwan are actively expanding their overseas factories to increase production capacity and that they are committed to developing customized gaming peripherals and new products that integrate three senses, are expected to improve the operating performance of major manufacturers in the industry in Taiwan. Therefore, it is estimated that the performance of the computer peripheral and equipment manufacturing industry in Taiwan in the first half of 2023 will maintain growth compared with the same period in 2022.

2. Relationship among the upstream, midstream and downstream in the industry of PC power supplies

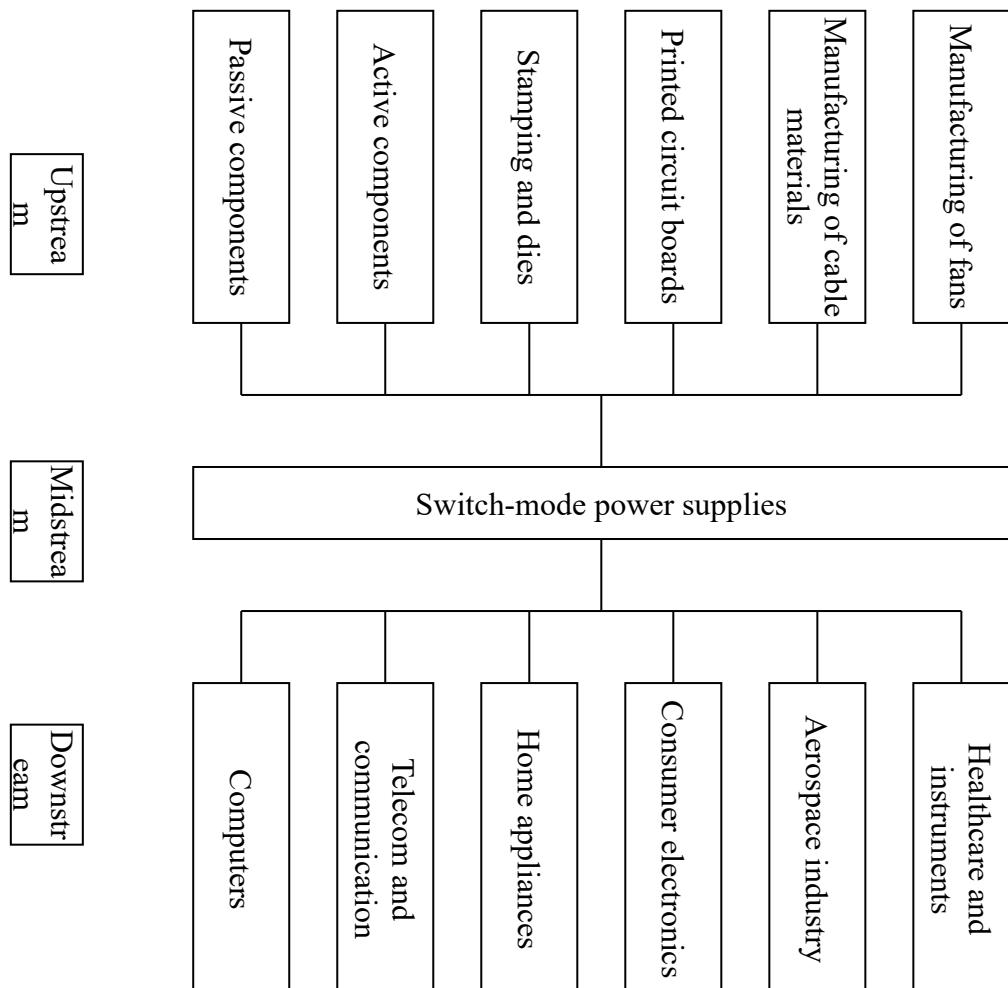
Relationship between the upstream raw materials and industry

The primary raw materials of switch-mode power supplies generally include active, passive and magnetic components, other electronic components, chassis and printed circuit boards. A few kinds of components, such as controller ICs and semiconductors, are mostly supplied by large foreign manufacturers, while others are mainly made by domestic manufacturers. Thus, they are closely related to the upstream industry.

Relationship between the downstream products and switch-mode power supplies

Power supplies are mainly used in computers and peripheral equipment. As the IT

industry keeps booming, Taiwan has become the largest producer of switch-mode power supplies globally. Moreover, power supplies are an indispensable component of the IT industry, and as a result the power supply industry collaborates closely with the upstream, midstream and downstream suppliers. The following is the structure of the upstream, midstream and downstream sectors of the industry:



(III) Overview of technology and R&D

1. R&D expenses invested in the most recent year and as of the date of publication of the annual report

Unit: NTD thousand

Item	Year	Current year, as of March 31, 2023 (Note)
R&D expense	127,922	29,828

Note: The amount has not been audited and reviewed by the CPAs.

2. Successfully developed technologies or products

- A. The gaming case Cratus with an original circular tube structure has already gone into mass production and become available on the market. It has been selected as a candidate for the iF Design Award in Germany. The gaming chassis Panzer 800 has strong hardware compatibility and a unique design of military-style appearance. Its development has been completed and is expected to be mass-produced and launched.
- B. We have achieved a certain degree of conductivity for case glass, so that SI customers with EMI requirements can import glass as a key component to increase the visibility of its appearance.
- C. The platinum-brand 1050/1200W and gold-brand 850W/1000W high-end power supplies that meet the requirements of the latest Intel ATX3.0/PCI-E5.0 have gone into mass production and become commercially available.
- D. We have completed the development of the required Intel ATX3.0 Gen5 200% peak load function. We have also successfully developed 850W for Intel 12VO, which has been sent for and passed function testing.

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

1. Short-term development plan:

Marketing strategy:

- A. Seeking retail ODM projects:

Due to a great year-by-year increase in the demand for gaming PCs, many major retail manufacturers have kept releasing new products, and some non-chassis brands have also entered the chassis market. With professional teams and years of experience in ODM, we differentiate ourselves from Mainland Chinese manufacturers in that we are capable of providing plenty of services to retail customers, and our experience in areas like ID, mechanism and specification is where our strength lies. We will actively seek projects from major gaming ODMs.

- B. Focusing on local marketing to increase brand awareness:

Enhancing brand awareness will in the long term be positively helpful for sales. With a plan for agents and complete product lines, the return on continued investment of marketing resources will be reflected on the sales figures more quickly. The focuses of our plan for marketing activities include:

- (1) Game event: Each year, players from across the world focus on the largest annual game events by planning to participate in such professional and popular events including the E3 Expo, Dreamhack and PAX in the US, the China Joy in China, the Gamescom in Germany and the IgroMir in Russia, increasing the opportunities for players to experience the Cougar-brand products and for exposure of the brand.
- (2) Gaming tournament: We take part in gaming tournaments as a co-organizer, focusing on those featuring LOL, Overwatch and Dota2, the top three games in terms of the number of players.
- (3) Gaming team: We sponsor gaming teams to join tournaments using the name of Cougar to further develop the market of gaming fans.
- (4) Channel marketing: We plan to invest in channel marketing in collaboration with online and offline channels.

C. Management of the Cougar brand for our private outdoor products:

As the gross profit from OEM continues to drop, no breakthrough is possible without the sale of private brands. Based on our experience in the gaming brand Cougar, we will develop new brands of outdoor products for sale to increase our profit and revenue.

D. Investment in gaming products with sales synergy:

Based on our plan for agents and the gradual completion of the sales channels being built, we are able to develop more complete product series of chassis and power supplies, while more new product lines for gaming desks are expected to make them as popular as gaming chairs. We also target the market demand for XBOX/PlayStation and mobile games to release more high-, middle- and low-end headset products, so that we will be able to gain immediate benefits from sales growth.

Production policy:

A. Integration of materials to increase gross profit margin:

Integration of the design of materials: We will integrate materials including adapters, semiconductors, and cable materials, and we will concentrate on purchasing a single category of materials to facilitate their management. By concentrating on a single category of materials, we can increase the volume purchased to create favorable conditions for bargaining. We can also concentrate on mass production of privately manufactured adapters and cable materials to reduce costs and increase gross profit.

B. Enhancement of production technologies:

We will build a complete set of equipment and workforce for our laboratories, develop the talents and fundamental production technologies necessary for our policies, complete suitable lines exclusively for production, acquire more automated production equipment and improve product conformity.

C. Automation of factory production:

Our IE center will continue to assess the automated equipment for preparatory processing/final testing/packaging and increase UPH to reduce labor and manufacturing costs. Furthermore, it will work with RD in conducting research on design, process and equipment to increase the speed of production.

D. Development of required talents:

We will develop multi-skilled workers and train multi-skilled managers through rotation, and we will engage in continuous review and improvement to ensure an effective

system for quality assurance and management.

Operations management:

A. Ensuring sufficient working capital and expanding operating capabilities based on performance growth:

To ensure sufficient supply of funds required for the development of our business and strengthen our financial structure, we will make investments or raise funds in the capital market with our earnings of prior years.

B. Actively recruiting R&D talents:

We will attract outstanding R&D talents through industry–academia collaboration to enhance our R&D teams.

2. Long-term development plan:

Marketing strategy:

With our core competitiveness, we will build a system for global logistics management to fully satisfy the overall demand of customers and establish a permanent and stable marketing network internationally. On the basis of a stable and solid customer base, we will continue to increase the market share of our private brand products to achieve annual growth of our revenue and profit.

Production strategy:

We will relocate the LFDG factory to expand the scale of production, and we will integrate the demand for materials with concentrated purchases to lower the procurement cost. In response to the international trend in environmental protection, we will purchase pollution-free, automated precision production equipment and develop new processes to achieve the target of increased production capacity and value.

Operations management:

We will promote a global marketing system and strengthen the functions and control of our overseas business units to enhance their performance.

II. Overview of market and production/sales

(I) Market analysis

The statistical data of industrial production from the Ministry of Economic Affairs (see Figure 1) shows that in 2022, the transformation of COVID-19 into a flu-like disease and the gradual loosening of border controls in many countries gave a boost to tourism and other commercial activities, and labor shortages were mitigated. The effect of deferred orders was being felt, while cloud services were booming, increasing demand for storage equipment. Continued expansion of the gaming market stimulated growth in end-consumer spending, leading to higher demand for customized and specialized computer peripherals. In addition, the trend of new media models such as live streaming also contributed to increased demand for computer peripherals, while the trend of digitalization was beneficial for the operating performance of the computer peripheral and equipment manufacturing industry. Nevertheless, the boom of the stay-at-home economy has subsided, and the shipment performance of

consumer electronics has been affected by the Russia–Ukraine war and China's lockdown policy, while the market is faced with continued high inflation and weakened end-consumer demand. It is expected that growth in the sales value of computer peripherals in Taiwan will continue to slow down. Thus, it is estimated that the sales value of the computer peripheral and equipment manufacturing industry in Taiwan in 2022 will see slower growth compared to 2021.



Note: The sales value includes the sales of domestic products and the value of overseas production for orders received in Taiwan.

Source: Statistical data of industrial production in tapes from the Ministry of Economic Affairs, compiled by the Taiwan Industry Economics Services (November 2022).

Figure 1 Overview of changes in the sales value of the computer peripheral and equipment manufacturing industry in Taiwan

1. Sales territories for main products

Currently, our customers mainly consist of well-known foreign manufacturers, and our products are primarily for export, with Asia, Americas and Europe being the major markets. The following are our sales by territory in 2022:

Unit: NTD thousand			
Year Item	2022		%
	Amount	%	
Net operating revenue of domestic sales	35,290	1%	
Export	Asia	4,469,174	70%
	Europe	1,375,954	22%
	Americas	465,893	7%
	Other	29,131	0%
Total		6,375,442	100.00

2. Approximate market share

As the pandemic comes to an end, people have begun to shift their work from home to the office, thus reducing demand. According to the global PC report released by Canalys, the cumulative global PC shipments in 2022 totaled 285 million units, an annual decrease of 16%. Compared with the period before the outbreak of COVID-19, shipments are still 7% higher than those in 2019. Based on the shipments of our PC computer products, their global market share is about 3.5%, indicating a lot of room for growth. As our product development strategy concentrates on models of middle- and high-end and retail products with higher unit prices, a calculation based on sales values will produce a global market share above the aforementioned percentage and a higher average gross profit margin for us.

3. Future supply, demand and growth of the market

(1) Supply

The main factor affecting supply is the emergence of “stay-at-home economy,” be it gaming or online networking, which creates huge business opportunities. More frequent use of equipment means a higher chance for its replacement. Replacing a CPU, graphics card or operating system will require the power supply to be also replaced, thus generating a new business opportunity for power supplies.

The replacement of the Window XP operating system and USB3.0 and the gradual popularization of entertainment videos and audios have generated different types of demand and highly potential orders for our products including computer chassis and power supplies.

(2) Demand

Computer products are closely related to the economic situation of the industry. According to statistics of the Institute for Information Industry and relevant studies, the computer industry of Taiwan is ranked first in terms of global share under several categories.

(3) Growth

A. Economic growth in the industry will continue

The computer industry and the IT industry are closely associated. As a result of growing multimedia applications, there has been increasing demand for networking and digitized homes, while the global IT market will keep growing. Despite being less convenient than notebooks and tablets, desktops remain an indispensable office tool for businesses.

B. Wide range of product applications

As required components of computers, power supplies and computer chassis have a wider range of applications compared to ordinary IT products.

C. Export-oriented

Desktops made in Taiwan are mainly sold to the markets of the US, Europe and the Asia-Pacific region, and they have gradually become a strong force driving industry growth as the economy in emerging markets grows.

D. Prevalence of division of labor in production and sales

With competitive advantages in terms of manufacturing, design and cost, manufacturers in Taiwan have received great recognition from their major peers in Europe, the US and Japan and become an important production base for the PC industry.

E. With stable quality, our products are positioned as medium- to high-quality products to be differentiated from high-price products in Europe and the US and low-price products in Asia.

4. Competitive niche

- (1) The effect of USB3.2 enhances the speed of transmission, creating a strong demand for it in the gaming or SI sector.
- (2) Demand in the gaming market gradually increases.
- (3) The booming gaming market brings about demand for replacement of computers.
- (4) With experience accumulated over many years in cooperation with our customers and enhanced OEM capabilities, we have great opportunities in seeking future OEM orders, and we will continue to introduce Cougar-brand chassis with gradual growth expected in retail.

5. Advantages and disadvantages for prospects of development, and measures in response

(1) Advantages:

- A. We have experience in successful development by working with 1st-tier vendors. We have a healthy structure and maintain good quality control, and we are suitable for undertaking development projects of large system providers.
- B. We have a strong capability in the development of dies. In particular, we are ahead of our industry peers in terms of the plastics polishing technology.
- C. We are capable of developing and manufacturing chassis and power supplies, so we are able to provide C+P product solutions to our customers.
- D. We have built a complete network of channels overseas and established branches in Europe, the US, Japan and other advanced countries, making it possible for us to operate in the market and provide services to customers locally.

(2) Disadvantages

- A. NTD has continued to appreciate, causing enormous pressure on raw materials (copper, steel, plastic pellets, cartons, etc.) and costs worldwide as well as over our profit.
- B. The SIs in areas affected by COVID-19 have reportedly ceased operations or changed their primary business.
- C. Our competitors compete for orders with a low-price strategy.

(3) Measures in response

- A. We will set up marketing locations around the world so that we will be able to operate in the market and provide services to customers locally. We will also establish factories in Mainland China for production to reduce manufacturing costs and enhance the flexibility and benefits of integrated operation of global resources.
- B. Our product lines consist of economical and energy-efficient, eco-friendly series and series designed for high wattage players. They will become available in the market through the low, middle and high ends to provide customers with a comprehensive range of choices.
- C. In addition to ensuring extended development of projects for our current customers, we have to release new products such as platinum-brand/fully digital power supplies with excellent features and new design framework of lines to seek new projects and customers.

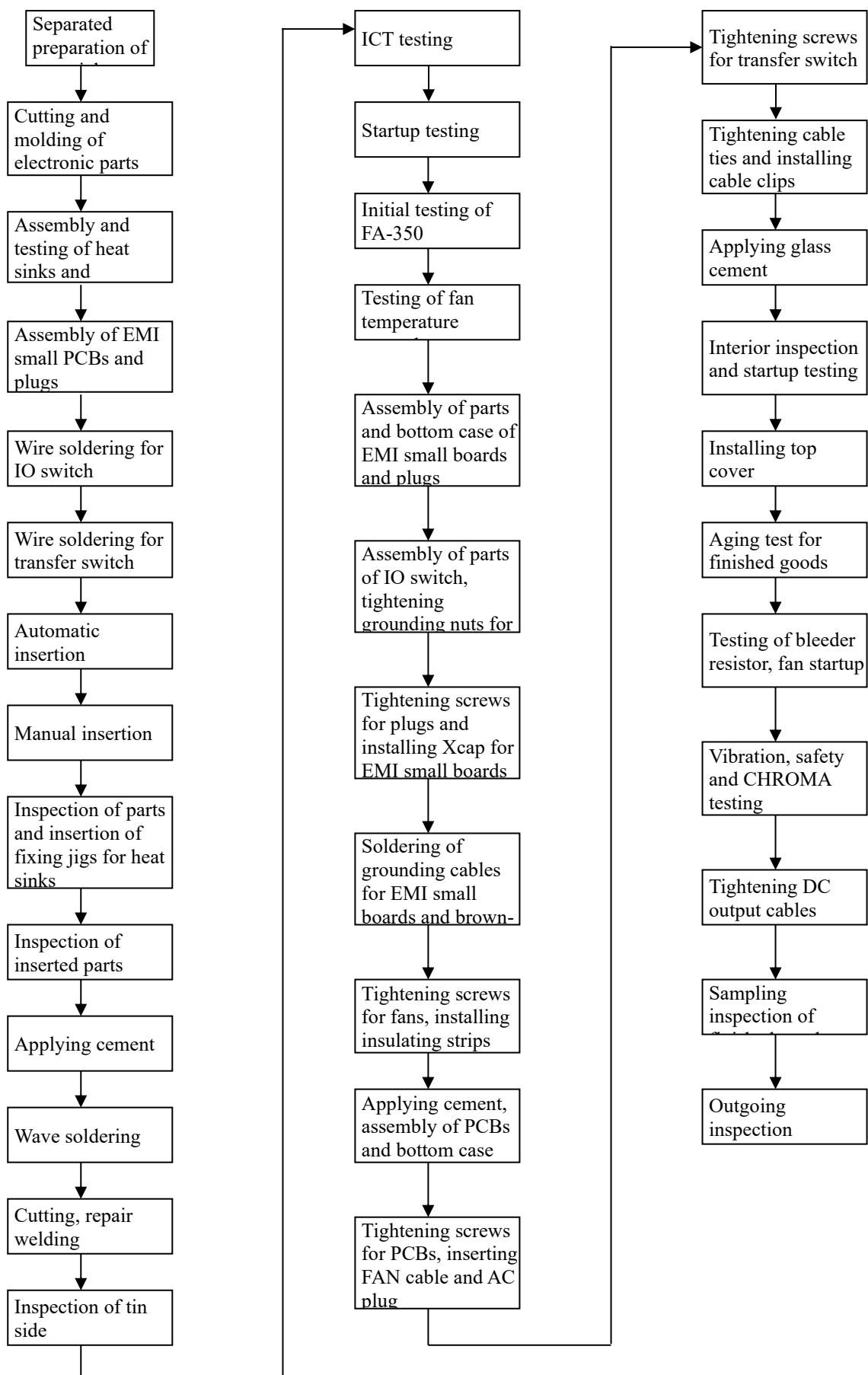
- D. We will stay committed to developing our brands, differentiating our products and services and enhancing the features of middle- and high-end products to keep our profit at a relative high level.
- E. We will continue to develop high-value-added products, such as server chassis, and reduce the cost of die sinking with standardized specifications to increase the profitability of products.

(II) Important applications and manufacturing processes of main products

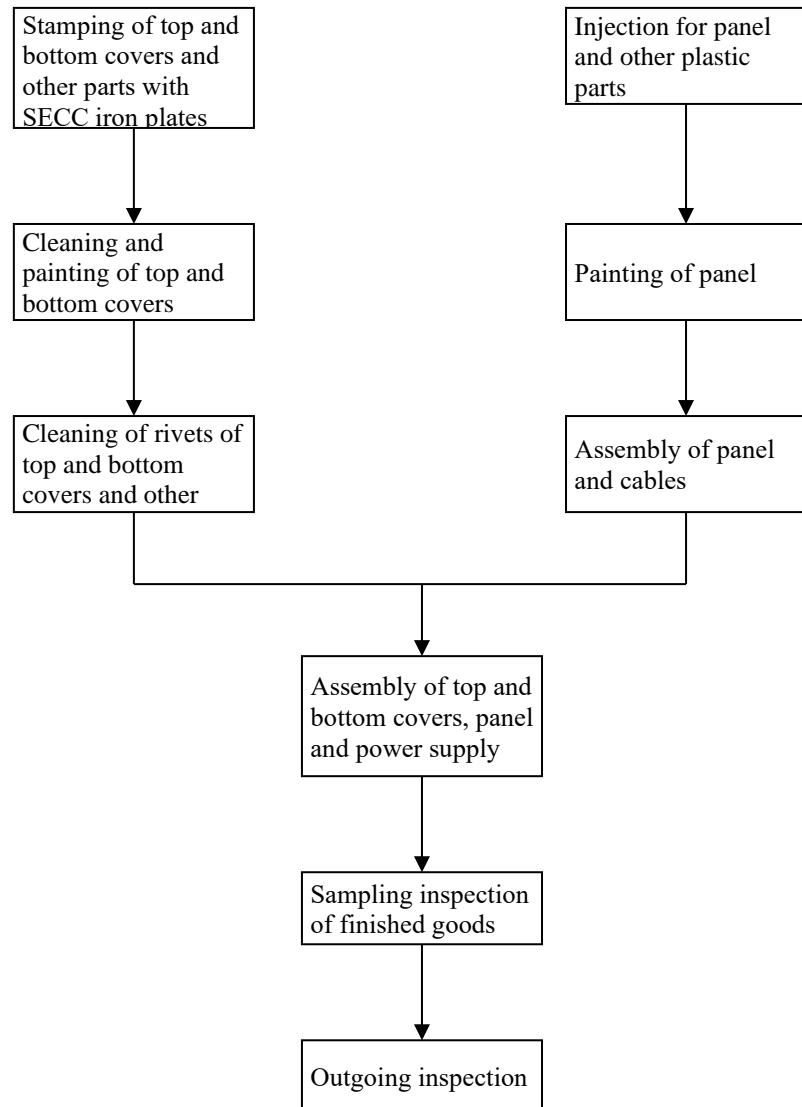
Product	Applications
Power supplies and other IT products	A device capable of converting AC or DC to one or more sets of output DC power used by electronic equipment. Being small-sized, high-efficiency and lightweight, it is applied to a variety of IT, consumer and industrial control products.
Computer peripherals	Components and peripheral parts and components required for assembly of computer chassis products or storage equipment.

The products above are designed by HEC and manufactured by factories in Mainland China with investments from HEC via a third area, and then shipped to its customers. The main production and manufacturing processes are as follows:

1. Manufacturing process of power supplies and other IT products:



2. Manufacturing process of computer chassis:



(III) Supply of primary raw materials

The raw materials of our main products are steel plates, ABS plastic materials and electronic parts. There has been no single manufacturer monopolizing the market, while we have maintained long-term, close cooperation with our main suppliers, thus ensuring really stable and good supply conditions.

(IV) Main suppliers and sales customers in the most recent two years

1. List of main suppliers

Information of the main suppliers in the most recent two years

Unit: NTD thousand

Item	2021				2022				2023, as of Q1 (Note 2)			
	Name	Amount	Share of annual net purchase (%)	Relationship with the issuer	Name	Amount	Share of annual net purchase (%)	Relationship with the issuer	Name	Amount	Share of net purchase in the current year, as of the previous quarter (%)	Relationship with the issuer
1	Company P	331,405	4%	None	Company Q	120,593	4%	None	-	N/A		
2	Company N	272,381	4%	None	Company Q	96,573	3%	None	-			
3	Company B	244,447	4%	None	Company B	91,741	3%	None	-			
4	Company Q	213,990	4%	None	Company R	86,509	3%	None	-			
5	Other	4,778,735	84%	None	Other	2,613,901	87%	None	Other			
	Net purchase	5,840,958	100%		Net purchase	3,009,317	100%		Net purchase	-	0%	-

Note:

1. All suppliers are represented by codes only. Since none of the main suppliers has a share of at least 10%, those with a share of at least 3% are disclosed.
2. The data for Q1 of 2023 is not applicable since it has not been reviewed by the CPAs as of the date of publication of the annual report.

2. List of main customers for sales

Information of the main sales customers in the most recent two years

Unit: NTD thousand

Item	2021				2022				2023, as of Q1 (Note 2)			
	Name	Amount	Share of annual net sales (%)	Relationship with the issuer	Name	Amount	Share of annual net sales (%)	Relationship with the issuer	Name	Amount	Share of net sales in the current year, as of the previous quarter (%)	Relationship with the issuer
1	Company A	1,981,676	24%	None	Company A	1,500,388	24%	None	-	N/A		
2	Company B	963,690	12%	None	Company B	461,698	7%	None	-			
3	Company C	398,472	5%	None	Company D	416,469	7%	None	-			
4	-	-	-	-	Company E	312,508	5%	None	-			
5	Other	4,949,351	59%	None	Other	3,684,379	57%	None	Other			
	Net sales	8,293,189	100%		Net sales	6,375,442	100%		Net sales	-	0%	-

Note:

1. The names of customers accounting for no less than 10% of the total sales during the most recent two years and their respective amounts and percentages of sales are specified, except that a code may be used where non-disclosure of a customer's name has been agreed under the contract or where the counterparty is an individual not a related party.
2. The data for Q1 of 2023 is not applicable since it has not been reviewed by the CPAs as of the date of publication of the annual report.
3. Description of changes: Due to business needs, the combination of products sold and changes in the market environment, there have been changes in the suppliers and sales customers and their corresponding amounts and percentages.

(V) Production volumes and values in the most recent two years

Unit: Set/NTD thousand

Production volume and value Main product	Year	2021			2022		
		Production capacity	Production volume	Productio n value	Production capacity	Production volume	Productio n value
Power supplies and other IT products		4,000,000	3,362,939	3,198,896	4,000,000	2,194,148	2,429,807
Computer peripherals		2,500,000	1,708,259	2,141,233	3,030,000	1,315,849	1,678,435
Other		308,000	511,687	640,005	308,000	266,588	412,915
Total		6,808,000	5,582,885	5,980,134	7,338,000	3,776,585	4,521,157

(VI) Table of sales volumes and values in the most recent two years

Unit: Set/NTD thousand

Sales volume and value Main product	Year	2021				2022			
		Domestic sales		Export		Domestic sales		Export	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Power supplies and other IT products		24,737	38,703	8,661,397	4,276,422	8,949	26,180	8,649,721	3,640,728
Computer peripherals		9,368	8,267	2,473,604	2,667,625	6,707	6,667	1,431,001	1,766,384
Other		89,218	30,988	903,670	1,271,184	4,198	2,443	269,538	933,040
Total		123,323	77,958	12,038,671	8,215,231	19,854	35,290	10,350,260	6,340,152

III. Information of employees during the most recent two years and as of March 31, 2023

		Year	2021	2022	March 31, 2023
Number of employees (person)	Indirect employees		924	887	891
	Direct employees		1,714	1,470	1,515
	Total		2,638	2,357	2,406
Average age			38.36	39.7	40.02
Average length of service (year)			4.52	3.80	3.66
Distribution of educational level (%)	Doctor	-	-	-	-
	Master		2%	2%	2%
	College		12%	14%	13%
	Senior high school		13%	13%	13%

	Below senior high school	73%	71%	72%
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IV. Information of environmental protection expenses

Losses and total amount of penalties incurred by your company due to environmental pollution during the most recent year and as of the date of publication of the annual report, and future measures in response and possible expenses:

HEC:

	2022	2023, as of March 31
Status of pollution	None	None
Agency imposing penalties	None	None
Penalties	None	None
Other losses	None	None

LFE:

	2022	2023, as of March 31
Status of pollution	None	None
Agency imposing penalties	None	None
Penalties	None	None
Other losses	None	None

Future measures in response: None.

V. Labor-Management Relations

(I) Employee welfare measures, continuous education, training and retirement systems and their implementation, agreements between employees and the employer, and measures for protection of the rights of employees:

1. Employee welfare measures

A. Welfare measures implemented by HEC

- (1) Employee stock option: Any employee may purchase shares based on his/her position, performance and length of service.
- (2) Labor insurance: An employee will be covered by labor insurance since his/her employment start date.
- (3) National Health Insurance: An employee will be covered by the National Health Insurance since his/her employment start date.
- (4) Group insurance for employees: An employee will be covered by group insurance

since his/her employment start date.

- (5) Regular health examination: Health examinations are organized for our employees on a periodic basis.
- (6) Year-end bonus: Year-end bonuses are distributed based on the performance of our employees and the condition of our operations.
- (7) Remuneration for employees: In accordance with the Articles of Incorporation, 2%–10% of our profit is allocated and distributed to our employees in shares or cash based on their positions and performance.
- (8) Cash gifts for holidays: Cash gifts are distributed to our employees on Workers' Day, the Dragon Boat Festival and the Mid-Autumn Festival.
- (9) Reading and leisure rooms: We have subscribed to newspapers and financial and healthcare magazines for our employees to borrow and read. We have also purchased fitness equipment, table tennis tables and pool tables for our employees to relieve their stress through leisure activities.

B. Welfare measures implemented by the Employee Welfare Committee

- (1) Domestic or foreign trip: Domestic or foreign trips are organized on a non-periodic basis.
- (2) Cash gift for birthday: A cash gift is given to each employee based on the month of his/her birth.
- (3) We provide free lunches and hold birthday celebrations with additional dishes.
- (4) For marriage, festivity or funeral, an application for a non-fixed amount of cash gift or condolence money may be submitted according to seniority.
- (5) Any employee injured at work or hospitalized due to illness may apply for an allowance.

2. Continuous education and training of employees

To effectively help our employees enhance their job knowledge and skills, we have established the “Regulations Governing Education and Training,” and we organize non-periodic lectures and provide full subsidies for external training courses to improve the quality of our employees.

3. Retirement system and its implementation

For our full-time employees, we have established regulations for labor retirement, and the pension for an employee is calculated and paid in accordance with the Labor Standards Act. After July 2005, we adopted a system of personal pension account in accordance with government policy, where an employer allocates 6% of the monthly salary of an employee as labor pension and deposits it into his/her personal account at the Bureau of Labor Insurance.

4. Agreements between employees and the employer, and measures for protection of the rights of employees

Since the founding of HEC, we have maintained good labor-management relations. A consensus has been achieved between our workers and management, and there has been no labor-management dispute so far. Our labor-management organizations include the Employee Welfare Committee and the Pension Fund Committee, all of which have functioned normally

in accordance with the law, while our regulations governing leave and overtime are in compliance with the requirements of the Labor Standards Act. Furthermore, we have kept the channels of communication open through various means of contact.

(II) Losses incurred due to labor-management disputes during the most recent year and as of the date of publication of the annual report, and disclosure of the estimated amount and responses for such disputes that may occur currently or in the future: **None**.

VI. Management of information and communication security:

(I) Structure for management of information and communication security

We have an Information Office responsible for reviewing our information security policies, implementing the information security policies of our group and promoting and implementing information systems to ensure their security and continued operation.

(II) Information and communication security policies and specific management plans

1. Maintaining the confidentiality, integrity and availability of our information operations to sustain our business operations.
2. Maintaining our information security operations, ensuring control of data access and protecting data privacy.
3. The measures we have implemented for information security management include:
 - (1) We have established a cross-departmental information security organization in charge of developing, promoting, implementing and continuing to improve relevant plans to ensure we have an information environment able to keep operating.
 - (2) We regularly conduct spot checks and management activities regarding information security risks, and we have implemented relevant control measures.
 - (3) New employees will receive training on information security during onboarding to enhance their awareness of information security protection and relevant operational requirements, and they are required to sign a declaration on the use of information software.
 - (4) We have built a secure and reliable environment for information systems to facilitate continuous management of our business. For any key information system or equipment, we have established a proper backup and monitoring mechanism to maintain its availability.

(III) Resources invested in the management of information and communication security

For many years, we have invested an enormous amount of resources in the training of highly competent information security personnel. Besides appointing internal information and communication security personnel, we have engaged external providers of services including information security health checks. If any vulnerability is identified, it must be remedied within a specified time limit and pass a re-check.

(IV) Losses incurred due to major information and communication security incidents, their possible effects and measures in response. Where no reasonable estimate is possible, the actual operation for which a reasonable estimate is not possible must be described: **None**.

VII. Supply/sales contracts, technical cooperation contracts, construction contracts, long-term loan contracts and other important contracts sufficiently to affect shareholders' equity, which

are currently valid and existing as of the date of publication of the annual report and which will expire in the most recent year:

I. HEC: None.

II. LFE: No new important contract in 2022.

Nature of contract	Contracting party	Start and expiry dates of contract	Main subject	Restrictions
Contract for construction project in Guangdong Province	Dongguan Qing Xing Steel Structure Construction Co., Ltd.	2020.01.17~2020.12.30	RMB18,500 thousand for a project to construct additional premises for Building B Completed and accepted, with project closure expected in May 2022.	None
Contract for construction project in Guangdong Province	Guangdong Min An Construction Co., Ltd.	2020.03.16~2020.12.30	RMB925 thousand for a project to construct additional fire safety facilities at the premises of Building B Completed and accepted, with project closure expected in January 2022.	None
Contract for construction project in Guangdong Province	Sichuan Fu Yu Construction Co., Ltd.	2020.04.09~2020.6.30	RMB425 thousand for a project to relocate and install the photovoltaic power generators originally on the rooftop of Building B Completed and accepted, with project closure expected in August 2021.	None

Six. Financial Overview

I. Condensed balance sheet and statement of income for the most recent five years

(I) Information of condensed balance sheet and statement of comprehensive income – adopting the IFRS

1. Condensed balance sheet – adopting the IFRS

Unit: NTD thousand

Item	Year	Financial information for the most recent five years					Financial information of the current year 2023, as of March 31 (Note 1)
		2018	2019	2020	2021	2022	
Current assets		6,518,896	6,292,275	7,426,506	6,078,647	5,727,605	N/A
Property, plant and equipment		1,575,251	1,528,225	1,554,984	1,441,468	1,306,419	
Intangible assets		10,181	34,360	13,626	10,981	9,542	
Other assets		281,092	382,364	483,417	372,187	830,108	
Total assets		8,385,420	8,237,224	9,478,533	7,903,283	7,873,674	
Current liabilities	Before distribution	4,692,909	4,554,837	5,716,894	4,236,207	3,978,572	
	After distribution	4,945,403	4,779,276	6,068,079	4,462,778	Note 2	
Non-current liabilities		22,168	87,150	113,774	63,790	65,863	
Total liabilities	Before distribution	4,715,077	4,641,987	5,830,668	4,299,997	4,044,435	
	After distribution	4,967,571	4,866,426	6,181,853	4,526,568	Note 2	
Equity attributable to owners of the parent company		2,285,020	2,214,784	2,439,530	2,487,421	2,625,272	
Share capital		1,132,856	1,132,856	1,132,856	1,132,856	1,132,856	
Capital reserves		375,974	374,186	374,186	425,456	425,456	
Retained earnings	Before distribution	1,045,264	1,073,922	1,315,361	1,254,935	1,380,302	
	After distribution	792,770	849,483	964,176	1,028,364	Note 2	
Other equity		(241,303)	(337,959)	(302,988)	(325,826)	(254,240)	
Treasury stocks		(27,771)	(28,221)	(79,885)	-	(59,102)	
Non-controlling interests		1,385,323	1,380,453	1,208,335	1,115,865	1,203,967	
Total equity	Before distribution	3,670,343	3,595,237	3,647,865	3,603,286	3,829,239	

	After distribution	3,417,849	3,370,798	3,296,680	3,376,715	Note 2	
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Note 1: The data for Q1 of 2023 is not applicable since it has not been reviewed by the CPAs as of the date of publication of the annual report.

Note 2: The above-mentioned figures after distribution are based on the resolutions of the Board of Directors or the annual shareholders' meeting of the next year. For 2022, a resolution for distribution is yet to be adopted by the shareholders' meeting.

1-1 Consolidated condensed statement of comprehensive income – adopting the IFRS

Unit: NTD thousand; Earnings per share: NTD

Item	Year	Financial information for the most recent five years					Financial information of the current year 2023, as of March 31 (Note)
		2018	2019	2020	2021	2022	
Operating revenue	7,432,967	7,689,600	9,233,174	8,293,189	6,375,442		N/A
Gross operating profit	973,912	1,226,190	1,697,629	1,579,356	1,364,373		
Operating profit/loss	493,159	316,820	605,072	449,243	480,451		
Non-operating revenues and expenses	171,524	131,910	108,147	71,074	160,012		
Pre-tax net profit	664,683	448,730	713,219	520,317	640,463		
Net profit of continuing operations for the current period	460,811	357,457	559,643	382,550	507,340		
Loss of discontinued operations	-	-	-	-	-		
Net profit (loss) for the current period	460,811	357,457	559,643	382,550	507,340		
Other comprehensive income for the current period (after tax, net)	(57,278)	(125,477)	44,061	(32,885)	87,244		
Total comprehensive income for the current period	403,533	231,980	603,704	349,665	594,584		
Net profit attributable to owners of the parent company	418,885	280,860	466,181	296,754	368,776		
Net profit attributable to non-controlling interests	41,926	76,597	93,462	85,796	138,564		
Total comprehensive income attributable to owners of the parent company	370,859	184,496	501,431	267,921	441,339		
Total comprehensive income attributable to non-controlling interests	32,674	47,484	102,273	81,744	153,245		
Earnings per share	3.70	2.50	4.21	2.63	3.28		

Note: The data for Q1 of 2023 is not applicable since it has not been reviewed by the CPAs as of the date of publication of the annual report.

2. Parent-only condensed balance sheet – adopting the IFRS

Unit: NTD thousand

Item	Year	Financial information for the most recent five years				
		2018	2019	2020	2021	2022
Current assets		2,250,694	2,285,129	3,169,939	2,481,655	2,361,064
Property, plant and equipment		177,117	184,721	186,089	191,348	204,870
Intangible assets		7,404	6,704	6,225	3,921	3,437
Other assets		3,186,723	3,386,252	3,581,814	3,429,834	3,466,068
Total assets		5,621,938	5,862,806	6,944,067	6,106,758	6,035,439
Current liabilities	Before distribution	3,312,226	3,620,254	4,473,544	3,588,333	3,400,795
	After distribution	3,564,720	3,844,693	4,824,729	3,814,904	Note
Non-current liabilities		24,692	27,768	30,993	31,004	9,372
Total liabilities	Before distribution	3,336,918	3,648,022	4,504,537	3,619,337	3,410,167
	After distribution	3,589,412	3,872,461	4,855,722	3,845,908	Note
Share capital		1,132,856	1,132,856	1,132,856	1,132,856	1,132,856
Capital reserves		375,974	374,186	374,186	425,456	425,456
Retained earnings	Before distribution	1,045,264	1,073,922	1,315,361	1,254,935	1,380,302
	After distribution	792,770	849,483	964,176	1,028,364	Note
Other equity		(241,303)	(337,959)	(302,988)	(325,826)	(254,240)
Treasury stocks		(27,771)	(28,221)	(79,885)	-	(59,102)
Total equity	Before distribution	2,285,020	2,214,784	2,439,530	2,487,421	2,625,272
	After distribution	2,032,526	1,990,345	2,088,345	2,260,850	Note

Note: The above-mentioned figures after distribution are based on the resolutions of the annual shareholders' meeting of the next year. For 2022, a resolution for distribution is yet to be adopted by the shareholders' meeting.

2-1 Parent-only condensed statement of comprehensive income – adopting the IFRS

Unit: NTD thousand; Earnings per share: NTD

Item	Year	Financial information for the most recent five years				
		2018	2019	2020	2021	2022
Operating revenue	4,691,417	4,594,470	6,696,065	5,890,182	4,132,961	
Gross operating profit	412,457	383,809	609,415	587,381	433,474	
Operating profit/loss	121,835	76,705	246,695	157,902	111,487	
Non-operating revenues and expenses	336,207	229,048	272,129	179,177	293,974	
Pre-tax net profit	458,042	305,753	518,824	337,079	405,461	
Net profit of continuing operations for the current period	418,885	280,860	466,181	296,754	368,776	
Loss of discontinued operations	-	-	-	-	-	
Net profit (loss) for the current period	418,885	280,860	466,181	296,754	368,776	
Other comprehensive income for the current period (after tax, net)	(48,026)	(96,364)	35,250	(28,833)	72,563	
Total comprehensive income for the current period	370,859	184,496	501,431	267,921	441,339	
Net profit attributable to owners of the parent company	-	-	-	-	-	
Net profit attributable to non-controlling interests	-	-	-	-	-	
Total comprehensive income attributable to owners of the parent company	-	-	-	-	-	
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-	
Earnings per share	3.70	2.50	4.21	2.63	3.28	

(II) Names of CPAs and their audit opinions for the most recent five years

Year	Name of CPA firm	Name of CPA	Audit opinions
2018	Deloitte Taiwan	Liao Hung-Ju, Yang Chao-Chin	Unqualified opinion with other matter paragraph
2019	Deloitte Taiwan	Liao Hung-Ju, Yang Chao-Chin	Unqualified opinion with other matter paragraph
2020	Deloitte Taiwan	Wu Chiu-Yen, Yang Chao-Chin	Unqualified opinion with other matter paragraph
2021	Deloitte Taiwan	Wang Teng-Wei, Li Chi-Chen	Unqualified opinion with other matter paragraph
2022	Deloitte Taiwan	Wang Teng-Wei, Li Chi-Chen	Unqualified opinion with other matter paragraph

II. Financial analysis for the most recent five years

1. Financial analysis – adopting the IFRS

Item analyzed	Year	Financial analysis for the most recent five years					Description for a 20% change in the financial ratios in the most recent two years	Current year 2023, as of March 31 (Note)
		2018	2019	2020	2021	2022		
Financial structure (%)	Liabilities to assets ratio	56.22	56.35	61.51	54.84	51.36		
	Long-term funds to property, plant and equipment ratio	234.40	240.95	241.9	241.43	298.15		
Solvency (%)	Current ratio	138.90	138.14	129.9	140.91	143.96		
	Quick ratio	95.40	104.05	96.17	88.24	96.53		
	Times interest earned	55.71	26.58	35.7	28.38	29.8		
Operating ability	Receivables turnover (times)	3.40	3.46	3.58	3.28	3.07		N/A
	Average receivable days	107	105	102	111	118.89		
	Inventory turnover (times)	4.56	4.47	5.26	3.81	2.89	Description 1	
	Payables turnover (times)	3.59	3.66	3.81	3.59	3.86		
	Average sales days	80	82	69	96	126.29	Description 1	
	Property, plant and equipment turnover (times)	5	4	5	5	4	Description 2	
	Total assets turnover (times)	0.92	0.92	1.04	0.95	0.8		
Profitability	Return on assets (%)	5.88	4.41	6.49	4.56	6.65	Description 3	
	Return on equity (%)	13.22	9.83	15.45	10.55	13.65	Description 3	
	Pre-tax net profit to paid-in capital ratio (%)	58.67	39.61	62.95	45.92	56.53	Description 3	
	Net profit margin (%)	6.19	4.64	6.06	4.61	7.95	Description 3	
	Earnings per share (NTD)	3.70	2.50	4.21	2.63	3.28	Description 3	
Cash flows	Cash flow ratio (%)	4.39	16.12	10.9	6.02	32.29	Description 4	

	Cash flow adequacy ratio (%)	50.98	59.14	61.86	43.79	78.59	Description 4	
	Cash reinvestment ratio (%)	0	8.32	6.59	-1.46	17.19	Description 4	
Leverage	Operating leverage	4.16	2.18	1.73	1.94	1.65		
	Financial leverage	1.03	1.06	1.04	1.04	1.05		

Please describe the reasons for changes in financial ratios in the most recent two years (analysis is not required if the change of increase/decrease is less than 20%):

1. Due to the preparation of inventories to meet customer demand.
2. Due to a decrease in demand.
3. Due to an increase in profit.
4. Due to a decrease in net cash inflow from operating activities.

Note: The data for Q1 of 2023 is not applicable since it has not been reviewed by the CPAs as of the date of publication of the annual report.

1-1 Parent-only financial analysis – adopting the IFRS

Item analyzed	Year	Financial analysis for the most recent five years					Description for a 20% change in the financial ratios in the most recent two years
		2018	2019	2020	2021	2022	
Financial structure (%)	Liabilities to assets ratio	59.36	62.22	64.87	59.27	56.5	
	Long-term funds to property, plant and equipment ratio	1,304.06	1,214.02	1,327.6	1316.15	1,286.01	
Solvency (%)	Current ratio	67.95	63.12	70.86	69.16	69.43	
	Quick ratio	64.51	58.50	64.25	56.51	62.76	
	Times interest earned	44.23	22.26	34.32	23.36	21.36	
Operating ability	Receivables turnover (times)	3.34	3.05	3.57	3.17	3.04	
	Average receivable days	109	120	102	115	120	
	Inventory turnover (times)	58.81	31.85	27.52	14.72	11.27	Description 1
	Payables turnover (times)	3.18	2.63	4.09	3.78	2.95	Description 2
	Average sales days	6	11	13	25	32	Description 1
	Property, plant and equipment turnover (times)	30.50	25.40	36.12	31.21	20.86	Description 2
	Total assets turnover (times)	0.92	0.80	1.05	0.9	0.68	Description 3
Profitability	Return on assets (%)	8.40	5.09	7.47	4.73	6.34	Description 3
	Return on equity (%)	18.66	12.48	20.03	12.05	14.43	Description 3
	Pre-tax net profit to paid-in capital ratio (%)	40.43	26.99	45.8	29.75	35.79	Description 3
	Net profit margin (%)	8.93	6.11	6.96	5.04	8.92	Description 3
	Earnings per share (NTD)	3.70	2.50	4.21	2.63	3.28	Description 3
Cash flows	Cash flow ratio (%)	15.00	5.52	0	15.94	13.15	
	Cash flow adequacy ratio (%)	91.53	78.75	72.39	75.06	100.65	Description 4
	Cash reinvestment ratio (%)	11.48			8.47	8.07	
Leverage	Operating leverage	1.12	1.27	1.06	1.16	1.13	
	Financial leverage	1.10	1.23	1.07	1.11	1.22	

Please describe the reasons for changes in financial ratios in the most recent two years (analysis is not required if the change of increase/decrease is less than 20%):

1. Due to the preparation of inventories to meet customer demand.
2. Due to a decrease in demand.
3. Due to an increase in profit.
4. Due to a decrease in net cash inflow from operating activities.

1. Financial structure
 - (1) Liabilities to assets ratio = Total liabilities / Total assets.
 - (2) Long-term funds to fixed assets ratio = (Net shareholders' equity + Long-term liabilities) / Net fixed assets
2. Solvency
 - (1) Current ratio = Current assets / Current liabilities.
 - (2) Quick ratio = (Current assets - Inventory - Prepayment) / Current liabilities.
 - (3) Times interest earned = Net profit before income tax and interest expense / Interest expense for the current period.
3. Operating ability
 - (1) Receivables (including accounts receivable and notes receivable from operations) turnover = Net sales / Balance of average receivables in each period (including accounts receivable and notes receivable from operations).
 - (2) Average receivable days = 365 / Receivables turnover.
 - (3) Inventory turnover = Sales cost / Average inventory.
 - (4) Payables (including accounts payable and notes payable from operations) turnover = Sales cost / Balance of average payables in each period (including accounts payable and notes payable from operations).
 - (5) Average sales days = 365 / Inventory turnover.
 - (6) Fixed assets turnover = Net sales / Net fixed assets.
 - (7) Total assets turnover = Net sales / Total assets.
4. Profitability
 - (1) Return on assets = [After-tax profit/loss + Interest expense × (1 - Tax rate)] / Average total assets.
 - (2) Return on equity = After-tax profit/loss / Average net equity.
 - (3) Net profit margin = After-tax profit/loss / Net sales.
 - (4) Earnings per share = (After-tax net profit - Dividends of preferred shares) / Weighted average number of shares outstanding.
5. Cash flows
 - (1) Cash flow ratio = Net cash flow from operating activities / Current liabilities.
 - (2) Net cash flow adequacy ratio = Net cash flows from operating activities in the most recent five years / (Capital expense + Inventory increase + Cash dividends) in the most recent five years.
 - (3) Cash reinvestment ratio = (Net cash flow from operating activities - Cash dividends) / (Gross fixed assets + Long-term investments + Other assets + Working capital).
6. Leverage:
 - (1) Operating leverage = (Net operating revenue – Variable operating cost and expense) / Operating profit.
 - (2) Financial leverage = Operating profit / (Operating profit - Interest expense).

III. Report on review of 2022 statements of final accounts by Audit Committee

CompuCase Enterprise Co., Ltd.
Audit Committee

The Board of Directors has adopted, by resolutions, the 2022 business report, 2022 financial statements (including consolidated financial statements), 2022 business report and proposal for distribution of earnings in 2022. The financial statements (balance sheets, statements of comprehensive income, statements of changes in equity and statements of cash flows) and consolidated financial statements have been audited by CPAs Wang Teng-Wei and Li Chi-Chen from Deloitte Taiwan, as engaged by the Board of Directors, with an unqualified audit report issued thereafter.

The Committee is responsible for supervision of the financial reporting process of HEC.

The CPAs have, in certifying the 2022 financial statements of HEC, communicated with the Committee regarding the following matters:

1. With regard to the scope and time of audit planned by the CPAs, there have been no material audit findings.
2. The CPAs have provided a declaration to the Committee stating that all personnel at the firm of the CPAs who are subject to independence requirements have complied with the independence requirements in the Standards of Professional Ethics for Certified Public Accountants, and that they have not found any other relationship or other matter likely to be deemed as affecting the independence of CPAs.
3. The key audit matters requiring communication in an audit report have been included in this audit report, as per the communication between the CPAs and the Committee regarding key audit matters.

The 2022 financial statements, 2022 business report and proposal for distribution of earnings in 2022, as adopted by resolutions of the Board of Directors, have been audited by the Committee and deemed to be in compliance with the applicable laws. Therefore, in accordance with Article 219 of the Company Act, this report is hereby submitted.

Respectfully submitted for review

To:

2023 Annual Shareholders' Meeting of CompuCase Enterprise Co., Ltd.

Hsu Chia-Te
Members of the Audit Committee: Chen Jung-Chao
Hua Chih-Chiang

March 23, 2023

- IV. Parent-only financial statements of the most recent year:
See pp. 223–287.
- V. Consolidated financial statements of the parent company and subsidiaries audited and certified by CPAs in the most recent year:
See pp. 147–222.
- VI. No financial difficulties have been incurred by HEC and its affiliates during the most recent year and as of the date of publication of the annual report.

Seven. Review and Analysis of Financial Conditions and Financial Performance and Risk Matters

I. Financial conditions

Review and analysis of financial conditions

Unit: NTD thousand

Item	Year	December 31, 2 0 2 2	December 31, 2021	Difference		Description of change of increase/decre- ase
				Amount	%	
Current assets		\$5,727,605	\$6,078,647	\$ (351,042)	(6%)	
Property, plant and equipment		1,306,419	1,518,884	(212,465)	(14%)	
Intangible assets		9,542	10,981	(1,439)	(13%)	
Other assets		830,108	372,187	457,921	123%	Description 1
Total assets		7,873,674	7,980,699	(107,025)	(1%)	
Current liabilities		3,978,572	4,313,623	(335,051)	(8%)	
Non-current liabilities		65,863	63,790	2,073	3%	
Total liabilities		4,044,435	4,377,413	(332,978)	(8%)	
Share capital		1,132,856	1,132,856	0	0%	
Capital reserves		425,456	425,456	0	0%	
Retained earnings		1,380,302	1,254,935	125,367	10%	
Other equity		-254,240	-325,826	71,586	22%	Description 2
Non-controlling interests		1,203,967	1,115,865	88,102	8%	
Total equity		3,829,239	3,603,286	225,953	6%	

Description of items where change of increase/decrease equals or exceeds 20% and its amount has reached NTD10,000 thousand:

1. Due to an increase in fixed deposits.
2. Due to a decrease in foreign exchange losses resulting from exchange rate fluctuations in the translation of financial statements of foreign operating entities.

For significant impacts, future contingency plans should be provided to address the situation:None.

II. Financial performance

(I) Comparison and analysis of operating results

Unit: NTD thousand

Item	Year	2022	2021	Amount of increase (decrease)	Percent age of change (%)	Description of change of increase/decrease
Net operating revenue		\$6,375,442	\$8,293,189	\$ (1,917,747)	(23%)	Description 1
Gross operating profit		1,364,373	1,579,356	(214,983)	(14%)	
Operating expense		883,922	1,130,113	(246,191)	(22%)	Description 2
Net operating profit (loss)		480,451	449,243	31,208	7%	
Non-operating revenues and expenses		160,012	71,074	88,938	125%	Description 3
Pre-tax net profit		640,463	520,317	120,146	23%	Description 4
After-tax net profit of continuing operations		507,340	382,550	124,790	33%	Description 4
Loss of discontinued operations		-	-	-	-	-
Net profit for the current period		507,340	382,550	124,790	33%	Description 4
Other comprehensive income for the current period (after tax, net)		87,244	-32,885	120,129	365%	Description 5
Total comprehensive income for the current period		594,584	349,665	244,919	70%	See description above.
Net profit attributable to owners of HEC		368,776	296,754	72,022	24%	See description above.
Net profit attributable to non-controlling interests		138,564	85,796	52,768	62%	See description above.
Total comprehensive income attributable to owners of HEC		441,339	267,921	173,418	65%	See description above.
Total comprehensive income attributable to non-controlling interests		153,245	81,744	71,501	87%	See description above.
Earnings per share (NTD)		3.28	2.63	1	25%	
Description of items where change of increase/decrease equals or exceeds 20% and its amount has reached NTD10,000 thousand:						

1. Due to a slowdown in demand..
2. Due to a decrease in Marketing expense and R&D expense.
3. Due to an increase in exchange gains.
4. Due to an increase in gross profit margin and exchange rates.
5. Due to a decrease in foreign exchange losses resulting from exchange rate fluctuations in the translation of financial statements of foreign operating entities.

(II) Expected sales volumes and their basis

We have made the most appropriate estimates based on our operational plan and production volumes and capacity in 2023.

(III) Expected sales volumes and their shares in 2023

Name of main product	Expected sales volume (set)	Percentage (%)
Power supplies and other IT products	1,372,500	44%
Computer chassis, servers and other products	1,000,032	32%
Products of private brand Cougar	747,410	24%
Total	3,119,942	100%

(IV) Possible effects on future financial business, and the plan in response

The National Development Council, Executive Yuan has released the report “Overall Economic Situation in 2023.” According to the recent forecasts of major international institutions, the global economic growth rate in 2023 will be lower than in the previous year, mainly due to the challenges posed by multiple downturn risks, including the continued pressure of global inflation and interest rate hikes, stalemate in the Russia–Ukraine war, slowdown in the Chinese economy, the resurgence of US–China technological disputes, and the increasing effect of climate change.

In addition to paying careful attention to the development of global changes, the government will accelerate the implementation of relevant policies to strengthen national resilience in terms of the economy, society and construction. Furthermore, in order to stabilize the momentum of economic growth and share the current economic results with the people, the government has prepared a draft “Special Act on Post-Pandemic Strengthening of Economic and Social Resilience and Sharing of Economic Results with the People” and sent it to the Legislative Yuan for review. It is hoped that the act will be adopted through the third reading as soon as possible, so that Taiwan’s economy growth can continue.

We will pay constant attention to the development of the Russia–Ukraine war and the resurgence of US–China technological disputes, and formulate corresponding strategies. We will gradually introduce automation into the manufacturing processes of our factories to focus on cost control, reducing expenses and maintaining a healthy financial structure to minimize the impact.

III. Review and analysis of cash flows

(I) Analysis of liquidity in the most recent two years

Item	Year	2022	2021	Percentage of increase (decrease) (%)
Cash flow ratio			6.02	436%
Cash flow adequacy ratio			43.79	79%
Cash reinvestment ratio			-1.46	1,277%
Analysis and description of changes in the percentage of increase/decrease:				
Due to an increase in net cash inflow from operating activities in 2022.				

(II) Improvement Plan for Insufficient Liquidity:None.

(III) Analysis of cash liquidity for the next year

Unit: NTD thousand					
Starting cash balance	Estimated annual net cash flow from operating activities	Estimated annual cash outflow	Estimated cash balance (deficit) +-	Estimated remedy for cash deficit	
				Investment plan	Financing plan
\$1,686,707	\$766,114	\$851,700	\$1,601,121	-	-
Analysis of changes in cash flows of the current year:					
(1) Operating activities: An estimated net cash inflow of NTD766,114 thousand from operating activities.					
(2) Investing and financing activities: An estimated total cash outflow of NTD851,700 thousand from purchase of fixed assets, receipt of cash dividends, distribution of cash dividends to shareholders and loan repayments.					

IV. Effect of material capital expenditure in the most recent year on financial business:

HEC and subsidiaries had no material capital expenditure in 2022.

V. Reinvestment policy for the most recent year, the main reasons for profits or losses, the improvement plan and the investment plan for the next year:

(I) Our reinvestment policy is based on our future direction of operations and implemented on a step-by-step basis. Currently, our reinvestment targets focus on industries relating to our primary business and business activities that are able to enhance the development of our technologies.

(II) In 2022, our net profit from long-term investments was NTD228,463 thousand, an increase from NTD140,271 thousand in the same period of last year, mainly due to increases in our exchange profit and gross profit margin, resulting in more investment benefits.

(III) Investment plan for the next year:

We make reinvestments based on the consideration of our operational needs or future growth and other factors. Regarding the investee companies, we are constantly informed of the status of their operations for analysis of the effectiveness of investments and for follow-up and assessment, the results of which will be used as reference for subsequent investment plans. Until now, we have had no reinvestment plan.

VI. Analysis and assessment of risk matters during the most recent year and as of the date of publication of the annual report

(I) Effects of interest rate, exchange rate change and inflation on the profit/loss of your company, and future measures in response

Unit: NTD thousand

Item/Year	2022	Share of operating revenue (%)
Interest income	24,479	0.38%
Interest expense	22,233	0.35%
Profit (Loss) on exchange	135,687	2.13%
Net profit (loss) on financial assets and liabilities measured at fair value through profit/loss	(40,545)	(0.64%)
Operating revenue	6,375,442	

1. Interest rate

With regard to financing, our operations are primarily financed by our own funds. As of the end of 2022, our loans amounted to approximately NTD1.6 billion at an average interest rate of 1.3%–1.8%. In 2022, the amount of interest expense accounted for only 0.35% of the operating revenue, and the cost of loans in NTD was relatively low. Moreover, the interest income generated by our bank deposits accounts for a low share of 0.35% of the operating revenue. Thus, any interest rate change would have no significant effect on us.

Future measures in response: We will pay close attention to the information of domestic and foreign interest rates and keep close contact with the banks with which we conduct transactions in order to obtain the most preferential interest rates for deposit and loan, lower the cost of loan and use them as reference for asset arrangements.

2. Exchange rate

At least 90% of our products sold are for export. All exported products are quoted in USD, and raw materials purchased externally are also priced in USD. The risk of exchange rate change may be partially offset by purchases and sales, while it is possible for the USD positions to achieve the purpose of natural hedge. Nonetheless, as the size of operations gradually expands, any exchange rate change will still have significant effect on our operating revenue and profitability. In 2022, exchange rate fluctuations generated an exchange profit of NTD135,687 thousand that accounted for 2.13% of the operating revenue, with limited effect on us.

In order to avoid any potential effect of exchange rate fluctuations on our profits, our management of foreign exchange risks is based on the principle of stability, with the following specific measures in response:

- (1) In order to keep full track of the information of exchange rate changes and manage foreign exchange risks, we have appointed appropriate personnel to strengthen analysis of exchange rate changes. In the event of any heavy exchange rate fluctuation, we will sell part of our forward foreign exchange contracts in advance if necessary based on our operational needs.
- (2) We consider the information of exchange rate changes provided by the banks with which we conduct transactions and take appropriate hedge measures on our foreign currency assets and liabilities.
- (3) For quotes given by our sales department, we take into account price adjustments arising from exchange rate changes to maintain a proper profit.
- (4) We enhance the quality and added value of products and are committed to cost control in order to increase the gross profit of products and mitigate the effect of exchange rate fluctuations on the gross profit.

3. Inflation

Inflation is a change in the overall economic environment, while our measures for cost reduction are consistent policies that will not change due to inflation or deflation in the external environment. We will keep close track of changes in the prices of key raw materials and develop our medium- to long-term purchase strategies accordingly. Thus, inflation has limited effect on our operations and profits.

(II) Policies on high-risk and high-leverage investments, loaning of funds to others, endorsements/guarantees and transactions of derivatives, the main reasons for profits or losses, and future measures in response

1. We have not engaged in any high-risk and high-leverage investment during the most recent year.
2. The loaning of funds by HEC and its subsidiaries to others is primarily for the operational needs of its subsidiaries and is in accordance with the requirements of the “Regulations Governing Loaning of Funds to Others” established by HEC and its subsidiaries. Funds loaned to others as of Q1 of 2023 are detailed as follows:

Unit: NTD thousand

Lender of funds to others	Borrower		Nature of funds loaned	Limit of funds loanable at period end	Cumulative amount of funds loaned as a share of the net value of the financial statements for the most recent period (%)	Amount of funds loanable disbursed at period end
	Company name	Relationship				

HEC	US subsidiary	Subsidiary – shareholding at 100%	Business transaction	15,225	1%	6,320
HEC	US subsidiary	Subsidiary – shareholding at 100%	Short-term financing	9,135	-	0
HEC	OPT	Subsidiary – shareholding at 59.49%	Short-term financing	106,575	4%	0
Total for HEC				130,935	5%	6,320
WCX	WCF	Parent – shareholding at 100%	Short-term financing	132,930	5%	0
WCX	WSE	Same parent	Short-term financing	221,550	8%	150,654
WCX	WYT	Same parent	Short-term financing	44,310	2%	0
WII	HEC	Parent – shareholding at 100%	Short-term financing	91,350	4%	85,260
WII	HEC	Parent – shareholding at 100%	Short-term financing	182,700	7%	172,043
WJA	WCF	Same parent	Short-term financing	132,930	5%	124,068
WJA	WSE	Same parent	Short-term financing	132,930	5%	124,068
LFE	HEC	Parent – shareholding at 50.62%	Short-term financing	90,000	3%	90,000
Total for subsidiaries				1,028,700	39%	746,093

Note:

1. The net value of the financial statements for the most recent period is calculated based on NTD2,625,272 thousand in Q4 of 2022.
2. The USD exchange rate is 1:30.45.
3. The endorsements/guarantees provided by HEC and its subsidiaries are primarily for the bank limits of its subsidiaries and are in accordance with the requirements of the “Regulations Governing Endorsements/Guarantees” established by HEC and its subsidiaries. Endorsements/Guarantees provided by HEC and its subsidiaries as of Q1 of 2023 are detailed as follows:

Unit: NTD thousand

Endorsement/Guarantee	Endorsement/Guarantee recipient	Limit of endorsement	Cumulative amount of	Amount of endorsements/gu

provider	Company name	Relationship	s/guarantees at period end	endorsements/guarantees as a share of the net value of the financial statements for the most recent period (%)	arantees disbursed at period end
HEC	LFDG	Subsidiary – shareholding at 60.56%	152,250	6%	-
HEC	FD	Subsidiary – shareholding at 77.24%	119,070	5%	-
Total for HEC			271,320	10%	-
LFE	LFDG	Subsidiary – 79.87%	438,055	17%	4,753
Total for subsidiaries			438,055	17%	4,753

Note:

1. The net value of the financial statements for the most recent period is calculated based on NTD2,625,272 thousand in Q4 of 2022.
2. The USD exchange rate is 1:30.45.
4. We conduct transactions of derivatives in accordance with relevant regulations including the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” of the Securities and Futures Bureau, the “Directions for Auditing Internal Control Systems of Listed Companies” of the Taiwan Stock Exchange and our “Regulations Governing Acquisition or Disposal of Assets.” Based on the purpose of hedging, i.e. engaging in hedging transactions on assets we de facto “own” or “clearly expect to own,” we take actions in a conservative manner to avoid risks arising from fluctuations in exchange rates to achieve the aim for stable operations.

(1) Financial instruments measured at fair value through profit/loss

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial assets – current</u>		
Held for transactions		
Derivative instrument – forward foreign exchange contract	\$ 16,652	\$ 8,492

(2) The following are forward foreign exchange contracts which do not apply hedge accounting and are yet to mature as of Q4 of 2022:

Currency	Maturity period	Contractual amount (NTD thousand)
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(III) Future R&D plan and the estimated R&D expense to be invested:

I. Future R&D plan

1. Computer chassis:

(1) Stabilizing the quality of chassis for SI customers:

As a result of the efforts we have invested for many years, large SI manufacturers have gradually become our main customers, giving support to our brand reputation and substantial contribution to our overall performance. Thus, our primary mission subsequently is to stabilize the quality of development of SI chassis, including design, stamping, injection, production and assembly. All relevant aspects must be adjusted to meet the requirements of the manufacturing process of SI chassis to ensure smooth production and reduce costs, in the following manners:

- A. We will coordinate design to direct the manufacturing process in a way that is advantageous for our production and not contrary to the design ideas of customers.
- B. We will develop innovative ways of design to meet the demand of large manufacturers, improve the quality of products and increase customer satisfaction.
- C. We will provide the required resources to ease the burden on customers and increase our necessity and reliability to them.
- D. To avoid being limited by old ideas, we will improve our manufacturing capability and develop a new, reliable manufacturing process to save time and reduce costs.
- E. We will establish SOPs covering the process from kickoff and quotation in the early stage to production and assembly in the later stage, and we will define the process for development of SI chassis.

(2) Strengthening our capabilities for benchmark customers:

Benchmark customers have their own market and product plans. To ensure continued cooperation of such benchmark customers with us, we need a plan in accordance with their long-term plans to strengthen and enhance our capabilities in collaboration, such as information and capabilities regarding electronic control, software (app), firmware, water cooling and other products, so that the customers, in choosing us as their supplier, will gain more added values aside from our original shipping flexibility, prices and quality in comparison with other suppliers. In this way, we will be able to not only remain in a winning position, but also raise our gross profit margin, expand our product lines and increase our overall revenue.

(3) Introducing MicroLED and cooperating with our vendors in developing lighting panels applied to gaming products in order to increase the selling points and differentiation of our products:

With the rapid development of technology, gaming consumers have very high expectations for cool, dazzling light-emitting chassis. Therefore, the MicroLED technology has been used for packaging directly on the substrate without requiring space and cost for an LED chip support. They possess the advantages of RGB dimming and program control. Taking advantage of their ultra thinness and small size, we are able to develop more layered designs of lighting effect and combinations of lighting flow to attract consumer attention. In this way, we are able to achieve market differentiation and keep our competitors further behind us.

(4) Developing multi-function docking stations to expand the product lines of our group and enhance our innovation capability:

The gross profit from chassis has gradually decreased due to the market environment and our competitors, while we are able to maintain a fairly competitive profit from USB cables. Through integrated development of multi-function adapter hubs, we will integrate the main types of ports currently in demand in the market. To create new niche products with a high gross profit, we will use our bargaining ability for purchase by our group to lower the overall cost. At the same time, we will learn about the specifications of the latest versions of ports and quick chargers through development and testing. Once we have understood the functions and testing methods of the latest versions of ports, it will be more possible for us to meet market and customer demands in the development of chassis.

(5) Introducing the technology(Including Risk of information and communication security) of evaporative wrapping and applying it to lighting panels for gaming products in order to increase the selling points and differentiation of our products:

With the rapid development of technology, gaming consumers have very high demand and expectations for cool, dazzling light-emitting chassis. The technology of evaporative wrapping is used for printing and plating on a transparent panel to make its surface reflective like a mirror, enabling it to conceal the design and logo of chassis. When the RGB lighting effect is turned on, the LED is able to show the logo design through reflection from printed coatings due to good transparency of the panel. Other areas appear to be transparently black and are not affected by the RGB light, a completely different design from that of front projection in the past. The product is thus able to generate two kinds of vibe with additional mystery and quality, enabling us to achieve market differentiation and keep our competitors further behind us.

(6) Continuing to invest in niche IPC/server products:

We will continue to strengthen our capability in the development of IPC/server products, and we will support the sales department in identifying customers with more capabilities to maximize the number of our orders and increase our sales profit. Regarding our R&D strategy, we will take the following approaches:

- A. We will keep looking for opportunities to cooperate with first-tier major manufacturers for the purposes of stabilizing our orders and further understanding the plan and demand for rack mount servers to enhance our R&D capabilities.
- B. We will plan and seek orders for peripheral equipment and products of IPC/servers, e.g. cabinets.
- C. We will continue to identify opportunities for cooperation with non-standard IPC manufacturers to develop non-standard IPC products.
- D. With our current basis, we will use NCT and dies together for production to maintain maximum flexibility in production.
- E. We will switch between different versions of dies to complete products that are totally different from those of customers with minimum investment in dies.
- F. We will cooperate with vendors capable of mechatronic integration for joint development of screen bar products.
- G. We will coordinate design and give direct consideration to the cost of design, which is advantageous for production using our current manufacturing process, while still being able to maintain product reliability as the focus of structural design.

2. Power supplies:

- (1) In 2022, our R&D department will develop various high-efficiency power supplies of at least 1000W, all of which will be able to meet Intel's 200% peak power requirements. We need to, on the existing basis, further ensure the electrical safety of power semiconductors and increase their stability, so that it is possible to achieve systematic data integration for newly developed technologies, enabling R&D personnel to respond faster with regard to the design of new-generation power supplies.
- (2) We will add the existing PSU structure to the digital MCU control IC to provide the product with more features and increase the added value of the product. At the same time, the analog control circuit can be combined with the MCU firmware program to achieve a deeper technological level of the PSU, while preventing PSU products from being copied.
- (3) We have developed a high-efficiency totem pole PFC (bridge-less PFC). Its structure is technically more difficult than existing PFC circuits. In practical applications, however, there is a chance that it can be realized in mass-produced models. It is mainly applicable to high-end 1300W–1600W models. Combined with the characteristic of low switching loss of the third-generation semiconductor GaN MOSFET, it can further increase the circuit efficiency of the PFC section.

II. In 2023, HEC and its subsidiaries are expected to invest NTD57,407 thousand as R&D expense to achieve the R&D targets.

(IV) Effects of changes in important domestic or foreign policies and laws on the financial business of your company, and measures in response

1. In response to amendments of the Company Act and the Securities and Exchange Act, we will review and amend our relevant regulations from time to time to remain in compliance with the law.
2. Changes in important policies and laws of other countries are likely to cause changes in the industry and affect us. We will keep paying close attention to policies and laws that may affect our business and operations in order to give timely responses to the effects of their changes and promptly develop necessary measures to meet our operational needs.

(V) Effects of changes in technology and the industry on the financial business of your company, and measures in response

We have established a comprehensive information network framework and systems for data and file backups and protection of computer security, such as systems for anti-virus software, data backup, domain certification and web firewall. These information security protection systems are used to control information security risks, damaged files and account authentication, prevent leakage of internal data, maintain our manufacturing activities and operations and perform other key functions of business operations.

With the rapid development of information technology, the frequency of criminal activities using computers and relevant equipment has been increasing. Despite the aforementioned information security protection systems, we are unable to guarantee full protection of our internal computer system and network framework against cyber attacks from any third-party invasion system. Such a cyber attack is carried out by illegally invading the internal network and information systems of a company for the purpose of committing an illegal action such as sabotaging the network operations of the company or stealing its

important confidential information. Under severe cyber attacks from hackers, the information of our customers or our important internal information may be lost from its information and computer systems, and our production lines and operations are likely to be suspended due to such attacks.

Regarding our information security management, external auditors have checked, verified and conducted relevant risk management activities through computer audits based on information cycles, and we have established relevant requirements concerning the four levels of documents for information security. Our employees have implemented relevant regulations and complied with relevant procedures for information operations, which are regularly checked to ensure their appropriateness and effectiveness, and we have regularly inspected user-end computer equipment on a quarterly basis. Moreover, we have stressed the importance of our employees' awareness of information security anomalies and periodic data backup, and we have regularly arranged for our employees to attend external training courses on information security.

Even though we have established a risk management mechanism and been following an effective information security management system, we are unable to guarantee HEC will not be affected by innovative information technologies and new types of virus attacks through the Internet in the face of constantly changing web security threats. A web attack may seek to steal our trade secrets, intellectual property and key confidential information of customers, such as the proprietary information of customers or other stakeholders and the personal data of employees. External auditors have regularly reviewed our operating processes to strengthen or improve our information operations against risks of theft of our trade secrets by ill-intentioned persons. Until now, we have not discovered any significant web attack or information security incident, nor have we found any existing or possible significant negative effect on our business and operations.

(VI) Effects of changes in corporate image on the crisis management of your company, and measures in response

We have maintained a good corporate image to enhance our status among peer companies.

(VII) Expected benefits and possible risks of merger, and measures in response: None.

(VIII) Expected benefits and possible risks of expansion of premises, and measures in response:

In 2022 and as of March 2023, no construction of new premises has been completed, except for amounts invested in installing new peripheral facilities of or repairing and improving current premises. Thus, there are no expected benefits, possible risks and measures in response.

Due to the need for transfer of business within our group and additional new orders in the future, LFE has invested in expansion of the factory premises and production equipment of the subsidiary LFDG in Mainland China in order to increase production capacity and improve operational efficiency. However, without any relative increase in our revenue to cover such capital expenditure and the operating costs arising from expanded production capacity and enhanced production technologies, we will incur a negative financial effect.

We will keep focusing on future market demand to evaluate the benefit of expansion of production capacity. As of the date of publication of the annual report, the expansion of our production capacity has met our expectations.

(IX) Risks faced during the concentration of purchases or sales, and measures in response:

1. The amount of purchase from our largest supplier in the most recent year accounts for only 4% of our annual total purchase, so there is no risk of concentration of purchases.
2. Our important sales customers are those who have cooperated with us for a long time. We keep a close business relationship and maintain good interactions with our customers, with payments received regularly based on the length of loan period. Furthermore, as new products are being developed, we will actively reach out to new customer bases to reduce the risk of concentration of sales.

(X) Effects and risks of substantial transfers or changes of shares held by directors, supervisors or shareholders with a shareholding of more than 10% to your company, and measures in response:

None. We keep constant track of changes in the shareholdings of our directors, supervisors and major shareholders to reduce relevant risks and ensure timely responses to relevant changes.

(XI) Effects and risks of changes in management to your company, and measures in response: **None.**

(XII) Material litigious, non-litigious or administrative dispute events involving the directors, supervisors, president, de facto owner, major shareholders with a shareholding of more than 10% and subordinate entities of your company that are finalized or pending, whose results are likely to cause significant effects on shareholders' equity or securities price:

None during 2022 and as of the date of publication of the annual report.

Our subsidiary LFE has received an attestation letter from the SFIPC requesting all directors and supervisors of LFE to file a claim against former director Chang Lien-Sheng for the losses of purchase of real property from Quan Te Technology and Industry Co., Ltd. in July 2013, with former chairman Chang Yung-Ta bearing joint liability. LFE has engaged an attorney to handle matters relating to such claim, which is currently in process.

Former directors Chang Lien-Sheng and Chang Yung-Ta have not participated in the operations and management of LFE, and they therefore have no influence on its finance and business.

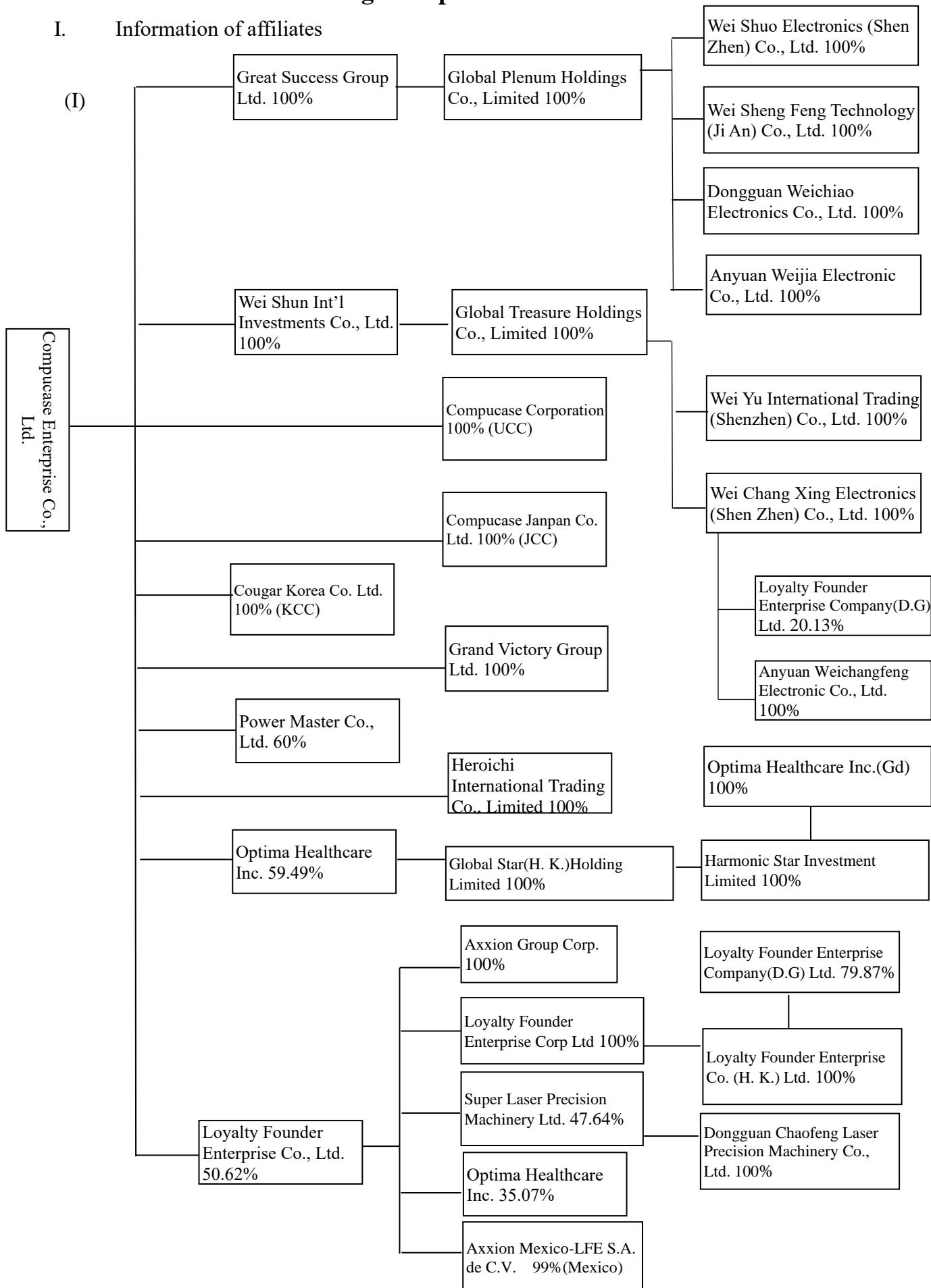
(XIII) Other significant risks, and measures in response: **None.**

VII. Other important matters:

None.

Eight. Special Information

I. Information of affiliates



(II) Basic information of affiliates

Company name	Date of incorporation	Address	Paid-in capital	Scope of primary business or production	Remarks
Wei Shun Int'l Investments (BVI) Co., Ltd.	1997/02/03	P.O.Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI	USD900,000	Reinvestment and international trade	-
Great Success Group Ltd.	1997/12/29	P.O.Box 957,Offshore Incorporations Centre, Road Town, Tortola, British Virgin Island	USD1,800,000	Reinvestment and international trade	Note
Grand Victory Group Ltd.	1998/01/09	P.O.Box 217,Offshore Chambers, Apia Samoa	USD50,000	Reinvestment and international trade	-
Wei Shuo Electronics (Shen Zhen) Co., Ltd.	1998/08/10	Room 1910, Longhu Junhui Condominium, No. 2331, Meilong Ave., Longhua St., Longhua Dist., Shenzhen City, Guangdong Province	USD3,800,000	Production of power supplies and computer parts and accessories	-
CompuCase Corporation (UCC)	1995/12/19	16720 CHESTNUT ST CINDUSTRY, CA 91748 USA	USD115,000	Sales of electronic components	-
CompuCase Japan co.LTD. (JCC)	2000/01/18	1F, 3-24-5, Shin-Yokohama, Kōhoku-ku, Kanagawa Prefecture, Japan	JPY10,000,000	Sales of electronic components	-
Wei Chang Xing Electronics (Shen Zhen) Co., Ltd.	2000/04/05	Room 1910, Longhu Junhui Condominium, No. 2331, Meilong Ave., Longhua St., Longhua Dist., Shenzhen City, Guangdong Province	USD2,200,000	Production of computer parts and accessories and cutting and processing of iron materials	-
Wei Yu International Trading (Shenzhen) Co., Ltd.	2004/06/25	Room 1910, Longhu Junhui Condominium, No. 2331, Meilong Ave., Longhua St., Longhua Dist., Shenzhen City, Guangdong Province	USD650,000	International trade and re-export trade	-
Power Master Co., Ltd.	2006/06/06	No. 26, Ln. 52, Sec. 1, Anhe Rd., Annan Dist., Tainan City	NTD3,000,000	International trade	-
Heroichi International Trading Co., Limited	2006/11/03	Suite 2303,23/F Great Eagle Centre,23 Harbour Road, Wanchai, Hong Kong.	USD50,000	International trade and re-export trade	-
Cougar Korea Co. Ltd. (KCC)	2007/03/30	Doosan We've Sentium Rm1013, 1241-2 Baeksukdong, ilsandonggu, Koyansi, Kyunggido, Korea	USD800,000	International trade and re-export trade	-
Global Treasure Holdings Co., Limited	2007/12/18	12 th Floor, Ruttonjee House,11 Duddell Street, Central, Hong Kong	USD2,850,000	Investment holdings	-

Company name	Date of incorporation	Address	Paid-in capital	Scope of primary business or production	Remarks
Global Plenum Holdings Co., Limited	2007/12/18	12 th Floor, Ruttonjee House, 11 Duddell Street, Central, Hong Kong	USD7,100,000	Investment holdings	Note
Wei Sheng Feng Technology (Ji An) Co., Ltd.	2010/09/13	Chengnan Industrial Park (Qiaonan Industrial Park, Enjiang Town), Yongfeng County, Jian City, Jiangxi Province	USD1,500,000	Production of power supplies and computer parts and accessories	-
Dongguan Weichiao Electronics Co., Ltd.	2015/06/11	4F, Building A, West Area, Jinqiao Industrial Park, Qingxi Town, Dongguan City	USD1,800,000	Production of power supplies and computer parts and accessories	-
Anyuan Weijia Electronic Co., Ltd.	2018/05/31	Banshi Industrial Park, Banshi Town, Anyuan County, Jiangxi Province	USD5,000,000	Production of power supplies and computer parts and accessories	Note
Anyuan Weichangfeng Electronic Co., Ltd.	2020/08/24	Banshi Industrial Park, Banshi Town, Anyuan County, Jiangxi Province	RMB46,000,000	Production of power supplies and computer parts and accessories	-
Optima Healthcare Inc.	2000/12/21	11F-1 and -2, No. 859, Jingguo Rd., Taoyuan Dist., Taoyuan City	NTD323,250,000	Production of medical beds, side tables and home electric beds	-
Global Star (H. K.) Holding Limited	2016/10/11	Room 1902, 19/F, Lee Garden One 33 Hysan Avenue, Causeway Bay, Hong Kong	USD6,700,000	Investee company	-
Harmonic Star Investment Limited	2016/10/20	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa.	USD6,700,000	General investments	-
Loyalty Founder Enterprise Co., Ltd.	1984/7/23	No. 225, Ln. 54, Sec. 2, Anhe Rd., Tainan City	NTD1,476,820,000	Production of computer and server chassis	-
Axxion Group Corp.	1987/10/02	4731 Ripley Dr. Suite A El Paso, TX 79922, USA	USD733	Sales of computer chassis	-
Axxion Mexico-LFE S.A. de C.V.	2021/08/09	Ciudad Juárez, Chihuahua México	USD100 thousand	Manufacturing of computer components	-

Company name	Date of incorporation	Address	Paid-in capital	Scope of primary business or production	Remarks
Loyalty Founder Enterprise Corp.Ltd.	1997/05/08	P.O.Box 31119, Grand Pavilion, Hibiscus Way,802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands	USD34,270 thousand	General investments	-
Loyalty Founder Enterprise Co. (H.K.) Ltd.	1997/01/29	Room 1902,19/F, Lee Garden One,33 Hysan Avenue, Causeway Bay	HKD281,162 thousand	Manufacturing, processing and sales of precision steel mold and stamping die products for computer chassis, keyboards and scanners	-
Loyalty Founder Enterprise Company(D.G) Ltd.	2002/08/19	No. 70, Qingxi Sec., Qingzhang Rd., Qingxi Town, Dongguan City, Guangdong Province	HKD486,357 thousand	Production and sales of computer-aided manufacturing and other computer application systems, tools and dies.	-
Optima Healthcare Inc.(Gd)	2017/06/15	Room 101, No. 70, Qingxi Sec., Qingzhang Rd., Qingxi Town, Dongguan City, Guangdong Province	USD8,000 thousand	Manufacturing and sales of medical devices and equipment	-

In 2022, the subsidiaries WJA, GPH and GSG engaged in cash capital reduction of USD5 million. The share payments returned from capital reduction have yet to be received.

Unit: NTD thousand

Name of affiliate	Shareholding relationship	Shareholding (%)	Number of shares invested in	Amount of investment
Wei Shun Int'l Investments (BVI) Co., Ltd.	HEC has shareholding in WII WII has shareholding in HEC	100% None	4,500 -	24,840 -
Great Success Group Ltd.	HEC has shareholding in GSG GSG has shareholding in HEC	100% None	18,000 -	58,632 -
Grand Victory Group Ltd.	HEC has shareholding in GVG GVG has shareholding in HEC	100% None	50,000 -	1,645 -
Wei Shuo Electronics (Shen Zhen) Co., Ltd.	GPH has shareholding in WSE WSE has shareholding in GPH	100% None	- -	USD3,800,000 -
CompuCASE Corporation(UCC)	HEC has shareholding in UCC UCC has shareholding in HEC	100% None	1,150 -	8,556 -
CompuCASE Japan	HEC has shareholding in JCC	100%	200	13,949

Name of affiliate	Shareholding relationship	Shareholding (%)	Number of shares invested in	Amount of investment
co.LTD.(JCC)	JCC has shareholding in HEC	None	-	-
Wei Chang Xing Electronics (Shen Zhen) Co., Ltd.	GTH has shareholding in WCX WCX has shareholding in GTH	100% None	- -	USD2,220,000 -
Wei Yu International Trading (Shenzhen) Co., Ltd.	GTH has shareholding in WYT WYT has shareholding in GTH	100% None	- -	USD650,000 -
Power Master Co., Ltd.	HEC has shareholding in FCC FCC has shareholding in HEC	60% None	180,000 -	1,800 -
Heroichi International Trading Co., Limited	HEC has shareholding in HIT HIT has shareholding in HEC	100% None	50,000 -	1,648 -
Cougar Korea Co. Ltd. (KCC)	HEC has shareholding in KCC KCC has shareholding in HEC	100% None	748,800	13,444
Global Treasure Holdings Co., Limited	HIT has shareholding in GTH GTH has shareholding in HIT	100% None	1,159,210	USD2,850,000 -
Global Plenum Holdings Co., Limited	GSG has shareholding in GPH GPH has shareholding in GSG	100% None	2,600,000	USD7,100,000 -
Wei Sheng Feng Technology (Ji An) Co., Ltd.	GPH has shareholding in WSF WSF has shareholding in GPH	100% None	- -	USD1,500,000 -
Dongguan Weichiao Electronics Co., Ltd.	GPH has shareholding in DWC DWC has shareholding in GPH	100% None	- -	USD1,800,000 -
Anyuan Weijia Electronic Co., Ltd.	GPH has shareholding in WJA WJA has shareholding in GPH	100% None	- -	USD5,000,000 -
Anyuan Weichangfeng Electronic Co., Ltd.	WCX has shareholding in WCF WCF has shareholding in WCX	100% None	- -	RMB46,000,000 -
Optima Healthcare Inc.	HEC has shareholding in OPT OPT has shareholding in HEC	59.49% None	19,229,750 -	301,063 -
Loyalty Founder Enterprise Co., Ltd.	HEC has shareholding in LFE LFE has shareholding in HEC	50.62% None	74,755,773 -	933,893 -

(III) Common shareholders in companies presumed to be controlled by or subordinate to your company: **None**.

(IV) Information of directors, supervisors and presidents of affiliates

1. Information of directors, supervisors and presidents of affiliates with investments from HEC:

Company name	Title	Name or representative	Shareholding	
			Number of shares	Shareholding (%)
Wei Shun Int'l Investments Co., Ltd.	Representative	Wang Chun-Tung	4,500	100%

Company name	Title	Name or representative	Shareholding	
			Number of shares	Shareholding (%)
Great Success Group Ltd.	Representative	Wang Chun-Tung	18,000	100%
Grand Victory Group Ltd.	Representative	Wang Chun-Tung (Corporate representative of HEC)	50,000	100%
Wei Shuo Electronics (Shen Zhen) Co., Ltd.	Chairman	Wang Chun-Tung (Corporate representative of GPH)	-	100%
	Director	Chung Ding-Chun (Corporate representative of GPH)		
	Director	Ko Chi-Yuan (Corporate representative of GPH)		
Wei Chang Xing Electronics (Shen Zhen) Co., Ltd.	Chairman	Wang Chun-Tung (Corporate representative of GTH)	-	100%
	Director	Chung Ding-Chun (Corporate representative of GTH)		
	Director	Ko Chi-Yuan (Corporate representative of GTH)		
CompuCase Corporation (UCC)	Owner	Wang Chun-Tung (Corporate representative of HEC)	1,150	100%
CompuCase Japan Co.LTD (JCC)	Chairman	Wang Chun-Tung (Corporate representative of HEC)	200	100%
	Director	Ko Chi-Yuan (Corporate representative of HEC)	200	100%
	Director	Lin Cheng-Hung (Corporate representative of HEC)	200	100%
	Supervisor	Chen Hui-Shan (Corporate representative of HEC)	200	100%
Wei Yu International Trading (Shenzhen) Co., Ltd.	Chairman	Wang Chun-Tung (Corporate representative of GTH)	-	100%
	President	Chung Ding-Chun (Corporate representative of GTH)		
	Director	Ko Chi-Yuan (Corporate representative of GTH)		
Power Master Co., Ltd.	Chairman	Wang Chun-Tung (Corporate representative of HEC)	180,000	60%
	Director	Ko Chi-Yuan (Corporate representative of HEC)	180,000	60%
	Director	Wang Chun-Chieh	120,000	40%
	Supervisor	Liu Chang-Wei	0	0%
Heroichi International Trading Co., Limited	Owner	Wang Chun-Tung	50,000	100%
Cougar Korea Co. Ltd. (KCC)	Chairman	Ko Chi-Yuan (Corporate representative of HEC)	748,800	100%

Company name	Title	Name or representative	Shareholding	
			Number of shares	Shareholding (%)
	Director	Wang Chun-Tung (Corporate representative of HEC)	748,800	100%
	Director	Brian Kim (Corporate representative of HEC)	748,800	100%
Global Treasure Holdings Co., Limited	Owner	Wang Chun-Tung	1,159,210	100%
Global Plenum Holdings Co., Limited	Owner	Wang Chun-Tung	2,600,000	100%
Wei Sheng Feng Technology (Ji An) Co., Ltd.	Chairman	Wang Chun-Tung (Corporate representative of GPH)	-	100%
	Director	Chung Ding-Chun (Corporate representative of GPH)		
	Director	Ko Chi-Yuan (Corporate representative of GPH)		
Dongguan Weichiao Electronics Co., Ltd.	Chairman	Wang Chun-Tung (Corporate representative of GPH)	-	100%
	Director	Chung Ding-Chun (Corporate representative of GPH)		
	Director	Ko Chi-Yuan (Corporate representative of GPH)		
Anyuan Weijia Electronic Co., Ltd.	Director	Wang Chun-Tung	-	100%
Anyuan Weichangfeng Electronic Co., Ltd.	Director	Wang Chun-Tung	-	100%
Optima Healthcare Inc.	Chairman	Wang Chun-Tung (Representative of HEC)	19,229,750	59.49%
	Director	Ko Chi-Yuan (Representative of HEC)	19,229,750	59.49%
	Director	Li Li-Sheng (Representative of HEC)	19,229,750	59.49%
	Director	Chung Ding-Chun (Representative of HEC)	19,229,750	59.49%
	Supervisor	Li Ssu-Chia	0	0%
Loyalty Founder Enterprise Co., Ltd.	Chairman	Ko Chi-Yuan (Representative of HEC)	74,755,773	50.62%
	Director	Chung Ding-Chun (Representative of HEC)	74,755,773	50.62%
	Director	Li Li-Sheng (Representative of HEC)	74,755,773	50.62%
	Director	Wang Chun-Tung (Representative of HEC)	74,755,773	50.62%

Company name	Title	Name or representative	Shareholding	
			Number of shares	Shareholding (%)
	Director	Chen Ling-Hsuan (Representative of Tahua Investment)	1,323,247	0.09%
	Independent director	Huang Cheng-Chung	0	0%
	Independent director	Tang Li-Yu	0	0%
	Independent director	Chen Chieh-Shan	0	0%

2. Information of directors, supervisors and presidents of affiliates with investments from LFE:

2023.3.31

Company name	Title	Name or representative	Shareholding	
			Number of shares	Shareholdin g (%)
Axxion Group Corp.	Chairman	Loyalty Founder Enterprise Co., Ltd. Representative: Ko Chi-Yuan Wang Chun-Tung	354	100%
	President		-	-
Loyalty Founder Enterprise Corp.Ltd.	Director	Loyalty Founder Enterprise Co., Ltd. Representative: Ko Chi-Yuan Wang Chun-Tung	35,270,000	100%
Loyalty Founder Enterprise Co.(H.K.)Ltd.	Director	Loyalty Founder Enterprise Corp.Ltd. Representative: Ko Chi-Yuan Wang Chun-Tung	281,161,919	100%
Loyalty Founder Enterprise Company(D.G) Ltd.	Chairman	Loyalty Founder Enterprise Co. (H.K.) Ltd. Representative: Ko Chi-Yuan		
	Director	Chang Lien-Sheng	-	79.87%
	Director	Wang Chun-Tung	-	-
Axxion Mexico-LFE S.A. de C.V.	Chairman	Loyalty Founder Enterprise Co., Ltd. Representative: Ko Chi-Yuan	99,000	99%
	President	Wang Chun-Tung		

(V) Overview of operations of affiliates

1. Overview of operations of affiliates with investments from HEC

Company name	Capital	Total assets	Total liabilities	Net value	December 31, 2022		Unit: NTD thousand	
					Operating revenue	Operating profit	Profit/loss for the current period (after tax)	Earnings per share (NTD) (after tax)
WII	29,025	1,237,645	20,763	1,216,882	0	(36,993)	43,902	9,756.00
GSG	58,050	787,970	153,550	634,420	0	0	44,322	651.79
GVG	1,443	2,706	1,273	1,433	0	(30,748)	(28,680)	(573.60)
UCC	3,709	60,444	36,006	24,438	46,426	(19,299)	9,333	8,115.65
JCC	2,756	101,194	31,638	69,556	233,987	11,571	12,227	61,135.00
KCC	20,225	198	0	198	13,858	(8,465)	31,142	41.59
WSE	131,818	468,100	333,818	134,282	1,712,738	11,118	30,086	0.00
WCX	80,505	1,127,689	293,804	833,885	36,335	(4,694)	72,746	0.00
WYT (Shenzhen)	23,539	165,481	103,661	61,820	277,961	4,963	7,695	0.00
FCC	3,000	24,454	13,920	10,534	34,400	1,316	1,753	5.84
HIT	1,613	4,389	2,841	1,548	0	(39,358)	(39,343)	(786.86)
GTH	87,524	968,516	0	968,516	0	0	80,886	69.78
GPH	218,041	787,949	153,550	634,399	0	0	44,322	5.83
WSF	43,394	184,825	67,902	116,923	148,902	6,404	5,064	0.00
DWC	49,790	188,626	103,928	84,698	226,650	31,458	8,522	0.00
WJA	152,274	439,634	171,348	268,286	323,867	(5,954)	61	0.00
LFE	1,476,826	4,228,786	1,510,947	2,717,839	4,284,612	334,125	298,997	2.02
OPT	323,250	638,756	249,914	388,842	456,294	(9,812)	5,653	0.17
WCF	220,472	978,287	730,099	248,188	916,636	33,577	24,358	0.00

Note: The figures of foreign companies are translated at the exchange rate on December 31, 2021.

2. Overview of operations of affiliates with investments from LFE

Unit: NTD thousand; EPS unit: NTD December 31, 2022

Company name	Capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit	Profit/loss for the current period (after tax)	Earnings per share (after tax)
Axxion Group Corporation.	24	52,634	12,070	40,564	37,904	6,598	7,255	20,494
Loyalty Founder Enterprise Corp.Ltd.	1,142,035	1,692,193	5,377	1,686,816	0	(13,486)	162,749	4.75
Loyalty Founder Enterprise Co.(H.K.)Ltd.	1,087,362	372,353	0	372,353	0	0	174,933	0.62
Loyalty Founder Enterprise Company(D.G) Ltd.	1,953,205	3,327,029	1,274,228	2,052,801	4,183,579	204,619	218,830	0
Axxion Mexico-LFE S.A. de C.V.	2,793	2,825	8	2,817	0	(198)	(198)	0

II. Private placement of securities during the most recent year and as of the date of publication of the annual report:

None.

III. Shares of HEC held or disposed of by subsidiaries during the most recent year and as of the date of publication of the annual report:

None.

IV. Other additional information required:

None.

Nine. Occurrence of Events with a Significant Effect on Shareholders' Equity or Securities Price, as Defined under Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act:

None.

Appendix 1 Consolidated financial statements for the most recent year

Declaration on Consolidated Financial Report of Affiliates

For the year of 2022 (from January 1 to December 31, 2022), the companies which shall be included in the consolidated financial report of affiliates prepared in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those which shall be included in the consolidated financial report of the parent company and subsidiaries pursuant to IFRS 10, and the relevant information which shall be disclosed in the consolidated financial report of affiliates has been disclosed in the foregoing consolidated financial report of the parent company and subsidiaries. Therefore, no separate consolidated financial report of affiliates has been prepared.

Declared by:

Company name: Compucase Enterprise Co., Ltd.

Chairman: Wang Chun-Tung

March 23, 2023

CPA's Audit Report

To Compucase Enterprise Co., Ltd.:

We audited the consolidated balance sheets of Compucase Enterprise Co., Ltd. and its subsidiaries (“HEC Group”) as of December 31, 2022 and 2021, their consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the periods from January 1 to December 31, 2022 and 2021, and the notes to their consolidated financial statements (including the summary of material accounting policies).

According to the result of our audit, with respect to all material aspects, the foregoing consolidated financial statements were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, interpretations and pronouncements of interpretation approved and published by the Financial Supervisory Commission, and thus provided a fair presentation of the consolidated financial positions of HEC Group as of December 31, 2022 and 2021 and the consolidated financial performance and cash flows for the periods from January 1 to December 31, 2022 and 2021.

Basis of Audit Opinions

We conducted audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and relevant auditing standards. All personnel at our firm who are subject to independence requirements have, in accordance with the Standards of Professional Ethics for Certified Public Accountants, remained independent from HEC Group and have fulfilled all other responsibilities under the standards. We believe that we have acquired sufficient and appropriate audit evidence as the basis of our audit opinions.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of HEC Group and subsidiaries for 2022. Such matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinions thereon, we have not provided any separate opinion on these matters.

The following are the key audit matters in the consolidated financial statements of HEC Group for 2022:

Truthfulness of the recognition of revenues from certain customers

The main sources of revenues for HEC Group are revenues from the sales of computer chassis and power supplies. Its overall sales revenue in 2022 decreased from 2021, although the sales revenues from certain major customers saw significant growth. Therefore, in accordance with the requirement of the Statement of Auditing Standards that revenues be presumed as a significant risk, we have deemed the truthfulness of the recognition of the sales revenues from those certain customers to be a key audit matter.

The main audit procedures conducted by us include:

- I. Understanding and sample testing of the effectiveness of the design and implementation of internal controls related to the recognition of revenues.
- II. Sampling in the statements of sales revenues from certain customers and reviewing shipment certificates to confirm if such revenues have actually occurred.
- III. Reviewing samples of payment receipts to check if the payers match the purchasers.

Other Matters

HEC has prepared the parent-only financial statements for 2022 and 2021, with an unqualified audit report issued by us for reference.

Responsibilities of the Management and Governing Bodies for Consolidated Financial Statements

The management is responsible for preparing the financial statements with fair presentation in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, interpretations and pronouncements of interpretation approved and published by the Financial Supervisory Commission, and maintaining the necessary internal control related to preparation of the consolidated financial statements to ensure that the consolidated financial statements are free of material misstatement due to fraud or error.

During preparation of the consolidated financial statements, the management is also responsible for evaluating HEC Group's going concern ability, disclosure of relevant matters and application of the going concern basis of accounting, unless the management intends to liquidate or cease the operation of HEC Group, or there are no actually feasible solutions other than liquidation or cessation of operation.

The governing bodies (including the Audit Committee) of HEC Group are responsible for supervising the process of financial reporting.

Responsibilities of CPAs for the Audit of Consolidated Financial Statements

The purpose of our audit of the consolidated financial statements is to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements due to fraud or error, with an audit report issued thereafter. Reasonable assurance means a high degree of assurance. However, there is no guarantee that any material misstatement contained in the consolidated financial statements will be discovered during an audit conducted in accordance with relevant auditing standards. A misstatement may be due to fraud or error. A misstatement is deemed material if the individual or aggregate amount misstated is reasonably expected to affect economic decisions made by users of the consolidated financial statements.

We rely on our professional judgment and professional skepticism during an audit conducted in accordance with relevant auditing standards. We also perform the following tasks:

- I. We identify and assess the risk of misstatement in the consolidated financial statements due to fraud or error, design and implement appropriate measures in response to the assessed risk, and acquire sufficient and appropriate audit evidence as the basis of our audit opinions. Since fraud may involve collusion, forgery, intentional omission, fraudulent statement or violation of internal control, the risk of misstatement due to fraud is higher than that due to error.
- II. We acquire necessary understanding of the internal control related to an audit to design audit procedures appropriate for the current circumstances, provided that the purpose of the foregoing is not to express opinions regarding the effectiveness of the internal control of HEC Group.
- III. We assess the appropriateness of the accounting policies adopted by the management and the reasonableness of the accounting estimates and relevant disclosures made by the management.

- IV. We have drawn a conclusion about the appropriateness of the application of the going concern basis of accounting by the management and whether there is material uncertainty in an event or circumstances which may cast significant doubt about the ability of HEC Group to remain a going concern. If any material uncertainty is deemed to exist in such event or circumstance, we must provide a reminder in the audit report for the users of the consolidated financial statements to pay attention to the relevant disclosures therein, or revise our audit opinions when any such disclosure is inappropriate. Our conclusion is based on the audit evidence obtained as of the date of this audit report. However, future events or circumstances could result in a situation where HEC Group is no longer able to remain a going concern.
- V. We assess the overall presentation, structure and contents of the consolidated financial statements (including relevant notes) and whether the consolidated financial statements provide a fair presentation of the relevant transactions and events.
- VI. We acquire sufficient and appropriate audit evidence of the financial information of the entities forming HEC Group to provide opinions regarding the consolidated financial statements. We are responsible for guidance, supervision and implementation in relation to audit cases and for formation of audit opinions for HEC Group.

The matters for which we communicate with the governing bodies include the planned scope and time of audit, and our material audit findings (including the significant deficiencies of internal control identified during the audit).

We also provide a declaration to the governing bodies stating that our CPAs who are subject to independence requirements have complied with the independence requirements in the Standards of Professional Ethics for Certified Public Accountants, and we communicate with the governing bodies regarding all relationships and other matters (including relevant safeguard measures) which are deemed likely to affect the independence of CPAs.

The key audit matters in the audit of the consolidated financial statements of HEC Group and subsidiaries for 2022 have been determined by us from the matters regarding which we have communicated with the governing bodies. We have specified such matters in the audit report, except where public disclosure of certain matters is prohibited by applicable laws or regulations, or where, under very exceptional circumstances, we have decided not to cover communicate certain matters in the audit report due to the reasonable expectation that any negative effect arising from such communication would be greater than the public interest enhanced.

Deloitte Taiwan

CPA Wang Teng-Wei

CPA Li Chi-Chen

No. of Approval Document from the
Financial Supervisory Commission
Jin-Guan-Zheng-Shen-Zi No. 1100356048

No. of Approval Document from the
Securities and Futures Commission
Tai-Cai-Zheng-Liu-Zi No. 0920123784

March 23, 2023

CompuCase Enterprise Co., Ltd. And Subsidiaries

Consolidated Balance Sheet

December 31, 2022 and 2021

Unit: NTD thousand

Code	Asset	December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
1100	Cash and cash equivalents (Notes 4 and 6)	\$ 1,686,707	21	\$ 1,385,343	17
1110	Financial assets measured at fair value through profit/loss – current (Notes 4 and 7)	16,652	-	8,492	-
1136	Financial assets measured at amortized cost – current (Notes 4, 8 and 31)	47,706	1	177,038	2
1150	Notes receivable (Notes 4, 9 and 23)	110	-	616	-
1170	Accounts receivable (Notes 4, 9 and 23)	1,967,250	25	2,100,846	27
1200	Other receivables (Note 4)	122,297	2	134,266	2
1220	Current income tax assets (Notes 4 and 25)	103	-	64	-
130X	Inventory (Notes 4 and 10)	1,529,773	20	1,942,987	25
1410	Prepayments (Note 11)	345,856	4	311,837	4
1479	Other current assets	11,151	-	17,158	-
11XX	Total current assets	<u>5,727,605</u>	<u>73</u>	<u>6,078,647</u>	<u>77</u>
1535	Non-current assets				
1550	Financial assets measured at amortized cost – non-current (Notes 4 and 8)	440,944	6	-	-
1600	Investment under the equity method (Notes 4 and 13)	24,222	-	26,956	-
1755	Property, plant and equipment (Notes 4, 14 and 31)	1,306,419	17	1,441,468	18
1760	Right-of-use assets (Notes 4 and 15)	205,111	3	194,379	3
1805	Net investment property (Notes 4, 16 and 31)	53,741	1	54,648	1
1821	Goodwill (Note 4)	638	-	638	-
1840	Intangible assets (Notes 4 and 17)	9,542	-	10,981	-
1915	Deferred income tax assets (Notes 4 and 25)	34,585	-	33,520	1
1920	Prepayments for equipment	26,234	-	17,973	-
1975	Deposits paid	6,876	-	7,833	-
1990	Net defined benefit assets – non-current (Notes 4 and 21)	24,668	-	22,921	-
15XX	Other non-current assets	13,089	-	13,319	-
15XX	Total non-current assets	<u>2,146,069</u>	<u>27</u>	<u>1,824,636</u>	<u>23</u>
1XXX	Total assets	<u>\$ 7,873,674</u>	<u>100</u>	<u>\$ 7,903,283</u>	<u>100</u>
Code	Liabilities and equity				
2100	Current liabilities				
2110	Short-term loans (Notes 18 and 31)	\$ 1,630,000	21	\$ 1,732,000	22
2120	Short-term notes payable (Note 18)	-	-	74,967	1
2130	Financial liabilities measured at fair value through profit/loss – current (Notes 4 and 7)	120	-	-	-
2150	Contract liabilities – current (Notes 4 and 23)	137,566	2	92,557	1
2170	Notes payable (Note 19)	-	-	76	-
2180	Accounts payable (Note 19)	1,179,462	15	1,426,202	18
2219	Accounts payable – related parties (Notes 19 and 30)	10,427	-	22,920	-
2230	Other payables (Note 20)	696,994	9	614,551	8
2250	Current income tax liabilities (Notes 4, 5 and 25)	245,432	3	212,964	3
2280	Liability provision – current (Note 4)	6,181	-	4,561	-
2399	Lease liabilities – current (Notes 4 and 15)	33,790	-	29,516	-
21XX	Other current liabilities	38,600	-	25,893	-
21XX	Total current liabilities	<u>3,978,572</u>	<u>50</u>	<u>4,236,207</u>	<u>53</u>
2570	Non-current liabilities				
2580	Deferred income tax liabilities (Notes 4, 5 and 25)	6,323	-	7,167	-
2640	Lease liabilities – non-current (Notes 4 and 15)	50,574	1	47,670	1
2645	Net defined benefit liabilities – non-current (Notes 4 and 21)	7,791	-	8,205	-
25XX	Deposits received	1,175	-	748	-
25XX	Total non-current liabilities	<u>65,863</u>	<u>1</u>	<u>63,790</u>	<u>1</u>
2XXX	Total liabilities	<u>4,044,435</u>	<u>51</u>	<u>4,299,997</u>	<u>54</u>
3100	Equity attributable to owners of LFE (Notes 4, 22 and 27)				
3200	Share capital	<u>1,132,856</u>	<u>14</u>	<u>1,132,856</u>	<u>14</u>
3200	Capital reserves	<u>425,456</u>	<u>6</u>	<u>425,456</u>	<u>6</u>
3310	Retained earnings				
3320	Legal reserves	462,810	6	433,734	5
3350	Special reserves	325,826	4	302,988	4
3350	Undistributed earnings	591,666	8	518,213	7
3300	Total retained earnings	<u>1,380,302</u>	<u>18</u>	<u>1,254,935</u>	<u>16</u>
3400	Other equity	(254,240)	(3)	(325,826)	(4)
3500	Treasury stocks	(59,102)	(1)	-	-
31XX	Total equity of owners of HEC	<u>2,625,272</u>	<u>34</u>	<u>2,487,421</u>	<u>32</u>
36XX	Non-controlling interest (Note 22)	<u>1,203,967</u>	<u>15</u>	<u>1,115,865</u>	<u>14</u>
3XXX	Total equity	<u>3,829,239</u>	<u>49</u>	<u>3,603,286</u>	<u>46</u>
	Total liabilities and equity	<u>\$ 7,873,674</u>	<u>100</u>	<u>\$ 7,903,283</u>	<u>100</u>

The notes attached hereto constitute part of this consolidated financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

CompuCase Enterprise Co., Ltd. And Subsidiaries
Consolidated Statement of Comprehensive Income
January 1 to December 31, 2022 and 2021

Unit: NTD thousand; Earnings per share (EPS): NTD

Code		2022		2021	
		Amount	%	Amount	%
4100	Operating revenue (Notes 4 and 23)	\$ 6,375,442	100	\$ 8,293,189	100
5110	Operating cost (Notes 10, 24 and 30)	5,011,069	78	6,713,833	81
5900	Gross operating profit	1,364,373	22	1,579,356	19
	Operating expense (Notes 9 and 24)				
6100	Marketing expense	395,971	6	475,956	6
6200	Management expense	351,213	6	396,683	5
6300	R&D expense	127,922	2	235,011	3
6450	Expected credit loss	8,816	-	22,463	-
6000	Total operating expenses	883,922	14	1,130,113	14
6900	Net operating profit	480,451	8	449,243	5
	Non-operating revenues and expenses (Notes 4, 13 and 24)				
7100	Interest income	24,479	-	18,873	-
7010	Other incomes	68,790	1	85,086	1
7020	Other profits and losses	92,348	1	(14,041)	-
7050	Financial cost	(22,233)	-	(19,003)	-
7060	Share of profits/losses of associates accounted for using the equity method	(3,372)	-	159	-
7000	Total non-operating revenues and expenses	160,012	2	71,074	1
7900	Pre-tax net profit	640,463	10	520,317	6
7950	Income tax expenses (Notes 4, 5 and 25)	133,123	2	137,767	1
8200	Net profit in the current year	507,340	8	382,550	5
	Other comprehensive income (Notes 13, 21, 22 and 25)				
8310	Items not reclassified as profit or loss:				
8311	Remeasurement of defined benefits plans	2,010	-	271	-
8316	Unrealized valuation profit/loss on investments in equity instruments measured at fair value through other comprehensive income	-	-	1,756	-

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Code		2022		2021	
		Amount	%	Amount	%
8349	Income tax related to items not reclassified	(\$ 402)	—	(\$ 54)	—
		1,608	—	1,973	—
8360	Items likely to be subsequently reclassified as profit or loss:				
8361	Exchange differences on translation of financial statements of foreign operations	85,481	1	(34,503)	(1)
8370	Share of other comprehensive income of associates accounted for using the equity method	638	-	(256)	-
8399	Income tax related to items likely to be reclassified	(483)	—	(99)	—
		85,636	1	(34,858)	(1)
8300	Other comprehensive income (net after-tax) in the current year	87,244	1	(32,885)	(1)
8500	Total comprehensive income in the current year	\$ 594,584	9	\$ 349,665	4
	Net profit attributable to:				
8610	Owners of HEC	\$ 368,776	6	\$ 296,754	4
8620	Non-controlling interest	138,564	2	85,796	1
8600		\$ 507,340	8	\$ 382,550	5
	Total comprehensive income attributable to:				
8710	Owners of HEC	\$ 441,339	7	\$ 267,921	3
8720	Non-controlling interest	153,245	2	81,744	1
8700		\$ 594,584	9	\$ 349,665	4
	EPS (Note 26)				
9750	Basic	\$ 3.28		\$ 2.63	
9850	Diluted	3.24		2.60	

The notes attached hereto constitute part of this consolidated financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

Compucase Enterprise Co., Ltd. And Subsidiaries
 Consolidated Statement of Changes in Equity
 January 1 to December 31, 2022 and 2021

Unit: NTD thousand
 (EPS unit: NTD)

Code		Equity attributable to owners of HEC											
		Retained earnings						Other equity					
		Share capital	Capital reserves	Legal reserves	Special reserves	Undistributed earnings	Exchange differences on translation of financial statements of foreign operations	Unrealized profit/loss on financial assets measured at fair value through other comprehensive income	Total other equity	Treasury stocks	Total	Non-controlling interest	Total equity
A1	January 1, 2021	\$1,132,856	\$ 374,186	\$ 387,146	\$ 337,959	\$ 590,256	(\$ 229,733)	(\$ 73,255)	(\$ 302,988)	(\$ 79,885)	\$2,439,530	\$1,208,335	\$3,647,865
	Allocation and distribution of earnings in 2020 (Note 22)												
B1	Legal reserves	—	—	46,588	—	(46,588)	—	—	—	—	—	—	—
B3	Special reserves	—	—	—	(34,971)	34,971	—	—	—	—	—	—	—
B5	Cash dividends – NTD3.1 per share	—	—	—	—	(351,185)	—	—	—	—	(351,185)	—	(351,185)
D1	Net profit in 2021	—	—	—	—	296,754	—	—	—	—	296,754	85,796	382,550
D3	Other after-tax comprehensive income in 2021	—	—	—	—	100	(30,689)	1,756	(28,933)	—	(28,833)	(4,052)	(32,885)
D5	Total comprehensive income in 2021	—	—	—	—	296,854	(30,689)	1,756	(28,933)	—	267,921	81,744	349,665
N1	Share-based payment (Notes 4 and 27)	—	51,270	—	—	—	—	—	—	79,885	131,155	—	131,155
O1	Decrease in non-controlling interest (Note 22)	—	—	—	—	—	—	—	—	—	—	(174,214)	(174,214)
Q1	Disposal of equity instruments measured at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—	—	—
Z1	Balance on December 31, 2021	1,132,856	425,456	433,734	302,988	(518,213)	(260,422)	(65,404)	(325,826)	—	2,487,421	1,115,865	3,603,286
	Allocation and distribution of earnings in 2021 (Note 22)												
B1	Legal reserves	—	—	29,076	—	(29,076)	—	—	—	—	—	—	—
B3	Special reserves	—	—	—	22,838	(22,838)	—	—	—	—	—	—	—
B5	Cash dividends – NTD2.0 per share	—	—	—	(226,571)	—	—	—	—	—	(226,571)	—	(226,571)
D1	Net profit in 2022	—	—	—	—	368,776	—	—	—	—	368,776	138,564	507,340
D3	Other after-tax comprehensive income in 2022	—	—	—	—	977	71,586	—	71,586	—	72,563	14,681	87,244
D5	Total comprehensive income in 2022	—	—	—	—	369,753	71,586	—	71,586	—	441,339	153,245	594,584
C17	Remuneration cost for share-based payment (Notes 4 and 27)	—	—	—	—	—	—	—	—	—	—	1,988	1,988
L1	Purchase of treasury stocks (Notes 4 and 22)	—	—	—	—	—	—	—	—	(59,102)	(59,102)	—	(59,102)
M5	Actually acquired partial equity of subsidiaries (Notes 12 and 22)	—	—	—	—	(17,815)	—	—	—	—	(17,815)	17,815	—
O1	Decrease in non-controlling interest (Note 22)	—	—	—	—	—	—	—	—	—	—	(84,946)	(84,946)
Z1	Balance on December 31, 2022	\$1,132,856	\$ 425,456	\$ 462,810	\$ 325,826	\$ 591,666	(\$ 188,836)	(\$ 65,404)	(\$ 254,240)	(\$ 59,102)	\$2,625,272	\$1,203,967	\$3,829,239

The notes attached hereto constitute part of this consolidated financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

Compucase Enterprise Co., Ltd. And Subsidiaries

Consolidated Statement of Cash Flows

January 1 to December 31, 2022 and 2021

Unit: NTD thousand

Code		2022	2021
	Cash flow from operating activities		
A10000	Pre-tax net profit in the current year	\$ 640,463	\$ 520,317
A20010	Profits, expenses and losses:		
A20100	Depreciation expense	279,911	385,434
A20200	Amortization expense	2,873	3,977
A20300	Expected credit loss	8,816	22,463
A20400	Net loss (profit) on financial assets and liabilities measured at fair value through profit or loss	(8,872)	8,588
A20900	Financial cost	22,233	19,003
A21200	Interest income	(24,479)	(18,873)
A21900	Remuneration cost for share-based payment	1,988	51,478
A22300	Share of losses (profits) of associates accounted for using the equity method	3,372	(159)
A22500	Loss (profit) on disposal of property, plant and equipment	(166)	9,069
A30000	Net changes in operating assets and liabilities		
A31130	Notes receivable	506	1,610
A31150	Accounts receivable	124,775	746,708
A31180	Other receivables	19,027	(37,583)
A31200	Inventory	435,824	(370,732)
A31230	Prepayments	(34,019)	22,662
A31240	Other current assets	6,007	4,459
A32125	Contract liabilities	45,009	(54,968)
A32130	Notes payable	(76)	(34,216)
A32150	Accounts payable (including related parties)	(240,645)	(832,561)
A32180	Other payables	96,276	(26,148)
A32200	Liability provision – current	1,620	(2,408)
A32230	Other current liabilities	12,707	838
A32240	Net defined benefit liabilities	(396)	(3,653)
A33000	Cash generated from operations	1,392,754	415,305
A33100	Interest received	17,421	20,101
A33300	Interest paid	(22,684)	(19,174)
A33500	Income tax paid	(102,760)	(156,395)
AAAA	Net cash inflow from operating activities	<u>1,284,731</u>	<u>259,837</u>
	Cash flow from investing activities		
B00020	Disposal of financial assets measured at fair value through other comprehensive income	-	83,990
B00040	Acquisition of financial assets measured at amortized cost	(631,004)	(170,211)

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Code		2022	2021
B00050	Disposal of financial assets measured at amortized cost	\$ 318,259	\$ -
B00100	Acquisition of financial assets measured at fair value through profit/loss	(83,967)	-
B00200	Disposal of financial assets measured at fair value through profit/loss	84,852	-
B02700	Acquisition of property, plant and equipment	(110,963)	(263,273)
B02800	Proceeds from disposal of property, plant and equipment	15,630	15,958
B03700	Increase in deposits paid	(4,592)	(3,219)
B03800	Decrease in deposits paid	5,721	10,446
B04500	Acquisition of intangible assets	(1,237)	(1,354)
B06700	Increase in other non-current assets	-	(656)
B06800	Decrease in other non-current assets	230	-
B07100	Increase in prepayments for equipment	(8,688)	-
BBBB	Net cash outflow from investing activities	(415,759)	(328,319)
Cash flow from fundraising activities			
C00100	Increase in short-term loans	4,512,423	3,688,581
C00200	Decrease in short-term loans	(4,614,423)	(3,998,141)
C00500	Increase in short-term notes payable	66,910	168,588
C00600	Decrease in short-term notes payable	(141,877)	(308,528)
C03000	Increase in deposits received	758	-
C03100	Return of deposits received	(332)	(2,478)
C04020	Repayment of principal of lease	(33,079)	(45,689)
C04500	Distribution of cash dividends	(226,571)	(351,185)
C04900	Cost of repurchase of treasury stocks	(59,102)	-
C05100	Transfer of treasury stocks to employees	-	79,677
C05800	Decrease in non-controlling interest	(84,946)	(174,214)
CCCC	Net cash outflow from fundraising activities	(580,239)	(943,389)
DDDD	Effect of changes in exchange rate on cash and cash equivalents	12,631	(19,420)
EEEE	Increase (Decrease) in cash and cash equivalents	301,364	(1,031,291)
E00100	Starting balance of cash and cash equivalents	1,385,343	2,416,634
E00200	Ending balance of cash and cash equivalents	\$ 1,686,707	\$ 1,385,343

The notes attached hereto constitute part of this consolidated financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

Compucase Enterprise Co., Ltd. And Subsidiaries
Notes to Consolidated Financial Report
January 1 to December 31, 2022 and 2021
(All amounts are in NTD thousand unless otherwise specified)

I. History of HEC

Compucase Enterprise Co., Ltd. (hereinafter “HEC”) was founded in February 1979. Originally named Compucase Enterprise Company, it changed to the current name in August 2000. The scope of its primary business includes the manufacturing, processing, sales, import and export of power supplies and the finished goods and components of computer products.

In April 2001, the stocks of HEC were approved for listing and trading at the Taipei Exchange. In August 2002, they were approved for transferring to the Taiwan Stock Exchange for listing and trading.

This consolidated financial report is presented in NTD, our functional currency.

II. Date and procedures of approval of the financial report

This consolidated financial report was approved by the Board of Directors on March 23, 2023.

III. Application of new and amended standards and interpretations

(I) The International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations (of IFRIC) and pronouncements of interpretation (of SIC) (hereinafter “IFRSs”), which have been approved and published by the Financial Supervisory Commission (hereinafter “FSC”), have been applied for the first time.

Application of the amended IFRSs which have been approved and published by the FSC is unlikely to cause any material change to the accounting policies of the consolidated company.

(II) FSC-approved IFRSs applicable in 2023

New/Amended/Revised standards and interpretations	Effective date published by the IASB
Amendments to IAS 1 – “Disclosure of Accounting Policies”	January 1, 2023 (Note 1)
Amendment to IAS 8 – “Definition of Accounting Estimates”	January 1, 2023 (Note 2)
Amendment to IAS 12 – “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 3)

Note 1: The amendment is applicable during the annual reporting period beginning from January 1, 2023.

Note 2: The amendment is applicable to changes in accounting estimates and policies occurring during the annual reporting period beginning from January 1, 2023.

Note 3: Except for recognizing deferred tax for temporary differences related to leases and decommissioning obligations on January 1, 2022, the amendment is applicable to transactions occurring on or after January 1, 2022.

As of the date of approval and publication of this consolidated financial report, the consolidated company has assessed that the amendments to the standards and interpretations above are unlikely to have any significant effect on the financial condition and performance.

(III) IFRSs published by the IASB which have not been approved and published by the FSC

New/Amended/Revised standards and interpretations	Effective date published by the IASB (Note 1)
Amendments to IFRS 10 and IAS 28 – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	TBD
Amendment to IFRS 16 – “Lease Liability in a Sale and Leaseback”	January 1, 2024 (Note 2)
IFRS 17 – “Insurance Contracts”	January 1, 2023
Amendment to IFRS 17	January 1, 2023
Amendment to IFRS 17 – “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”	January 1, 2023
Amendment to IAS 1 – “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendment to IAS 1 – “Non-current Liabilities with Covenants”	January 1, 2024

Note 1: Unless otherwise specified, each of the new/amended/revised standards or interpretations above shall come into effect during the annual reporting periods beginning from its relevant date.

Note 2: The amendment to IFRS 16 shall be applied retroactively by sellers and lessees to sale and leaseback transactions for which contracts have been signed after the date of first application of IFRS 16.

As of the date of approval and publication of this consolidated financial report, the consolidated company has continued to assess the effect of the amendments to other standards and interpretations on the financial condition and performance. The relevant effect will be disclosed after completion of the assessment.

IV. Summary of material accounting policies

(I) Statement of compliance

This consolidated financial report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs which have been approved and published by the FSC.

(II) Basis of preparation

Except for financial instruments measured at fair value and net defined benefit assets (liabilities) recognized at the present value of defined benefit obligations less the fair value of plan assets, this consolidated financial report has been prepared on the basis of historical cost.

For fair value measurements, the inputs are categorized into Level 1, 2, and 3 based on their observability and priority:

1. Level 1 inputs: Quoted prices in active markets for identical assets or liabilities accessible on the measurement date (unadjusted).
2. Level 2 inputs: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e. the price) or indirectly (i.e. deriving from the price).
3. Level 3 inputs: Unobservable inputs for the asset or liability.

(III) Criteria for classification of assets and liabilities as current and non-current

Current assets include:

1. assets held primarily for the purpose of trading;
2. assets expected to be realized within 12 months after the balance sheet date; and
3. cash and cash equivalents (excluding those restricted to be used for exchange or settlement of liabilities within 12 months after the balance sheet date).

Current liabilities include:

1. liabilities held primarily for the purpose of trading;
2. liabilities maturing for settlement within 12 months after the balance sheet

date; and

3. liabilities whose settlement cannot be unconditionally deferred for at least 12 months after the balance sheet date.

Assets or liabilities other than those classified above as current are classified as non-current.

(IV) Basis of consolidation

This consolidated financial report includes the financial reports of HEC and the entities controlled by HEC (subsidiaries). The financial reports of subsidiaries have been adjusted to ensure their accounting policies are consistent with those of the consolidated company. All transactions, account balances, profits, expenses and losses between entities have been eliminated during preparation of the consolidated financial report. The total comprehensive income of a subsidiary is attributable to the owners of HEC and non-controlling interests, even when non-controlling interests become a loss balance as a result.

Changes in the ownership interest of the consolidated company in a subsidiary that do not result in a loss of control are treated as equity transactions. The carrying amount of the consolidated company and non-controlling interests have been adjusted to reflect changes in their relative equity in the subsidiary. The difference between the adjusted amount of non-controlling interests and the fair value of considerations paid or received is directly recognized in equity and attributable to the owners of HEC.

For the details, shareholdings and scope of business of subsidiaries, see Note 12 and Tables 6 and 7.

(V) Foreign currency

For each entity preparing a financial report, a transaction in a currency other than the functional currency (a foreign currency) of the entity has been recorded by translating that currency into its functional currency at the exchange rate on the date of the transaction.

Foreign currency monetary items are translated at the closing rate on each balance sheet date. Exchange differences arising from the settlement or translation of monetary items are recognized in profit or loss of the year in which they arise.

Foreign currency non-monetary items measured at fair value are translated at the exchange rate on the date when the fair values were determined, with the resulting exchange differences recognized in profit/loss of the current year. Exchange differences arising from fair value changes recognized in other comprehensive income are recognized in other comprehensive income.

Foreign currency non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction without being retranslated.

In preparing the consolidated financial report, the assets and liabilities of foreign operations (including subsidiaries and associates whose countries of operation are different from those of HEC or which use currencies different from those used by HEC) are translated into NTD at the exchange rate on each balance sheet date. Profit, expense and loss items are translated at the average exchange rate in the current period, and the resulting exchange differences are recognized in other comprehensive income (and attributable to the owners of HEC and non-controlling interests).

(VI) Inventory

Inventories include raw materials, work in process, finished goods and goods. Inventories are measured at the lower of cost and net realizable value. Costs and net realizable values, except for inventories of the same category, are compared on an item-by-item basis. Net realizable value means the estimated selling price in the ordinary course of business, less the estimated cost necessary to complete the sale.

The cost of inventories is calculated using the weighted average method.

(VII) Investments in associates

An associate means a company other than a subsidiary, over which the consolidated company has significant influence.

The consolidated company uses the equity method to account for investments in associates.

Under the equity method, the investment in an associate is initially recognized at cost, and the carrying amount is increased or decreased with the consolidated company's share of the profit/loss and other comprehensive income of and the

profit distributed from the associate after the date of acquisition. Moreover, changes in the consolidated company's share of the equity of an associate are recognized in proportion to its shareholding.

If the consolidated company's share of losses of an associate equals or exceeds its equity in the associate (including the carrying amount of investment in the associate under the equity method and other long-term equity de facto constituting part of the net investment of the consolidated company in the associate), it will discontinue recognizing further losses. The consolidated company recognizes additional losses and liabilities only to the extent where it has incurred legal or constructive obligations or made payments on behalf of the associate.

In evaluating impairment, we treat the entire carrying amount of investment (including goodwill) as a single asset and compare it with the recoverable and carrying amounts for an impairment test. Any impairment loss recognized is not allocated to any asset constituting part of the carrying amount of investment (including goodwill). Any reversal of impairment loss is recognized to the extent of a subsequent increase in the recoverable amount of the investment.

Profits or losses arising from upstream, downstream and side-stream transactions between the consolidated company and an associate are recognized in the consolidated financial report only to the extent where such profits or losses do not involve the equity of the consolidated company in the associate.

(VIII) Property, plant and equipment

Property, plant and equipment are initially recognized at cost and subsequently measured at cost less accumulated depreciation.

Property, plant and equipment under construction is recognized at cost less accumulated impairment losses. The cost includes professional service fees and the loan costs eligible for capitalization. Such assets will be classified to an appropriate category under property, plant and equipment and start to be accounted for in depreciation when they are completed and ready for their intended use.

Private land is not accounted for in depreciation.

Each significant part of property, plant and equipment is separately accounted for in depreciation on a straight line basis over its useful life. We review the

estimated useful life, the residual value and the depreciation method at least at the end of each year and prospectively account for the effect of the application of changes in accounting estimates.

For derecognition of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

(IX) Investment property

Investment property means property held for earning rents or capital appreciation or for both purposes. It also includes land held for currently undetermined future use.

Private investment property is initially measured at cost (including transaction cost) and subsequently measured at cost less accumulated depreciation and impairment losses.

Investment property is accounted for in depreciation on a straight-line basis.

(X) Goodwill

Goodwill acquired through business merger is measured with the amount of goodwill recognized on the date of acquisition as cost and subsequently at cost less accumulated impairment loss.

For the purpose of impairment testing, goodwill is allocated to each cash generating unit or group of cash generating units (hereinafter “cash generating unit”) expected by the consolidated company to benefit from the consolidated synergy.

An impairment test is conducted on a cash generating unit of allocated goodwill each year (and whenever there is any sign of possible impairment to the unit) by comparing the carrying amount of the unit including goodwill with its recoverable amount. Where the recoverable amount of a cash generating unit of allocated goodwill is lower than its carrying amount, the impairment loss will first decrease the carrying amount of the unit and then decrease the carrying amount of each of other assets in the unit based on the percentage of such amount. Any impairment loss will be directly recognized as loss of the current period.

Impairment losses on goodwill may not be reversed in the subsequent period.

(XI) Intangible assets

Any individually acquired intangible asset with a limited useful life is initially measured at cost and subsequently measured at cost less accumulated amortization. An intangible asset is amortized on a straight line basis over its useful life. The consolidated company reviews the estimated useful life, the residual value and the amortization method at least at the end of each year and prospectively account for the effect of the application of changes in accounting estimates.

For derecognition of any intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit/loss of the current year.

(XII) Impairment of property, plant and equipment, right-of-use assets, investment property and intangible assets

The consolidated company assesses whether there is any sign of possible impairment of property, plant and equipment, right-of-use assets, investment property and intangible assets (excluding goodwill) on each balance sheet date. If any such sign of impairment exists, the recoverable amount of the asset is estimated. If the recoverable amount of an asset is not estimable, the consolidated company estimates the recoverable amount of the cash generating unit of the asset.

The recoverable amount is the higher of the fair value less costs of sale and the value in use. If the recoverable amount of an asset or cash generating unit is less than its carrying amount, the carrying amount of the asset or cash generating unit is decreased to its recoverable amount, with impairment losses recognized in profit/loss.

Where impairment losses are reversed subsequently, the carrying amount of the asset and cash generating unit is increased to the revised recoverable amount, provided that the increased carrying amount does not exceed the carrying amount (less amortization or depreciation) of the asset and cash generating unit determined under the assumption that impairment losses were not recognized in prior years.

Reversal of impairment losses is recognized in profit or loss.

(XIII) Financial instruments

Financial assets and liabilities are recognized in the consolidated balance sheet when the consolidated company becomes a party to the contractual provisions of

the instrument.

For initial recognition of financial assets and liabilities, if financial assets or liabilities are not measured at fair value through profit or loss, they are measured at fair value plus transaction costs directly attributable to acquisition or issuance of financial assets or liabilities. Transaction costs directly attributable to acquisition or issuance of financial assets or liabilities measured at fair value through profit or loss are immediately recognized in profit or loss.

1. Financial assets

Regular transactions of financial assets are recognized and derecognized using the transaction date accounting method.

(1) Types of measurement

The consolidated company holds the following types of financial assets: Financial assets measured at fair value through profit or loss; financial assets measured at amortized cost; and investments in equity instruments measured at fair value through other comprehensive income.

A. Financial assets measured at fair value through profit/loss

Financial assets measured at fair value through profit or loss are measured at fair value, and their remeasurement profits or losses are recognized in other profits and losses. For the method used to determine fair value, see Note 29.

B. Financial assets measured at amortized cost

If the investments of the consolidated company in financial assets meet the following two criteria, they are classified as financial assets measured at amortized cost:

- a. Such investments are held under an operating model with the purpose of holding financial assets to receive contractual cash flows; and
- b. the cash flows generated by contractual provisions on specified dates are solely for the purpose of paying principal and interest on outstanding principal.

On initial recognition, financial assets measured at amortized cost (including cash and cash equivalents, notes receivable measured at amortized cost, accounts receivable, other

receivables and guarantee deposits paid) are measured at the total carrying amount determined using the effective interest method less the amortized cost of any impairment loss, and any profit or loss on foreign currency exchange is recognized in profit or loss.

Interest income is calculated as the effective interest rate multiplied by the total carrying amount of financial assets, except under the following two circumstances:

- a. For any credit-impaired financial assets purchased or originated, the interest income is calculated as the credit-adjusted effective interest rate multiplied by the amortized cost of the financial assets.
- b. For any financial assets which are not credit-impaired on purchase or origination but subsequently become credit-impaired, the interest income is calculated as the effective interest rate multiplied by the amortized cost of the financial assets in the reporting period after such credit impairment.

A credit-impaired financial asset means that the issuer or debtor has incurred significant financial difficulties or defaulted, that the debtor is likely to file for bankruptcy or other financial reorganization, or that the active market of the financial asset has disappeared due to financial difficulties.

Cash equivalents include highly liquid term deposits and bonds with conditions for repurchase that are readily convertible to known amounts of cash with an insignificant risk of changes in value within 3 months from the date of acquisition and are used to meet short-term cash commitments.

(2) Impairment of financial assets

The consolidated company assesses the impairment losses on financial assets (including accounts receivable) measured at amortized cost based on expected credit losses on each balance sheet date.

A loss allowance on accounts receivable is recognized at full lifetime expected credit losses. For other financial assets, we first assess whether the credit risk has significantly increased after initial

recognition. In the absence of such significant increase, the loss allowance is recognized at the 12-month expected credit losses. Where there is such significant increase, the loss allowance is recognized at full lifetime expected credit losses.

Expected credit losses are weighted average credit losses with the risks of a default occurring as the weightings. The 12-month expected credit losses represent the expected credit losses on a financial instrument resulting from possible default events within 12 months after the reporting date. Full lifetime expected credit losses represent the expected credit losses on a financial instrument from all possible default events over the life of the financial instrument. For the purpose of internal credit risk management, the consolidated company determines that a default has occurred on financial assets under any of the following circumstances without considering the collateral it holds:

- A. Any internal or external information has indicated the debtor is unable to pay off debts.
- B. The age of accounts has exceeded 365 days, unless any reasonable and provable information indicates that a deferred criteria for default is more appropriate.

Impairment losses on all financial assets are accounted for by decreasing their carrying amounts through allowance accounts.

(3) Derecognition of financial assets

The consolidated company derecognizes a financial asset only when the contractual rights on cash flows from the asset become invalid, or when the asset has been transferred and substantially all of the risks and returns of ownership of the asset have been transferred to other companies.

For derecognition of a financial asset measured at amortized cost in its entirety, the difference between its carrying amount and the consideration received is recognized in profit/loss.

2. Equity instruments

Equity instruments issued by the consolidated company are recognized at the amount of the proceeds acquired less the cost of direct issuance.

The reacquisition of the consolidated company's own equity instruments is recognized in and deducted from equity, with its carrying amount calculated at weighted average by share type. The purchase, sale, issuance or cancellation of our own equity instruments is not recognized in profit/loss.

3. Financial liabilities

(1) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

(2) Derecognition of financial liabilities

For derecognition of a financial liability, the difference between its carrying amount and the consideration paid (including any non-cash asset transferred or any liability assumed) is recognized in profit/loss.

4. Derivative instruments

The derivative instruments concluded by the consolidated company are forward foreign exchange contracts used to manage its exchange rate risks. At the time of conclusion of a derivative instrument contract, the derivative instrument is initially recognized at fair value and subsequently remeasured at fair value on the balance sheet date. A derivative instrument whose fair value is positive is recognized in financial assets, while that whose fair value is negative is recognized in financial liabilities.

(XIV) Liability provision

An amount recognized as liability provision is an optimal estimate of expenses required for the settlement obligations on the balance sheet date, taking into account the risk and uncertainty of the obligations. A liability provision is measured at the estimated discounted value of cash flows of settlement obligations.

The obligation to warrant that products conform with the agreed specifications is recognized upon recognition of the revenue from relevant goods based on an optimal estimate by the management of expenses required for the obligation of settlement of the consolidated company.

(XV) Recognition of revenue

Once the consolidated company has identified the performance obligations in the contract with a customer, it allocates the transaction price to each performance obligation and recognize revenue after satisfying each performance obligation.

The revenue from sales of goods is generated through the sales of computer and server chassis, power supplies, associated computer peripherals and medical devices. At the time of fulfillment of the trading terms of products, the customer already possesses the right to price and use the goods, assumes the primary responsibility to resell them, and bears the risk of the goods being out of date. Therefore, the consolidated company recognizes revenue and accounts receivable at that point in time. The sales revenue is measured at the fair value of the transaction consideration agreed by HEC and the customer (after taking into account commercial and quantity discounts), and any payment received for goods is recognized in refund liabilities if such payment is expected to be refunded to the customer due to any discount or other allowance, while payments received in advance for sales of goods are recognized as contract liabilities.

In the case of exporting materials for processing, control over the ownership of processed goods is not transferred, and revenue is not recognized at the time of export.

(XVI) Leases

The consolidated company assesses whether a contract is (or contains) a lease on the date of conclusion of the contract.

1. The consolidated company is the lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership of the asset to the lessee. All other leases are classified as operating leases. Under an operating lease, lease payments are recognized in profit on a straight-line basis over the relevant lease term.

2. The consolidated company is the lessee

Except that the lease payments for leases of low-value underlying assets and short-term leases to which the recognition exemption applies are recognized in expense on a straight-line basis over the lease term, other

leases are recognized in right-of-use assets and lease liabilities on the lease commencement date.

Right-of-use assets are initially measured at cost (at the initially measured amount of lease liabilities) and subsequently measured at cost less accumulated depreciation, with adjusted remeasurement of lease liabilities.

Right-of-use assets are separately presented in the balance sheet.

Right-of-use assets are accounted for in depreciation on a straight-line basis over the period from the lease commencement date to the earlier of the date of expiration of the useful life or the lease term.

Lease liabilities are initially measured at the present value of lease payments. If the interest rate implicit in a lease can be readily determined, the lease payments are discounted at the interest rate. Where such interest rate cannot be readily determined, the lessee's incremental borrowing rate is used.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, and interest expenses are amortized over the lease term. The consolidated company remeasures lease liabilities and adjusts right-of-use assets accordingly. If the carrying amount of right-of-use assets is reduced to zero, the remaining remeasured amount is recognized in profit/loss. Lease liabilities are separately presented in the consolidated balance sheet.

(XVII) Loan cost

Loan cost directly attributable to the acquisition, construction or production of any asset that meets the criteria will remain part of the cost of the asset until nearly all activities necessary for the asset to become available for its intended use or sale are completed.

Investment income earned from any temporary investment using any specific loan prior to the occurrence of capital expenditure that meets the criteria will be deducted from loan cost that meets the requirements for capitalization.

All loan costs other than the above will be recognized as profit/loss in the period of occurrence.

(XVIII) Employee benefits

1. Short-term employee benefits

Liabilities related to short-term employee benefits are measured at the undiscounted amount expected to be paid for services rendered by employees.

2. Post-employment benefits

Under a defined contribution plan, pensions are recognized in expense as the amount of pension contribution payable during the period when services are rendered by employees.

Under a defined benefit plan, defined benefit costs (including servicing costs, net interest and remeasurement) are calculated actuarially using the projected unit credit method. The current service cost and net interest on net defined benefit liabilities (assets) are recognized as employee benefit expenses at the time of their occurrence. Remeasurement (including actuarial profit/loss and return on plan assets less interest) is recognized as other comprehensive income and in retained earnings at occurrence, and is not subsequently reclassified as profit/loss.

Net defined benefit liabilities (assets) are a deficit (surplus) in the contribution to a defined benefit plan. Net defined benefit assets must not exceed the present value of contributions refunded from the plan or the reducible amount of future contributions.

(XIX) Employees' stock options

Employees' stock options granted to employees

Employees' stock options are recognized in expenses on a straight-line basis over the vesting period based on the fair value of equity instruments on the grant date and the optimal estimated amount expected to vest, with an adjustment to capital reserves/non-controlling interests at the same time. For the transfer of treasury stocks to any employee by HEC, the grant date is the date when the number of shares purchased by the employee is confirmed.

On each balance sheet date, the consolidated company revises the estimated amount of employees' stock options expected to vest. In the event of any revision to the original estimated amount, its effect is recognized in profit/loss for the revised estimated amount to be reflected in the cumulative expense, with a relative

adjustment to non-controlling interests.

(XX) Income tax

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

1. Current income tax

The consolidated company determines the current income (loss) in accordance with the laws enacted by the jurisdiction in which it files its income tax return to calculate the income tax payable (recoverable).

The additional income tax levied on undistributed earnings calculated in accordance with the Income Tax Act of the Republic of China (Taiwan) is recognized in the year when the related resolution is adopted by a shareholders' meeting.

Adjustments to income taxes payable in prior years are recognized in current income tax.

2. Deferred income tax

Deferred income tax is calculated as the temporary difference between the carrying amounts of assets and liabilities recorded in the account and the tax base for calculation of taxable income.

Deferred income tax liabilities are generally recognized in respect of all taxable temporary differences. Deferred income tax assets are recognized when it is probable that taxable income will be available for offsetting income tax arising from deductible temporary differences and offsetting of losses.

Taxable temporary differences associated with investments in subsidiaries and associates are recognized as deferred income tax liabilities, unless the consolidated 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 assets for deductible temporary differences associated with such investments are recognized only to the extent where it is probable that sufficient taxable income will be available to realize the temporary differences and that they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed on each balance sheet date and reduced to the extent where it is no longer probable that sufficient taxable income will be available to allow the recovery all

or part of the assets. Those that are not initially recognized as deferred income tax assets are also reviewed on each balance sheet date and increased to the extent where it is probable that sufficient taxable income will be available in the future to allow the recovery all or part of the assets. Deferred income tax assets and liabilities are measured at the tax rate of the period when the liabilities or assets are expected to be settled or realized. The tax rate is based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred income tax liabilities and assets are measured to reflect the tax consequences of the consolidated company on the balance sheet date arising from the methods that are expected to be used to recover or settle the carrying amount of the assets and liabilities.

3. Current and deferred income taxes

Current and deferred income taxes are recognized in profit or loss, except for those related to items recognized in other comprehensive income or directly in equity, which are recognized separately in other comprehensive income separately or directly in equity.

V. Main sources of uncertainty of material accounting judgments, estimates and assumptions

In adopting accounting policies, the management of the consolidated company must make judgments, estimates and assumptions in respect of information that is not readily available from other sources based on historical experience and other relevant factors. The actual results could differ from the estimates.

The consolidated company has taken the possible effects of the recent development of COVID-19, the Russia–Ukraine war and relevant international sanctions on the economic environment into the consideration of material accounting estimates, including cash flow estimation, growth rate, discount rate and profitability. Its management will continue to review the estimates and basic assumptions. If a correction of the estimates affects only the current period, it is recognized in the period when it is made. If a correction of the estimates affects both the current and future periods, it is recognized in the period when it is made and in the future period.

Main source of uncertainty of estimates and assumptions – income tax

As of December 31, 2022 and 2021, the effects of income tax of taxable temporary differences relating to investments in subsidiaries without recognition of deferred income

tax liabilities amounted to NTD444,508 thousand and NTD380,789 thousand respectively. With expected remittance of earnings in the future, reversal of taxable temporary differences and recognition of material deferred income tax liabilities are likely to occur with their recognition as income tax expenses over the period of occurrence.

VI. Cash and cash equivalents

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash on hand and working capital	\$ 803	\$ 1,197
Bank checks and demand deposits	1,310,625	1,227,803
Cash equivalents		
Time deposits at banks with an original date of maturity within 3 months	347,279	4,343
Bonds with conditions for repurchase	<u>28,000</u>	<u>152,000</u>
	<u>\$ 1,686,707</u>	<u>\$ 1,385,343</u>

The following are the interest rate ranges of cash equivalents on the balance sheet date:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Time deposits at banks with an original date of maturity within 3 months	1.2%~4.1%	2.025%
Bonds with conditions for repurchase	0.88%	0.27%

VII. Financial instruments measured at fair value through profit/loss

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial assets – current</u>		
Held for transactions		
Derivative instrument – forward foreign exchange contract	<u>\$ 16,652</u>	<u>\$ 8,492</u>
<u>Financial liabilities – current</u>		
Held for transactions		
Derivative instrument – forward foreign exchange contract	<u>\$ 120</u>	<u>\$ -</u>

The following are forward foreign exchange contracts which do not apply hedge accounting and are yet to mature on the balance sheet date:

December 31, 2022

	<u>Currency</u>	<u>Maturity period</u>	<u>Contractual amount (NTD thousand)</u>
Forward foreign exchange sold	USD to RMB	2023.01-2023.04	USD 35,270/CNY 246,766

December 31, 2021

	Currency	Maturity period	Contractual amount (NTD thousand)
Forward foreign exchange sold	USD to RMB	2022.01-2022.04	USD 34,700/CNY 223,798

VIII. Financial assets measured at amortized cost

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Current</u>		
Time deposits with an original date of maturity beyond 3 months	\$ -	\$ 143,415
Restricted bank deposits	<u>47,706</u>	<u>33,623</u>
	<u><u>47,706</u></u>	<u><u>177,038</u></u>
<u>Non-current</u>		
Time deposits with an original date of maturity beyond 3 months	<u>\$ 440,944</u>	<u>\$ -</u>

(I) On December 31, 2022 and 2021, the interest rate ranges of time deposits with an original date of maturity beyond 3 months were 3.1%–3.5% and 0.07–2.03% respectively.

(II) For the information of pledges, see Note 31.

IX. Notes and accounts receivable

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Notes receivable</u>		
Measured at amortized cost	<u>\$ 110</u>	<u>\$ 616</u>
<u>Accounts receivable</u>		
Measured at amortized cost	\$ 2,007,987	\$ 2,132,762
Total carrying amount	<u>40,737</u>	<u>31,916</u>
Less: Loss allowance	<u><u>\$ 1,967,250</u></u>	<u><u>\$ 2,100,846</u></u>

The average loan period of the consolidated company for sales of goods is 1 to 4 months, with zero accrued on accounts receivable. In order to mitigate credit risk, the management of the consolidated company has designated special teams for determination of credit lines, approval of loans and other monitoring procedures to ensure that appropriate actions are taken to recover overdue payments receivable. Furthermore, the consolidated company reviews the recoverable amounts of payments receivable separately on the balance sheet date to ensure that irrecoverable payments receivable

have been accounted for in appropriate impairment losses. Accordingly, the management of the consolidated company considers that its credit risks have reduced significantly.

The consolidated company recognizes the loss allowance for accounts receivable based on the full lifetime expected credit losses. The full lifetime expected credit losses are calculated using a provision matrix with consideration of the default history and current financial condition of a customer and the economic trend of the industry. Since the historical experience of the consolidated company in credit losses has shown no significant difference in the types of loss between distinct customer bases, the provision matrix has made no further distinction between the customer bases and has only set the expected credit loss rate based on the age of accounting of accounts receivable.

If there is any evidence indicating that the counterparty is faced with severe financial difficulties and that the consolidated company is not able to reasonably expect any recoverable amount, e.g. the counterparty is undergoing liquidation, the consolidated company directly writes off the relevant accounts receivable, and it will continue to pursue recourse actions. All amounts recovered through recourse are recognized in profit/loss.

Notes receivable

As of December 31, 2022 and 2021, none of the notes receivable of the consolidated company were overdue, and no expected credit losses were set aside for notes receivable.

Accounts receivable

The consolidated company's loss allowances for accounts receivable measured using the provision matrix are as follows:

December 31, 2022

	0 to 90 days	91 to 180 days	181 to 365 days	366 or more days	Total
Total carrying amount	\$ 1,503,949	\$ 353,564	\$ 15,963	\$ 134,511	\$ 2,007,987
Loss allowance (full lifetime expected credit losses)	(1,561)	(2,326)	(1,729)	(35,121)	(40,737)
Amortized cost	<u>\$ 1,502,388</u>	<u>\$ 351,238</u>	<u>\$ 14,234</u>	<u>\$ 99,390</u>	<u>\$ 1,967,250</u>

December 31, 2021

	0 to 90 days	91 to 180 days	181 to 365 days	366 or more days	Total
Total carrying amount	\$ 1,657,462	\$ 363,452	\$ 108,072	\$ 3,776	\$ 2,132,762
Loss allowance (full lifetime expected credit losses)	(1,706)	(1,766)	(27,289)	(1,155)	(31,916)
Amortized cost	<u>\$ 1,655,756</u>	<u>\$ 361,686</u>	<u>\$ 80,783</u>	<u>\$ 2,621</u>	<u>\$ 2,100,846</u>

The information of changes in loss allowance for accounts receivable is as follows:

	December 31, 2022	December 31, 2021
Starting balance	\$ 31,916	\$ 37,493
Accounted for in the current year	8,816	22,463
Written off in the current year	-	(27,458)
Differences on foreign currency translation	<u>5</u>	(<u>582</u>)
Ending balance	<u>\$ 40,737</u>	<u>\$ 31,916</u>

X. Inventory

	December 31, 2022	December 31, 2021
Goods	\$ 207,410	\$ 287,097
Finished goods	501,449	500,383
Work in process	401,131	571,886
Raw materials	<u>419,783</u>	<u>583,621</u>
	<u>\$ 1,529,773</u>	<u>\$ 1,942,987</u>

The inventory-related sales costs in 2022 and 2023 were, respectively, NTD5,011,069 thousand and NTD6,713,833 thousand, and the sales costs in 2022 and 2021 included the profits on recovery of inventory depreciation amounted to NTD8,749 thousand and NTD1,548 thousand respectively. The profits on recovery of inventory depreciation were generated mainly as a result of the selling of depreciated inventories.

XI. Prepayments

	December 31, 2022	December 31, 2021
Purchase tax	\$ 221,483	\$ 224,797
Retained for tax	9,033	32,710
Prepaid expenses	36,324	27,459
Prepayments for goods	<u>79,016</u>	<u>26,871</u>
	<u>\$ 345,856</u>	<u>\$ 311,837</u>

XII. Subsidiary

(I) Subsidiaries included in the consolidated financial report

Entities in the consolidated financial report prepared are as follows:

Name of investor company	Name of subsidiary	Nature of business	Shareholding (%)		Description
			December 31, 2022	December 31, 2021	
HEC	Wei Shun Int'l Investments Co., Ltd. (WII)	General investment and international trade	100	100	Note 1
	Great Success Group Ltd. (GSG)	General investment and international trade	100	100	
	Grand Victory Group Ltd. (GVG)	General investment and international trade	100	100	
	Heroichi International Trading Co., Limited (HIT)	International trade	100	100	
	Power Master Co., Ltd. (FCC)	Sales of computer components	60	60	
	Compucase Corporation (UCC)	Sales of computer components	100	100	
	Compucase Japan Co., Ltd. (JCC)	Sales of computer components	100	100	
	Cougar Korea Co., Ltd. (KCC)	Sales of computer components	100	51	
	OPT	Manufacturing and sales of medical devices and equipment	59.49	59.49	
	Loyalty Founder Enterprise Co., Ltd. (LFE)	Manufacturing, processing and trade of computer and server chassis	50.62	50.62	
WII	Global Treasure Holdings Co., Limited (GTH)	General investments	100	100	Note 1
	Global Plenum Holdings Co., Limited (GPH)	General investments	100	100	
GSG	Wei Chang Xing Electronics (Shen Zhen) Co., Ltd. (WCX)	Computer parts and accessories and cutting and processing of iron materials	100	100	Note 2
	Wei Yu International Trading (Shenzhen) Co., Ltd. (WYT)	International and re-export trade	100	100	
GPH	Wei Shuo Electronics (Shen Zhen) Co., Ltd. (WSE)	Manufacturing of power supplies and computer parts and accessories	100	100	Note 2
	Wei Sheng Feng Technology (Ji An) Co., Ltd. (WSF)	Manufacturing of power supplies and computer parts and accessories	100	100	
	Dongguan Weichiao Electronics Co., Ltd. (DWC)	Manufacturing of power supplies and computer parts and accessories	100	100	
	Anyuan Weijia Electronic Co., Ltd. (WJA)	Manufacturing of power supplies and computer parts and accessories	100	100	
	Loyalty Founder Enterprise Company(D.G) Ltd. (LFDG)	Manufacturing, import and export of electronics, optoelectronic products, precision dies and precision plastic injectors	20.13	20.13	
WCX	Anyuan Weichangfeng Electronic Co., Ltd. (WCF)	Manufacturing of power supplies and computer parts and accessories	100	100	Note 4
	Axxion Group Corp. (Axxion)	Import and sales of computers, server chassis and their associated components	100	100	

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Name of investor company	Name of subsidiary	Nature of business	Shareholding (%)		
			December 31, 2022	December 31, 2021	Description
	Loyalty Founder Enterprise Corp. Ltd. (LFKY)	General investments	100	100	Note 5
	OPT	Manufacturing and sales of medical devices and equipment	35.07	35.07	
	Axxion Mexico - LFE S.A. de C.V. (Axxion Mexico)	Manufacturing of computers, server chassis and their associated components	99	99	Note 6
LFKY	Loyalty Founder Enterprise Co. (H.K.) Ltd. (LFHK)	Import and export of computers, server chassis, keyboards, scanners, dies and other components	100	100	
LFHK	LFDG	Manufacturing, import and export of electronics, optoelectronic products, precision dies and precision plastic injectors	79.87	79.87	
OPT	Global Star (H.K.) Holding Limited (Global Star)	General investments	100	100	
Global Star	Harmonic Star Investment Limited (Harmonic Star)	General investments	100	100	
Harmonic Star	Optima Healthcare Inc.(Gd) (FD)	Manufacturing and sales of medical devices and equipment	100	100	

Note 1: In 2021, the subsidiaries WII and LFE engaged in capital reduction by cash to return share payments of NTD83,300 thousand and NTD83,062 thousand, respectively.

Note 2: In 2022, the subsidiaries WJA, GPH and GSG engaged in cash capital reduction to return share payments of NTD152,960 thousand. The share payments returned from capital reduction have yet to be received.

Note 3: In June 2022, we acquired a shareholding of 49% from a non-related party. The acquisition was deemed an equity transaction to offset against undistributed earnings of NTD17,815 thousand.

Note 4: In March 2021, the subsidiary Axxion distributed USD8,000 thousand as cash dividends from its capital reserves.

Note 5: In February 2021, the subsidiary LFE made a capital increase of USD1,000 thousand in the subsidiary LFKY, with the registration of change completed.

Note 6: In October 2021, the subsidiary LFE invested USD99 thousand to establish the subsidiary Axxion Mexico.

(II) Information of subsidiaries with material non-controlling interests

Name of subsidiary	Shareholding and voting rights of non-controlling interests (%)	
	December 31, 2022	December 31, 2021
LFE	49.38%	49.38%

For information regarding the principal place of business and the country of registration of the subsidiary, see Table 6.

Name of subsidiary	Profit/Loss distributed to non-controlling interests	
	2022	2021
LFE	\$ 137,208	\$ 89,853
Non-controlling interest		
Name of subsidiary	December 31, 2022	December 31, 2021
LFE	\$ 1,177,872	\$ 1,101,636

The consolidated financial information of LFE is prepared based on the amounts of inter-company transactions prior to write-off:

LFE	December 31, 2022	December 31, 2021
Current assets	\$ 3,060,080	\$ 3,140,300
Non-current assets	1,129,819	1,331,357
Current liabilities	(1,348,150)	(1,847,208)
Non-current liabilities	(44,387)	(31,776)
Equity	<u>\$ 2,797,362</u>	<u>\$ 2,592,673</u>
Equity attributable to:		
Owners of HEC	\$ 1,619,124	\$ 1,491,285
Non-controlling interests of LFE	<u>1,178,238</u>	<u>1,101,388</u>
	<u>\$ 2,797,362</u>	<u>\$ 2,592,673</u>

	<u>2022</u>	<u>2021</u>
Operating revenue	<u>\$ 4,284,612</u>	<u>\$ 5,495,708</u>
Net profit in the current year	\$ 339,594	\$ 230,404
Other comprehensive income	<u>34,299</u>	(<u>16,405</u>)
Total comprehensive income	<u>\$ 373,893</u>	<u>\$ 213,999</u>
Net profit attributable to:		
Owners of HEC	\$ 202,386	\$ 140,551
Non-controlling interests of LFE	<u>137,208</u>	<u>89,853</u>
	<u>\$ 339,594</u>	<u>\$ 230,404</u>
Total comprehensive income attributable to:		
Owners of HEC	\$ 222,120	\$ 137,260
Non-controlling interests of LFE	<u>151,773</u>	<u>76,739</u>
	<u>\$ 373,893</u>	<u>\$ 213,999</u>
Cash flow		
Operating activities	\$ 444,814	(\$ 407,613)
Investing activities	35,775	(156,413)
Fundraising activities	(188,220)	(483,620)
Effect of changes in exchange rate on cash and cash equivalents	<u>6,468</u>	(<u>9,771</u>)
Net cash inflows (outflows)	<u>\$ 298,837</u>	(<u>\$ 1,057,417</u>)
Dividends paid to non-controlling interests	<u>\$ 83,866</u>	<u>\$ 93,183</u>

XIII. Investments accounted for using the equity method

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Individual immaterial associates</u>		
Super Laser Precision Machinery Ltd. (Super Laser)	<u>\$ 24,222</u>	<u>\$ 26,956</u>

The following is a summary of individual immaterial associates:

	2022	2021
Share of the consolidated company		
Net profit (loss) in the current year	(\$ 3,372)	\$ 159
Other comprehensive income	638	(256)
Total comprehensive income	<u>(\$ 2,734)</u>	<u>(\$ 97)</u>

The shares of profit/loss on investments and the share of the consolidated company and of other comprehensive income accounted for using the equity method in 2022 and 2021 are calculated based on a financial report not audited by any CPA, as our management considers that there is unlikely to be any significant adjustment if the financial reports of the aforementioned associates for 2022 and 2021 have been audited by a CPA.

XIV. Property, plant and equipment

For the statement of changes in property, plant and equipment, see Table 11.

The depreciation expense is accounted for on a straight-line basis over the following useful lives:

Premises and buildings		
Main factory buildings		20 to 50 years
Mechanical, electrical and power equipment		20 years
Engineering system		15 to 20 years
Others		2 to 21 years
Machine/Equipment		2 to 26 years
Transport equipment		5 to 18 years
Office equipment		2 to 18 years
Other equipment		2 to 20 years

In 2022 and 2021, the consolidated company engaged in the following investment activities with transactions in cash:

	2022	2021
Increase in property, plant and equipment	\$ 97,953	\$ 256,003
Reclassification of prepayments for equipment	(372)	(33,149)
Decrease in equipment payments payable	<u>13,382</u>	<u>40,419</u>
Cash paid for property, plant and equipment	<u><u>\$ 110,963</u></u>	<u><u>\$ 263,273</u></u>

For the amount of property, plant and equipment pledged by the consolidated company as collateral for loans, see Note 31.

XV. Lease agreement

(I) Right-of-use assets

	Land	Buildings	Transport equipment	Office equipment	Other equipment	Total
<u>Cost</u>						
Balance on January 1, 2022	\$ 137,038	\$ 133,928	\$ 753	\$ 387	\$ 1,905	\$ 274,011
Increase	3,197	55,963	166	-	-	59,326
Decrease	-	(46,066)	(738)	-	(1,633)	(48,437)
Net exchange differences	2,046	4,515	(11)	(13)	-	6,537
Balance on December 31, 2022	<u>\$ 142,281</u>	<u>\$ 148,340</u>	<u>\$ 170</u>	<u>\$ 374</u>	<u>\$ 272</u>	<u>\$ 291,437</u>
<u>Accumulated depreciation</u>						
Balance on January 1, 2022	\$ 11,469	\$ 66,563	\$ 163	\$ 43	\$ 1,394	\$ 79,632
Depreciation expense	4,783	29,576	178	74	499	35,110
Decrease	-	(28,941)	(322)	-	(1,633)	(30,896)
Net exchange differences	216	2,269	(5)	-	-	2,480
Balance on December 31, 2022	<u>\$ 16,468</u>	<u>\$ 69,467</u>	<u>\$ 14</u>	<u>\$ 117</u>	<u>\$ 260</u>	<u>\$ 86,326</u>
Net amount on December 31, 2022	<u>\$ 125,813</u>	<u>\$ 78,873</u>	<u>\$ 156</u>	<u>\$ 257</u>	<u>\$ 12</u>	<u>\$ 205,111</u>
<u>Cost</u>						
Balance on January 1, 2021	\$ 138,040	\$ 173,302	\$ 799	\$ 109	\$ 2,781	\$ 315,031
Increase	-	2,309	582	311	272	3,474
Decrease	-	(39,539)	(532)	-	(1,148)	(41,219)
Net exchange differences	(1,002)	(2,144)	(96)	(33)	-	(3,275)
Balance on December 31, 2021	<u>\$ 137,038</u>	<u>\$ 133,928</u>	<u>\$ 753</u>	<u>\$ 387</u>	<u>\$ 1,905</u>	<u>\$ 274,011</u>
<u>Accumulated depreciation</u>						
Balance on January 1, 2021	\$ 7,021	\$ 51,947	\$ 429	\$ 5	\$ 1,132	\$ 60,534
Depreciation expense	4,535	30,784	305	41	1,009	36,674
Decrease	-	(19,081)	(532)	-	(747)	(20,360)
Net exchange differences	(87)	2,913	(39)	(3)	-	2,784
Balance on December 31, 2021	<u>\$ 11,469</u>	<u>\$ 66,563</u>	<u>\$ 163</u>	<u>\$ 43</u>	<u>\$ 1,394</u>	<u>\$ 79,632</u>
Net amount on December 31, 2021	<u>\$ 125,569</u>	<u>\$ 67,365</u>	<u>\$ 590</u>	<u>\$ 344</u>	<u>\$ 511</u>	<u>\$ 194,379</u>

(II) Lease liabilities

	December 31, 2022	December 31, 2021
Carrying amount of lease liabilities		
Current	<u>\$ 33,790</u>	<u>\$ 29,516</u>
Non-current	<u>\$ 50,574</u>	<u>\$ 47,670</u>

The discount rate ranges for lease liabilities are as follows:

	December 31, 2022	December 31, 2021
Land	1.04%~1.30%	1.04%
Buildings	0.81%~2.21%	0.82%~4.79%
Transport equipment	0.82%~1.53%	0.82%~1.05%

	December 31, 2022	December 31, 2021
Office equipment	0.82%~0.92%	0.82%~0.92%
Other equipment	1.03%~1.10%	0.81%~1.10%

(III) Material lease activities and terms

The consolidated company has rented land and buildings for warehousing and office purposes with a lease term of 2 to 50 years. The rights of the subsidiaries LFDG and WCF to use their land in Mainland China will expire during 2055 to 2060.

(IV) Other lease information

	2022	2021
Expenses of short-term and low-value leases	<u>\$ 4,642</u>	<u>\$ 7,909</u>
Total cash outflow from lease	<u>\$ 39,048</u>	<u>\$ 56,039</u>

The consolidated company opts to apply the recognition exemption to leases of certain equipment constituting short-term leases and leases of low-value assets, and do not recognize right-of-use assets and lease liabilities relevant to such leases.

XVI. Investment property

	Land	Premises and buildings	Total
<u>Cost</u>			
Balances on January 1 and December 31, 2022	<u>\$ 53,018</u>	<u>\$ 50,774</u>	<u>\$ 103,792</u>
<u>Accumulated depreciation and impairment</u>			
Balance on January 1, 2022	<u>\$ -</u>	<u>\$ 49,144</u>	<u>\$ 49,144</u>
Depreciation expense	<u>-</u>	<u>907</u>	<u>907</u>
Balance on December 31, 2022	<u>\$ -</u>	<u>\$ 50,051</u>	<u>\$ 50,051</u>
Net amount on December 31, 2022	<u>\$ 53,018</u>	<u>\$ 723</u>	<u>\$ 53,741</u>
<u>Cost</u>			
Balances on January 1 and December 31, 2021	<u>\$ 53,018</u>	<u>\$ 50,774</u>	<u>\$ 103,792</u>
<u>Accumulated depreciation and impairment</u>			
Balance on January 1, 2021	<u>\$ -</u>	<u>\$ 48,238</u>	<u>\$ 48,238</u>
Depreciation expense	<u>-</u>	<u>906</u>	<u>906</u>
Balance on December 31, 2021	<u>\$ -</u>	<u>\$ 49,144</u>	<u>\$ 49,144</u>

Net amount on December 31, 2021	<u>\$ 53,018</u>	<u>\$ 1,630</u>	<u>\$ 54,648</u>
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The premises and buildings of investment property were depreciated on the straight-line basis over a 55-year useful life.

Based on the valuation conducted by an independent valuator on December 31, 2021, the fair value of investment property amounted to NTD77,528 thousand. The management of the consolidated company has assessed that there is no material change to the fair value on December 31, 2022.

As of December 31, 2022 and 2021, the accumulated amounts of impairment were both NTD23,180 thousand.

All of the investment property of the consolidated company is private equity. For the amount of the investment property of the consolidated company pledged as collateral for loans, see Note 31.

XVII. Intangible assets

	Trademark rights	Patent rights	Computer software	Total
<u>Cost</u>				
Balance on January 1, 2022	\$ 1,992	\$ 40,222	\$ 39,701	\$ 81,915
Individual acquisition	-	-	1,237	1,237
Derecognition	-	-	(1,893)	(1,893)
Reclassification	-	-	152	152
Net exchange differences	-	3	(52)	(49)
Balance on December 31, 2022	<u>\$ 1,992</u>	<u>\$ 40,225</u>	<u>\$ 39,145</u>	<u>\$ 81,362</u>
<u>Accumulated amortization</u>				
Balance on January 1, 2022	\$ 761	\$ 40,014	\$ 30,159	\$ 70,934
Amortization expense	154	31	2,688	2,873
Derecognition	-	-	(1,893)	(1,893)
Reclassification	-	-	2	2
Net exchange differences	-	-	(96)	(96)
Balance on December 31, 2022	<u>\$ 915</u>	<u>\$ 40,045</u>	<u>\$ 30,860</u>	<u>\$ 71,820</u>
Net amount on December 31, 2022	<u>\$ 1,077</u>	<u>\$ 180</u>	<u>\$ 8,285</u>	<u>\$ 9,542</u>

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	Trademark rights	Patent rights	Computer software	Total
<u>Cost</u>				
Balance on January 1, 2021	\$ 1,992	\$ 40,223	\$ 42,033	\$ 84,248
Individual acquisition	-	-	1,354	1,354
Derecognition	-	-	(3,626)	(3,626)
Net exchange differences	-	(1)	(60)	(61)
Balance on December 31, 2021	<u>\$ 1,992</u>	<u>\$ 40,222</u>	<u>\$ 39,701</u>	<u>\$ 81,915</u>
<u>Accumulated amortization</u>				
Balance on January 1, 2021	\$ 602	\$ 39,984	\$ 30,036	\$ 70,622
Amortization expense	159	30	3,788	3,977
Derecognition	-	-	(3,626)	(3,626)
Net exchange differences	-	-	(39)	(39)
Balance on December 31, 2021	<u>\$ 761</u>	<u>\$ 40,014</u>	<u>\$ 30,159</u>	<u>\$ 70,934</u>
Net amount on December 31, 2021	<u>\$ 1,231</u>	<u>\$ 208</u>	<u>\$ 9,542</u>	<u>\$ 10,981</u>

The amortization expense is accounted for on a straight-line basis over a useful life of 2 to 20 years.

XVIII. Loans

(I) Short-term loans

	December 31, 2022	December 31, 2021
Credit loans from banks	<u>\$ 1,630,000</u>	<u>\$ 1,732,000</u>
Annual interest rate	1.3%~1.8%	0.78%~0.89%

(II) Short-term notes payable – only on December 31, 2021

Short-term notes payable which are yet to mature are as follows:

Guaranteeing/Acc epting agency	Par value	Contractual term	Amount of discount	Carrying amount	Interest rate range	Name of collateral
Dah Chung Bills		December 2021 –				
Finance Corp.	\$ 30,000	January 2022	\$ 14	\$ 29,986	0.848%	None
China Bills		December 2021 –				
Finance		January 2022				
Corporation	15,000					
International Bills		December 2021 –				
Finance Corp.	30,000	February 2022	10	14,990	0.90%	None
	<u>\$ 75,000</u>					
			9	29,991	0.848%	None
			<u>\$ 33</u>	<u>\$ 74,967</u>		

XIX. Notes and accounts payable (including related parties)

The notes and accounts payable (including related parties) of the consolidated company have all arisen from its operations. For purchases, the average credit period is 1 to 3 months on a basis of monthly settlement. The consolidated company has established financial risk management policies to ensure that all accounts payable are paid off within the pre-agreed credit period.

XX. Other payables

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Salaries and bonuses payable	\$ 122,502	\$ 127,523
Tax payable	161,773	170,450
Equipment and construction payments payable	10,352	23,734
Remuneration payable to employees, directors and supervisors	67,421	46,201
Contribution payable to housing funds	48,210	45,444
Sales tax payable	93,804	41,164
Others	<u>192,932</u>	<u>160,035</u>
	<u><u>\$ 696,994</u></u>	<u><u>\$ 614,551</u></u>

XXI. Post-employment benefit plans

(I) Defined contribution plan

The pension system under the “Labor Pension Act,” as applied by HEC and domestic subsidiaries under the consolidated company, is a defined contribution plan managed by the government. A pension equal to 6% of an employee’s monthly salary is allocated and deposited into a special personal account at the Bureau of Labor Insurance.

The employees of a subsidiary of the consolidated company in Mainland China are participants in a retirement benefit plan operated by the relevant local government of Mainland China. The subsidiary is required to contribute a certain percentage of its salary cost as funding to the retirement benefit plan, while the obligations of the consolidated company toward such government-operated retirement benefit plan only consist of the contribution of a certain amount.

For any other foreign subsidiary, a defined contribution plan is applied, where a pension is allocated monthly based on a certain amount of percentage in accordance with local regulations and placed under the management of a professional local agency.

(II) Defined benefit plan

The pension system applied to HEC and domestic subsidiaries under the consolidated company in accordance with the “Labor Pension Act” is a defined benefit plan managed by the government. The pension paid to an employee is calculated based on the length of his/her service and the average salary over the 6 months prior to the approved date of his/her retirement. We allocate a fixed amount each month as an employee’s pension and deposit it into a special account at the Bank of Taiwan in the name of the Labor Pension Fund Supervisory Committee. If, by the end of each year, the estimated balance in the special account is insufficient for payments to employees who are expected to meet the criteria for retirement in the next year, we will allocate the difference in a lump sum by the end of March next year. The special account is managed by the Bureau of Labor Funds, Ministry of Labor, and the consolidated company does not have any right to influence the investment management strategies. Since the subsidiary LFE under the consolidated company has allocated sufficient pensions, the competent authority has given approval for suspending the contribution of pensions during April 2016 to February 2022.

The amounts of defined benefit plan included in the consolidated balance sheet are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Present value of defined benefit obligations	\$ 13,390	\$ 17,960
Fair value of plan assets	(30,267)	(32,676)
Net defined benefit assets	(\$ 16,877)	(\$ 14,716)
Net defined benefit assets	<u>\$ 24,668</u>	<u>\$ 22,921</u>
Net defined benefit liabilities	<u>\$ 7,791</u>	<u>\$ 8,205</u>

The changes in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities (assets)
Balance on January 1, 2021	\$ 17,843	(\$ 28,571)	(\$ 8,142)
Interest expense (income)	58	(177)	(119)
Recognized in profit/loss	58	(177)	(119)
Remeasurement			
Return on plan assets (excluding any amount included in net interest)	-	(330)	(330)
Actuarial loss – changes in demographic assumptions	720	-	74
Actuarial profit – changes in financial assumptions	(568)	-	(568)
Actuarial profit – experience adjustments	(93)	-	(93)
Recognized in other comprehensive income	59	(330)	(271)
Employer contribution	-	(3,598)	(3,598)
Balance on December 31, 2021	17,960	(32,676)	(14,716)
Interest expense (income)	113	(203)	(90)
Recognized in profit/loss	113	(203)	(90)
Remeasurement			
Return on plan assets (excluding any amount included in net interest)	-	(2,029)	(2,029)
Actuarial profit – changes in financial assumptions	(657)	-	(657)
Actuarial loss – experience adjustment	676	-	676
Recognized in other comprehensive income	19	(2,029)	(2,010)
Employer contribution	-	(61)	(61)
Payment of benefits	(4,702)	4,702	-
Balance on December 31, 2022	\$ 13,390	(\$ 30,267)	(\$ 16,877)

Due to the pension system under the “Labor Standards Act,” the consolidated company is exposed to the following risks:

1. Investment risk: The Bureau of Labor Funds, Ministry of Labor has, for own discretionary use or through contracted management, invested the labor pension funds into domestic (foreign) equity and debt securities and bank deposits, even though the distributable amount of the consolidated company’s plan assets is a profit calculated at an interest rate no less than that for a 2-year time deposit with a local bank.
2. Interest rate risk: A decrease in the interest rates of government bonds will increase the present value of defined benefit obligations, but will also

increase the return on debt investments in plan assets. Both increases have a partial offsetting effect against the impact of net defined benefit liabilities.

3. Salary risk: The present value of defined benefit obligations is calculated based on the future salary of the plan participants. As a result, an increase in the salary of the plan participants will raise the present value of defined benefit obligations.

The present value of the defined benefit obligations of the consolidated company is calculated actuarially by a qualified actuary. The material assumptions on the date of measurement are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate	1.25%-1.4%	0.75%
Expected salary increase rate	2.25%-2.5%	1.375%-2.5%

In the event of reasonably possible changes in the material actuarial assumptions, the resulting increase (decrease) in the present value of defined benefit obligations where all other assumptions remain the same is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate		
Increase by 0.25%	(\$ <u>258</u>)	(\$ <u>366</u>)
Decrease by 0.25%	<u>\$ 267</u>	<u>\$ 381</u>
Expected salary increase rate		
Increase by 0.25%	<u>\$ 276</u>	<u>\$ 385</u>
Decrease by 0.25%	(<u>\$ 264</u>)	(<u>\$ 370</u>)

Since the actuarial assumptions may be correlated and changes in only a single assumption are unlikely, the sensitivity analysis above may not reflect actual changes in the present value of defined benefit obligations.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Expected contribution within 1 year	<u>\$ 108</u>	<u>\$ 46</u>
Average maturity period of defined benefit obligations	11 to 16.4 years	11 to 17.4 years

XXII. Equity

(I) Common share capital

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Number of authorized shares (thousand shares)	<u>150,000</u>	<u>150,000</u>
Authorized share capital	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Number of issued shares with full payment received (thousand shares)	<u>113,286</u>	<u>113,286</u>
Issued share capital	<u>\$ 1,132,856</u>	<u>\$ 1,132,856</u>
Publicly issued common shares	\$ 1,032,856	\$ 1,032,856
Privately placed common shares	<u>100,000</u>	<u>100,000</u>
	<u>\$ 1,132,856</u>	<u>\$ 1,132,856</u>

Common shares are issued at a par value of NTD10, with each share entitled to one voting right and the right to receive dividends.

On September 28, 2016, our annual shareholders' meeting adopted a resolution for capital increase by cash via private placement. On September 30, 2016, the Board of Directors adopted a resolution for private placement of 10,000 thousand common shares at NTD32.8 per share totaling NTD328,000 thousand.

The foregoing privately placed common shares are, in accordance with the Securities and Exchange Act, subject to restrictions on circulation and transfer, and an application for their public listing and trading may be filed only after a lapse of 3 years from the date of their delivery and following their public listing. The rights and obligations of privately placed common shares are same as those of our outstanding common shares.

The share capital retained from the authorized share capital for the issuance of employees' stock warrants is 6,000 thousand shares.

(II) Capital reserves

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Usable for offsetting of losses, distribution of cash or contribution to share capital (Note 1)</u>		
Shares issued in excess of par value	\$ 357,543	\$ 357,543
Trading of treasury stocks	60,966	60,966
Consolidated surplus	254	254
<u>Usable only for offsetting of losses (Note 2)</u>		
Recognized changes in ownership equity in subsidiaries	<u>6,693</u>	<u>6,693</u>
	<u><u>\$ 425,456</u></u>	<u><u>\$ 425,456</u></u>

Note 1: This category of capital reserves may be used to offset losses, or to distribute cash dividends or be contributed to the share capital if HEC has no losses, provided that such contribution to the share capital does not exceed a certain percentage of the paid-in share capital each year.

Note 2: This category of capital reserves are the effects of equity transactions recognized due to changes in the equity of subsidiaries where HEC has not actually acquired or disposed of the equity of subsidiaries.

(III) Retained earnings and dividend policy

According to the earnings distribution policy under the Articles of Incorporation, where HEC has earnings in the final accounts of a fiscal year, it shall set aside 10% thereof as legal reserves after paying taxes and offsetting losses as legally required, unless the amount of such legal reserves equals or exceeds HEC's paid-in capital. The remaining amount of the foregoing earnings shall be set aside or reversed as special reserves in accordance with the law. If there are still any remaining earnings, the Board of Directors shall, depending on the operating performance, retain such earnings plus the accumulated undistributed earnings, and shall prepare a proposal for distribution of earnings and submit the proposal to a shareholders' meeting for a resolution on distribution of bonuses to shareholders. For the policy of distribution of the remuneration for employees, directors and supervisors in the Articles of Incorporation, see Note 24(7) "Remuneration for

employees, directors and supervisors.”

In consideration of its future investment funding needs and its financial structure, HEC has adopted a balanced and stable dividend policy for the purposes of sustainable management and long-term development, with shareholders' interests and other factors taken into account. Each year, no less than 10% of the distributable earnings shall be appropriated for distribution of bonuses to shareholders. No such distribution is required if the cumulative distributable earnings amount to less than 2% of the paid-in share capital. For distribution of dividends in any future year, it is expected that the amount of cash dividends distributed will be no less than 10% of the total dividends distributed in that year, and that such dividends will, based on the investment funding needs and the level of dilution of earnings per share, be distributed in stock or cash, as appropriate.

Legal reserves may be used to offset losses. Where HEC has no losses and if legal reserves exceed the total paid-in capital by 25%, the excess amount may be contributed to the share capital or distributed in cash.

At the annual shareholders' meetings held in June 2022 and July 2021, the proposals for distribution of earnings in 2021 and 2020 were approved as follows:

	Distribution of earnings		Dividends per share (NTD)	
	2021	2020	2021	2020
Legal reserves	\$ 29,076	\$ 46,588		
Special reserves set aside (reversed)	22,838	(34,971)		
Cash dividends	226,571	351,185	\$ 2.0	\$ 3.1

On March 23, 2023, the Board of Directors proposed distribution of earnings in 2022 as follows:

	Distribution of earnings	Dividends per share (NTD)
Legal reserves	\$ 35,194	
Special reserves reversed	(71,586)	
Cash dividends	226,571	\$ 2.04

The proposal for distribution of earnings in 2022 will be subject to a resolution of the 2023 annual shareholders' meeting.

(IV) Special reserves

At the time of our first adoption of IFRSs, we had set aside special reserves from the increase of NTD103,094 thousand in retained earnings generated due to conversion.

(V) Other equity

1. Exchange differences on translation of financial statements of foreign operations

	2022	2021
Starting balance	(\$ 260,422)	(\$ 229,733)
Incurred in the current year		
Net exchange on translation of financial statements of foreign operations	71,263	(30,559)
Share of associates accounted for using the equity method	323	(130)
Ending balance	(\$ 188,836)	(\$ 260,422)

2. Unrealized profit/loss on financial assets measured at fair value through other comprehensive income

	2022	2021
Starting balance	(\$ 65,404)	(\$ 73,255)
Incurred in the current year		
Unrealized profits or losses – equity instruments	-	1,756
Cumulative losses on disposal of equity instruments transferred to retained earnings	-	6,095
Ending balance	(\$ 65,404)	(\$ 65,404)

(VI) Non-controlling interest

	2022	2021
Starting balance	\$ 1,115,865	\$ 1,208,335
Net profit in the current year	138,564	85,796
Other comprehensive income in the current year		
Exchange differences on translation of financial statements of foreign operations	14,218	(3,944)
Share of other comprehensive income of associates accounted for using the equity method	315	(126)
Remeasurement of defined benefits plans	473	117
Related income tax	(325)	(99)
Cash dividends to the shareholders of subsidiaries	(84,946)	(93,183)
Share payments returned from capital reduction by cash	-	(81,031)
Decrease in non-controlling interests through purchase of the shares of subsidiaries	17,815	-
Non-controlling interests related to outstanding vested stock options held by the employees of the subsidiary OPT (Note 27)	1,988	-
Ending balance	<u><u>\$ 1,203,967</u></u>	<u><u>\$ 1,115,865</u></u>

(VII) Treasury stocks

Reason for repurchase	Shares transferred to employees (thousand shares)	
	2022	2021
Number of shares at start of year	-	3,066
Increase in the current year	2,000	-
Decrease in the current year	-	(3,066)
Number of shares at end of year	<u>2,000</u>	<u>-</u>

In accordance with the Securities and Exchange Act, treasury stocks held by HEC may not be pledged and are not entitled to any dividends distributed or voting rights.

XXIII. Revenue

	2022	2021
Revenue from contracts with customers		
Sales revenue	<u>\$ 6,375,442</u>	<u>\$ 8,293,189</u>
(I) Contract balance		
	December 31, 2022	December 31, 2021
Notes receivable	<u>\$ 110</u>	<u>\$ 616</u>
Accounts receivable	<u>\$1,967,250</u>	<u>\$2,100,846</u>
		January 1, 2021
Contract liabilities		
Sales of goods	<u>\$ 137,566</u>	<u>\$ 92,557</u>
		<u>\$ 147,630</u>

Any change in contract liabilities mainly arises from the difference between the time of fulfillment of contractual obligations and the time of payment by a customer.

The following are the amounts accounted for as revenue in the current period with respect to the starting contract liabilities:

	2022	2021
Starting contract liabilities		
Sales of goods	<u>\$ 80,669</u>	<u>\$ 135,025</u>

(II) Sub-items of revenue from contracts with customers

	2022	2021
Computers, server chassis and their components	\$ 2,882,527	\$ 2,933,049
Power supplies	1,573,614	2,255,674
Private brands of computer and gaming peripherals	983,818	1,802,294
Medical and home beds	307,879	609,569
Others	<u>627,604</u>	<u>692,603</u>
	<u><u>\$ 6,375,442</u></u>	<u><u>\$ 8,293,189</u></u>

XXIV. Pre-tax net profit

(I) Interest income

	2022	2021
Interest on bank deposits	<u>\$ 24,479</u>	<u>\$ 18,873</u>

(II) Other incomes

	2022	2021
Rent revenue	\$ 3,127	\$ 1,879
Revenue from government subsidies	25,408	19,442
Revenue from shipping fees	15,057	21,301
Others	<u>25,198</u>	<u>42,464</u>
	<u><u>\$ 68,790</u></u>	<u><u>\$ 85,086</u></u>

(III) Other profits and losses

	2022	2021
Net profit (loss) on foreign currency exchange	\$ 135,687	(\$ 26,614)
Profit (Loss) on disposal of property, plant and equipment	166	(9,069)
Depreciation of investment property	(907)	(906)
Net profit (loss) on financial assets and liabilities measured at fair value through profit/loss	(40,545)	29,325
Others	<u>(2,053)</u>	<u>(6,777)</u>
	<u><u>\$ 92,348</u></u>	<u><u>(\$ 14,041)</u></u>

(IV) Financial cost

	2022	2021
Interest of bank loans	\$ 20,906	\$ 16,562
Interest of lease liabilities	<u>1,327</u>	<u>2,441</u>
	<u><u>\$ 22,233</u></u>	<u><u>\$ 19,003</u></u>

(V) Depreciation and amortization

	2022	2021
Property, plant and equipment	\$ 243,894	\$ 347,854
Right-of-use assets	35,110	36,674
Investment property	907	906
Other intangible assets	<u>2,873</u>	<u>3,977</u>
	<u><u>\$ 282,784</u></u>	<u><u>\$ 389,411</u></u>

Summary of depreciation expenses by purpose

Operating costs	\$ 192,802	\$ 300,932
Operating expense	86,202	83,596
Other profits and losses	<u>907</u>	<u>906</u>
	<u><u>\$ 279,911</u></u>	<u><u>\$ 385,434</u></u>

Summary of amortization expenses by purpose

Operating costs	\$ 33	\$ 116
Operating expense	<u>2,840</u>	<u>3,861</u>
	<u><u>\$ 2,873</u></u>	<u><u>\$ 3,977</u></u>

(VI) Employee benefit expenses

	2022	2021
Short-term employee benefits	<u>1,002,329</u>	<u>998,257</u>
Post-employment benefits		
Defined contribution plan	34,438	47,645
Defined benefit plan (Note 21)	(<u>90</u>)	(<u>119</u>)
	<u><u>34,348</u></u>	<u><u>47,526</u></u>
Share-based payment – equity settlement (Note 27)	<u>1,988</u>	<u>51,478</u>
	<u><u>\$ 1,038,665</u></u>	<u><u>\$ 1,097,261</u></u>

Summarized by purpose

Operating costs	\$ 552,783	\$ 521,778
Operating expense	<u>485,882</u>	<u>575,483</u>
	<u><u>\$ 1,038,665</u></u>	<u><u>\$ 1,097,261</u></u>

(VII) Remuneration for employees, directors and supervisors

We allocate 2%–10% and no more than 4% of the pre-tax profit in the current year before subtracting the remuneration distributed to employees, directors and supervisors as the remuneration for employees and for directors and supervisors, respectively. The remuneration for employees, directors and supervisors in 2022 and 2021 was approved by the Board of Directors in March 2022 and 2021, respectively, as follows:

1. Estimated percentage

	2022	2021
Remuneration for employees	8%	7.0%
Remuneration for directors and supervisors	2%	1.5%

2. Amount

	2022	2021
	Cash	Cash
Remuneration for employees	<u>\$ 36,041</u>	<u>\$ 25,787</u>
Remuneration for directors and supervisors	<u>\$ 9,010</u>	<u>\$ 5,526</u>

Any change in the amount after the date of approval and publication of the annual consolidated financial report is treated as a change in accounting estimates and will be adjusted to be accounted for in the next year.

There is no difference between the actually distributed amounts of the remuneration for employees, directors and supervisors in 2021 and 2020 and the amounts recognized in the consolidated financial report of each year.

For information of the remuneration for employees, directors and supervisors as approved by the Board of Directors, visit the “Market Observation Post System” of the Taiwan Stock Exchange.

(VIII) Profit/Loss on foreign currency exchange

	2022	2021
Total profit on foreign currency exchange	\$ 450,804	\$ 160,893
Total loss on foreign currency exchange	(<u>315,117</u>)	(<u>187,507</u>)
Net profit (loss)	<u>\$ 135,687</u>	<u>(\$ 26,614)</u>

XXV. Income tax

(I) Main items under income tax expense recognized as profit/loss

	2022	2021
Current income tax		
Incurred in the current		
year	\$ 138,576	\$ 121,261
Adjusted from prior years	(3,565)	953
Additional tax on		
undistributed		
earnings	557	5,089
	<u>135,568</u>	<u>127,303</u>
Deferred income tax		
Incurred in the current		
year	(2,445)	10,464
	<u>\$ 133,123</u>	<u>\$ 137,767</u>

Adjustments to accounting income and income tax expenses are as follows:

	2022	2021
Pre-tax net profit	<u>\$ 640,463</u>	<u>\$ 520,317</u>
Income tax expense on		
pre-tax net profit		
calculated at the		
statutory tax rate		
(20%)	\$ 128,093	\$ 104,063
Non-deductible expense		
and loss on tax		
(additional revenue		
included)	20,863	(5,807)
Unrecognized deductible		
temporary difference	(25,219)	22,031
Effect of different tax		
rates on subsidiaries		
operating in other		
jurisdictions	12,394	11,438
Adjustment to income tax		
in prior year	(3,565)	953
Additional tax on		
undistributed earnings	557	5,089
	<u>\$ 133,123</u>	<u>\$ 137,767</u>

For HEC and domestic subsidiaries under the consolidated company, the applicable tax rate is 20%. For the subsidiaries in Mainland China, the applicable tax rate is 25%. The amount of tax payable in any other jurisdiction will be calculated at the tax rate applicable to that jurisdiction.

(II) Income tax expense (profit) recognized in other comprehensive income

	2022	2021
<u>Deferred income tax</u>		
Incurred in the current year		
Share of other comprehensive income of associates accounted for using the equity method	(\$ 312)	\$ 388
Translation of foreign operations	795	(289)
Remeasurement of defined benefits plans	<u>402</u>	<u>54</u>
	<u><u>\$ 885</u></u>	<u><u>\$ 153</u></u>

(III) Income tax assets and liabilities in the current period

	December 31, 2022	December 31, 2021
Tax refund receivable	<u><u>\$ 103</u></u>	<u><u>\$ 64</u></u>
Income tax payable	<u><u>\$ 245,432</u></u>	<u><u>\$ 212,964</u></u>

(IV) Deferred income tax assets and liabilities

Changes in deferred income tax assets and liabilities are as follows:

2022

Deferred income tax assets	Starting balance	Recognized in profit/loss	Recognized in other comprehensive income	Exchange difference	Ending balance
<u>Temporary difference</u>					
Foreign long-term equity investments	\$ 7,575	(\$ 4,106)	(\$ 483)	\$ -	\$ 2,986
Loss offset	6,268	1,390	-	236	7,894
Allowance for loss on inventory devaluation	4,790	(959)	-	69	3,900
Refund liabilities	3,994	1,954	-	-	5,948
Allowance for bad debt	2,758	-	-	44	2,802
Unrealized gross sales margin	3,175	(1,461)	-	-	1,714
Accumulated impairment on property	1,200	-	-	-	1,200
Defined benefit retirement plan	1,640	-	(83)	-	1,557
Others	<u><u>\$ 2,120</u></u>	<u><u>\$ 4,464</u></u>	<u><u>(\$ 566)</u></u>	<u><u>\$ 349</u></u>	<u><u>\$ 6,584</u></u>
	<u><u><u>\$ 33,520</u></u></u>	<u><u><u>\$ 1,282</u></u></u>	<u><u><u>(\$ 1,163)</u></u></u>	<u><u><u>\$ 349</u></u></u>	<u><u><u>\$ 34,585</u></u></u>

Deferred income tax liabilities

Temporary difference				
Unrealized exchange profits	\$ 2,583	(\$ 1,193)	\$ -	\$ 1,390
Defined benefit retirement plan	<u><u>4,584</u></u>	<u><u>30</u></u>	<u><u>319</u></u>	<u><u>-</u></u>
	<u><u><u>\$ 7,167</u></u></u>	<u><u><u>(\$ 1,163)</u></u></u>	<u><u><u>\$ 319</u></u></u>	<u><u><u>\$ -</u></u></u>

2021

Deferred income tax assets	Starting balance	Recognized in profit/loss	Recognized in other comprehensive income	Exchange difference	Ending balance
<u>Temporary difference</u>					
Foreign long-term equity investments	\$ 8,372	\$ 408	(\$ 1,205)	\$ -	\$ 7,575
Allowance for bad debt	2,773	-	-	(15)	2,758
Unrealized gross sales margin	3,574	(399)	-	-	3,175
Accumulated impairment on property	1,200	-	-	-	1,200
Defined benefit retirement plan	2,299	(712)	53	-	1,640
Loss offset	6,331	-	-	(63)	6,268
Others	<u>20,157</u>	<u>(8,941)</u>	<u>(\$ 1,152)</u>	<u>(312)</u>	<u>10,904</u>
	<u><u>\$ 44,706</u></u>	<u><u>(\$ 9,644)</u></u>	<u><u>(\$ 1,152)</u></u>	<u><u>(\$ 390)</u></u>	<u><u>\$ 33,520</u></u>
<u>Deferred income tax liabilities</u>					
<u>Temporary difference</u>					
Unrealized exchange profits	\$ 1,796	\$ 787	\$ -	\$ -	\$ 2,583
Defined benefit retirement plan	4,444	33	107	-	4,584
Others	<u>1,106</u>	<u>-</u>	<u>(1,106)</u>	<u>-</u>	<u>7,167</u>
	<u><u>\$ 7,346</u></u>	<u><u>\$ 820</u></u>	<u><u>(\$ 999)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,167</u></u>

(V) Unused amount of loss offset of deferred income tax assets not recognized in the consolidated balance sheet

	December 31, 2022	December 31, 2021
Loss offset		
Maturing in 2022	\$ -	\$ 9,698
Maturing in 2023	19,788	19,788
Maturing in 2024	6,382	6,382
Maturing in 2025	3,745	3,745
Maturing in 2026	1,865	1,865
Maturing in 2027	3,735	3,735
Maturing in 2028	5,909	5,909
Maturing in 2029	4,873	4,873
Maturing in 2030	44,893	44,893
Maturing in 2031	<u>10,268</u>	<u>10,268</u>
	<u><u>\$ 101,458</u></u>	<u><u>\$ 111,156</u></u>

(VI) Consolidated amount of temporary differences relating to investments in subsidiaries without recognition of deferred income tax liabilities

To meet the need of foreign investee companies for working capital, the management of the consolidated company has decided that the undistributed earnings of foreign subsidiaries will be first used for permanent reinvestments

without any distribution of profit. Such temporary differences are unlikely to be reversed in the foreseeable future.

As of December 31, 2022 and 2021, the taxable temporary differences relating to the foregoing investments in subsidiaries without recognition of deferred income tax liabilities amounted to NTD2,222,541 thousand and NTD1,903,946 thousand respectively.

(VII) Approval of income tax

The returns of profit-seeking enterprise income tax of HEC and the domestic

subsidiaries LFE, FCC and OPT up until 2020 were approved by the tax authority.

XXVI. Earnings per share

The earning and the weighted average number of common shares used for calculation of EPS are as follows:

Net profit in the current year

	2022	2021
Net profit attributable to the owners of HEC	<u>\$ 368,776</u>	<u>\$ 296,754</u>

Number of shares

Unit: thousand shares

	2022	2021
Basic EPS		
Starting number of outstanding common shares	113,286	113,286
Less: Weighted average number of treasury shares	(808)	(302)
Weighted average number of common shares used for calculation of basic EPS	112,478	112,984
Effect of dilutive potential common shares:		
Remuneration for employees	1,391	968
Weighted average number of common shares used for calculation of diluted EPS	<u>113,869</u>	<u>113,952</u>

Where the consolidated company chooses to distribute the remuneration for employees in shares or cash, the diluted EPS is calculated by adding the number of dilutive potential common shares to the weighted average number of outstanding shares under the assumption that the remuneration for employees will be distributed in shares. The dilutive effect of the potential common shares will continue to be taken into account when

calculating the diluted EPS before a resolution is adopted in the next year on the number of shares distributable as the remuneration for employees.

XXVII. Agreement on share-based payment

2022

In June 2022, the subsidiary OPT issued employees' stock options for 2,870 thousand shares, the recipients of which included the employees of HEC and OPT. The stock options are valid for three years, and a holder of their warrants may, on each anniversary of the date of their issuance, exercise a certain percentage of such options granted.

	2022	
	Unit (thousand shares)	Weighted average price of issue (NTD)
<u>Employees' stock options</u>		
Outstanding at start of period	-	\$ -
Granted in the current period	<u>2,870</u>	11.7
Outstanding at end of period	<u><u>2,870</u></u>	
Weighted average fair value of employees' stock options granted in the current period (NTD)	<u><u>\$ 2.35</u></u>	

Regarding the employees' stock options granted by OPT to the employees of HEC and OPT in June 2022, OPT used the Black-Scholes pricing model adopting the following parameters:

Price on the grant date	11.7 元
Expected lifetime	2 年～2.5 年
Expected dividend yield	0%
Risk-free interest rate	1.212%～1.216%

In 2022, the consolidated company recognized NTD1,988 thousand as remuneration cost.

2021

In January 2021, we issued employees' stock options for 3,066 thousand treasury shares to recipients including the employees of HEC and subsidiaries, with their vesting criteria being immediate vesting. Their issuance was completed in January 2021.

The following is the information of employees' stock options for treasury shares:

	2021	
Employees' stock options for treasury shares	Unit (thousand shares)	Weighted average price of issue (NTD)
Outstanding at start of period	-	\$ -
Granted in the current period	3,066	26.0656
Issued in the current period	(3,066)	26.0656
Outstanding at end of period	-	
Weighted average fair value of employees' stock options for treasury shares granted in the current period	<u>\$ 16.79</u>	

Regarding the employees' stock options for treasury shares granted in January 2021, we have used the Black-Scholes pricing model adopting the following parameters:

Transfer price	26.0656 元
Expected lifetime	7 天
Share price on the date of granting	42.85 元
Expected rate of share price fluctuation	10.971%
Expected dividend yield	0%
Risk-free interest rate	0.35%

The expected rate of share price fluctuation is based on the annualized standard deviation of the daily returns during December 25, 2020 to January 5, 2021. In 2021, the recognized remuneration cost was NTD51,478 thousand, and the capital reserves generated by transferring treasury shares to employees amounted to NTD51,270 thousand.

XXVIII. Capital risk management

The chief management of the consolidated company periodically reviews its capital structure, including consideration of the costs and relevant risks of all categories of capital. Therefore, the consolidated company engages in capital management for the purpose of ensuring the availability of required financial resources and operational plans to meet the needs for working capital, capital expenditure, R&D expense, debt repayment and dividend expense in the next 12 months.

XXIX. Financial instruments

(I) Fair value information – financial instruments not measured at fair value

The management of the consolidated company considers the carrying value of financial assets and liabilities not measured at fair value to be near its fair value.

(II) Fair value information – financial instruments measured at fair value on a

recurring basis

3. Fair value hierarchy

December 31, 2022

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u> <u>measured at fair</u> <u>value through</u> <u>profit/loss</u>				
Derivative instruments	\$ _____ -	\$ 16,652	\$ _____ -	\$ 16,652
<u>Financial liabilities</u> <u>measured at fair</u> <u>value through</u> <u>profit/loss</u>				
Derivative instruments	\$ _____ -	\$ 120	\$ _____ -	\$ 120

December 31, 2021

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u> <u>measured at fair</u> <u>value through</u> <u>profit/loss</u>				
Derivative instruments	\$ _____ -	\$ 8,492	\$ _____ -	\$ 8,492

There was no transfer of fair value measurement between Level 1 and Level 2 in 2022 and 2021.

4. Valuation techniques and inputs for Level 2 fair value measurement

Type of financial instruments	Valuation techniques and inputs
Derivative instrument – forward foreign exchange contract	Method of discounted cash flow: Future cash flows are estimated using observable forward exchange rates at the end of period and the exchange rates determined in contracts, and are discounted at a discount rate able to reflect the credit risk of each counterparty.

(III) Types of financial instruments

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial assets</u>		
Financial assets measured at amortized cost (Note 1)	\$ 4,271,890	\$ 3,805,942
Measured at fair value through profit/loss – held for transactions	16,652	8,492
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	3,518,058	3,871,464
Measured at fair value through profit/loss – held for transactions	120	-

Note 1: The balance included the financial assets measured at amortized cost, such as cash and cash equivalents, notes and accounts receivable, other receivables, financial assets measured at amortized cost and guarantee deposits paid.

Note 2: The balance includes financial liabilities measured at amortized cost, such as short-term loans, short-term bills payable, notes and accounts payable (including related parties), other payables and deposits received.

(IV) Purposes and policies of financial risk management

The primary financial instruments of the consolidated company include cash and cash equivalents, payments receivable, payments and loans payable and short-term bills payable. The financial management department of the consolidated company is responsible for providing services to business units, planning and coordinating operations for entry into domestic and international financial markets, and monitoring and managing financial risks in relation to the operations of the consolidated company using internal risk reports that analyze risk exposure based on the level and scope of risks. Such risks include market risks (including exchange rate risk, interest rate risk and other price risks), credit risk and liquidity risk.

1. Market risks

The risks of change in foreign exchange rates (see (1) “Exchange rate risk” below) and in interest rates (see (2) below) are the major financial risks borne by the consolidated company as a result of its operating activities.

There has been no change in exposure of the consolidated company to the market risks of financial instruments or our methods for management and measurement of such exposure.

(1) Exchange rate risk

The consolidated company engages in transactions of the sale and purchase of goods denominated in foreign currencies, exposing it to the risk of change in foreign exchange rates. For the management of exposure of the consolidated company to exchange rate risk, forward foreign exchange contracts are used to manage risks to the extent permitted by policies.

For the carrying amounts of monetary assets and liabilities of the consolidated company denominated in non-functional currencies on the balance sheet date (including the monetary items denominated in non-functional currencies and written off in the consolidated financial statements), see Note 33.

Sensitivity analysis

Sensitivity analysis mainly focuses on calculation of the monetary items of foreign currencies on the end date of the financial reporting period. The consolidated company is affected primarily by fluctuations in the exchange rates of USD and RMB.

The following table describes in detail the sensitivity analysis of the consolidated company in the event where the exchange rate of the functional currency to each foreign currency increases or decreases by 1%. 1% is the sensitivity rate used in an internal report to the primary management of the group regarding exchange rate risk, and also represents the range of reasonable possible change in foreign exchange rates as assessed by its management. Sensitivity analysis only focuses on the outstanding monetary items of foreign currencies and makes adjustment to their translation at end of year with an exchange rate change of 1%. The positive number in the following table means the amount of increase in the pre-tax net profit when the functional currency depreciates by 1% against each foreign currency. When the functional currency appreciates by 1% against each foreign currency, the effect on the pre-tax net profit is

a negative number of the same amount.

	2022	2021
USD	\$ 24,293	\$ 18,582
RMB	(5)	(1,067)

(2) Interest rate risk

The interest rate risk exposure occurs due to the borrowing of funds by the consolidated company at both fixed and floating interest rates. The consolidated company manages interest rate risks by maintaining a proper combination of fixed and floating interest rates. The carrying amounts of the financial assets and liabilities of the consolidated company exposed to the interest rate risk on the balance sheet date are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
With cash flow		
interest rate risk		
Financial assets	\$ 1,301,747	\$ 1,227,635
Financial liabilities	967,000	787,000

Assessment by the consolidated company has indicated no significant fair value risk with regard to bonds with conditions for repurchase, time bank deposits with fixed interest rate, short-term loans, short-term bills payable and lease liabilities held by it.

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposure of non-derivative instruments on the balance sheet date. The analysis focuses on assets and liabilities with floating interest rates under the assumption that the amounts of outstanding assets and liabilities on the balance sheet date are outstanding over the reporting period. A 1% increase or decrease in interest rate is the rate of change used in an internal report to the group's primary management regarding interest rate, and also represents the range of reasonable possible change in interest rate as assessed by its management.

If the interest rate increases/decrease by 1% with all other variables remaining constant, the pre-tax net profits of the consolidated company in 2022 and 2021 would increase/decrease by NTD3,347

thousand and NTD4,406 thousand respectively, mainly due to the interest rate risk exposure of the cash flows of its deposits and loans with floating interest rate.

2. Credit risk

Credit risk means the risk of financial loss incurred by the consolidated company as a result of a delay by the counterparty in fulfilling contractual obligations. The greatest credit risk exposure of financial losses the consolidated company is likely to incur as of the balance sheet date due to failure of the counterparty to fulfill its obligations and provision of financial guarantees by the consolidated company primarily arises from the carrying amount of financial assets recognized in the consolidated balance sheet.

The counterparties of the consolidated company are all companies with good credit, so there is unlikely to be any significant credit risk. The consolidated company will continue to assess the financial conditions of the customers from which accounts are receivable.

In the balance of accounts receivable, the total accounts receivable from customers with a significant concentration are as follows:

	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Company A	\$ 567,594	29	\$ 433,879	20
Company B	149,387	8	238,759	11

3. Liquidity risk

The consolidated company manages and maintains cash and cash equivalents for sufficient positions to sustain the group's operations and mitigate the effects of fluctuations in cash flows, and it continues to maintain sufficient undisbursed amounts for loan commitments.

Bank loans are an important source of liquidity for the consolidated company. For undisbursed financing amounts of the consolidated company, see the description in "(3) Financing limit" below.

(1) Table of liquidity and interest rate risks of non-derivative financial liabilities

The analysis of maturity of the remaining contracts of non-derivative financial liabilities is prepared based on the earliest date when the consolidated company is likely to be required to make

repayment and the undiscounted cash flow of financial liabilities (including principal and estimated interest). Thus, any bank loan for which the consolidated company is likely to be required to make immediate repayment is listed within the earliest period in the following table, regardless of the probability of the bank enforcing its rights immediately, and the analysis of maturity of other non-derivative financial liabilities is prepared based on the agreed repayment date.

For the cash flow of interest paid at a floating interest rate, the undiscounted amount of interest is derived according to the yield curve on the balance sheet date.

December 31, 2022

	Within 3 months	3 to 6 months	Over 6 months
<u>Non-derivative financial liabilities</u>			
Non-interest-bearing liabilities	\$ 1,875,697	\$ 11,186	\$ 1,175
Instruments with floating interest rate	569,746	251,034	150,266
Instruments with fixed interest rate	546,039	118,306	-
Lease liabilities	8,813	8,723	68,344
	<u>\$ 3,000,295</u>	<u>\$ 389,249</u>	<u>\$ 219,785</u>

Further information for analysis of the maturity of lease liabilities is as follows:

	Less than 1 year	1 to 5 years
Lease liabilities	<u>\$ 34,686</u>	<u>\$ 51,194</u>

December 31, 2021

	Within 3 months	3 to 6 months	Over 6 months
<u>Non-derivative financial liabilities</u>			
Non-interest-bearing liabilities	\$ 2,053,598	\$ 10,151	\$ 748
Instruments with floating interest rate	543,053	245,249	-
Instruments with fixed interest rate	1,020,922	-	-
Lease liabilities	7,969	8,133	63,100
	<u>\$ 3,625,542</u>	<u>\$ 263,533</u>	<u>\$ 63,848</u>

Further information for analysis of the maturity of lease liabilities is as follows:

	Less than 1 year	1 to 5 years
Lease liabilities	<u>\$ 29,822</u>	<u>\$ 49,380</u>

(2) Table of liquidity and interest rate risks of derivative financial liabilities

In terms of derivative instruments settled on a gross basis, the analysis of the liquidity of derivative financial instruments is prepared based on the total undiscounted cash inflows and outflows. Where the amount receivable or payable is not fixed, the disclosed amount is determined at an interest rate estimated according to the yield curve on the balance sheet date.

December 31, 2022

	Within 3 months	4 to 6 months
<u>Gross settlement</u>		
Forward foreign exchange contract		
– inflow	\$ 836,458	\$ 251,472
– outflow	<u>813,407</u>	<u>257,991</u>
	<u>\$ 23,051</u>	<u>(\$ 6,519)</u>

December 31, 2021

	Within 3 months	4 to 6 months
<u>Gross settlement</u>		
Forward foreign exchange contract		
– inflow	\$ 732,289	\$ 239,888
– outflow	<u>724,959</u>	<u>238,726</u>
	<u>\$ 7,330</u>	<u>\$ 1,162</u>

(3) Financing limit

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Limit of credit loan		
Disbursed amount	\$ 1,630,500	\$ 1,808,500
Undisbursed amount	<u>3,919,500</u>	<u>3,671,500</u>
	<u><u>\$ 5,550,000</u></u>	<u><u>\$ 5,480,000</u></u>
Limit of mortgaged and secured loans		
Disbursed amount	\$ -	\$ 8,254
Undisbursed amount	<u>652,640</u>	<u>694,626</u>
	<u><u>\$ 652,640</u></u>	<u><u>\$ 702,880</u></u>

XXX. Related party transactions

The following are material transactions between the consolidated company and related parties:

(I) Names of related parties and their relationship with the consolidated company

	Name of related party	Relationship with the consolidated company
	Dongguan Chaofeng Laser Precision Machinery Co., Ltd. (Dongguan Chaofeng)	Associate

(II) Purchase

	Type of related party	2022	2021
	Associate	<u>\$ 28,247</u>	<u>\$ 44,166</u>

In terms of the transaction price and payment period of the consolidated company's purchase from a related party, there is no comparable case of transaction with a non-related party. The payment and loan period for a related party is approximately 3 months, while the payment period for a regular customer is approximately 2-3 months.

(III) Payments payable to related parties

	Type/Name of related party	December 31, 2022	December 31, 2021
Account item	Associate	<u>\$ 10,427</u>	<u>\$ 22,920</u>

(IV) Remuneration for key management

	2022	2021
Short-term employee benefits	\$ 71,071	\$ 56,282
Post-employment benefits	285	413
Share-based payment	<u>1,610</u>	<u>13,818</u>
	<u><u>\$ 72,966</u></u>	<u><u>\$ 70,513</u></u>

The remuneration for directors and other key management is determined by

the Remuneration Committee based on personal performance and market trends.

XXXI. Pledged and mortgaged assets

The following assets have been provided to financial institutions as collateral for the forward foreign exchange guarantees and consolidated credit line of the consolidated company:

	December 31, 2022	December 31, 2021
Investment property	\$ 53,038	\$ 53,945
Financial assets measured at amortized cost – current	47,706	33,623
Land	-	106,130
Premises and buildings – net	<u>-</u>	<u>10,076</u>
	<u><u>\$ 100,744</u></u>	<u><u>\$ 203,774</u></u>

XXXII. Material contingent liabilities and unrecognized contractual commitments

The following are the material commitments and contingencies of the consolidated company on the balance sheet date, other than those already described in other notes:

- (I) In 2021, ASCION, LLC dba REVERIE (ASCION) initiated commercial arbitration at the American Arbitration Association against the subsidiary OPT regarding product defects and shipping delays, claiming damages of more than USD18,000 thousand, while the subsidiary OPT also claimed damages of USD7,500 thousand from ASCION for breach of their transaction agreement. As of December 31, 2022, no hearing had been held for the arbitration. The consolidated company has assessed that the arbitration case has no significant adverse effect.
- (II) As of December 31, 2022 and 2021, the letters of guarantee issued by banks for imported goods as requested by the consolidated company amounted to NTD500 thousand and NTD1,500 thousand, respectively.
- (III) As of December 31, 2022 and 2021, the balance of unused letters of credit issued by the consolidated company for purchase of raw materials was NTD0 and

NTD8,254 thousand, respectively.

XXXIII. Information of foreign currency assets and liabilities with significant effect

The following information is summarized and presented based on foreign currencies other than the functional currencies of the entities in the consolidated company. The disclosed exchange rate represents the rate at which each such foreign currency is translated to the functional currency. The following are foreign currency assets and liabilities with significant effect:

Unit: Each foreign currency/NTD thousand

December 31, 2022

Foreign currency assets	Foreign currency	Exchange rate	Carrying amount
<u>Monetary item</u>			
USD	\$ 89,317	30.71 (USD:NTD)	\$ 2,762,842
USD	50,318	6.9654 (USD:RMB)	1,572,261
USD	748	133.23 (USD:JPY)	23,160
RMB	454	4.4053 (RMB:NTD)	2,000
<u>Non-monetary item</u>			
Associates accounted for using the equity method			
USD	789	30.71 (USD:NTD)	24,222
<u>Foreign currency liabilities</u>			
<u>Monetary item</u>			
USD	57,713	30.71 (USD:NTD)	1,781,321
USD	3,994	7.1610 (USD:RMB)	126,696
USD	679	132.70 (USD:JPY)	20,940
RMB	571	4.408 (RMB:NTD)	2,515

December 31, 2021

Foreign currency assets	Foreign currency	Exchange rate	Carrying amount
<u>Monetary item</u>			
USD	\$ 98,436	27.68 (USD:NTD)	\$ 2,724,733
USD	38,105	6.3756 (USD:RMB)	1,055,067
USD	1,607	115.02 (USD:JPY)	44,458
RMB	600	4.35 (RMB:NTD)	2,607

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Foreign currency assets	Foreign currency	Exchange rate	Carrying amount
<u>Non-monetary item</u>			
Associates accounted for using the equity method			
USD	\$ 974	27.68 (USD:NTD)	\$ 26,956
<u>Foreign currency liabilities</u>			
<u>Monetary item</u>			
USD	60,369	27.68 (USD:NTD)	1,670,959
USD	7,624	6.4016 (USD:RMB)	212,498
USD	1,480	115.09 (USD:JPY)	40,980
USD	1,505	1,177.87 (USD:KRW)	41,647
RMB	25,311	4.2868 (RMB:NTD)	109,333

The net (realized and unrealized) foreign exchange profits/losses of the consolidated company in 2022 and 2021 amounted to a profit of NTD135,687 thousand and a loss of NTD26,614 thousand, respectively. Due to the great number of foreign currencies used for transactions and functional currencies of the entities under our group, it is not possible to disclose the exchange profit/loss of each foreign currency with significant effect.

XXXIV. Note disclosures

(I) Information of material transactions:

1. Funds loaned to others. (Table 1)
2. Endorsements/guarantees to others. (Table 2)
3. Securities held at end of period (excluding those controlled by investee subsidiaries and associates). (Table 3)
4. Cumulative amount of purchase or sale of the same securities equaling or exceeding NTD300 million or 20% of the paid-up capital. (None)
5. Amount of acquisition of real property equaling or exceeding NTD300 million or 20% of the paid-up capital. (None)
6. Amount of disposal of real property equaling or exceeding NTD300 million or 20% of the paid-up capital. (None)
7. Amount of purchase/sale of goods from/to related parties equaling or exceeding NTD100 million or 20% of the paid-up capital. (Table 4)
8. Payments receivable from related parties equaling or exceeding NTD100

million or 20% of the paid-up capital. (Table 5)

9. Transactions of derivative instruments. (Note 7)
10. Others: The business relationship and important transactions between the parent company and its subsidiaries, and between subsidiaries. (Table 8)

(II) Information of investee companies (Table 6)

(III) Information of investments in Mainland China:

1. The names, scope of primary business and amounts of paid-in capital of the investee companies in Mainland China, the methods of investment, funds remitted inwardly and outwardly, shareholdings, profits/losses of current period and investment profits/losses recognized, the carrying amounts of investment at end of period, remitted investment profits/losses, and limits on the amount of investments in Mainland China. (Table 7)
2. The following material transactions with the investee companies in Mainland China directly or indirectly through a third area, and the prices, payment terms and unrealized profits/losses of such transactions:
 - (1) The amount and percentage of purchases, and the ending balance and percentage of the relevant payments payable. (Table 9)
 - (2) The amount and percentage of sales, and the ending balance and percentage of the relevant payments receivable. (Table 9)
 - (3) The amount of property transactions and the resulting amount of profits or losses. (None)
 - (4) The ending balance and purposes of note endorsements/guarantees or collateral provided. (Table 2)
 - (5) The maximum balance, ending balance, interest rate range and total current interest for financing of funds. (Table 1)
 - (6) Other transactions with material effect on current profits or losses or on the financial conditions, such as the rendering or receiving of services. (None)

(IV) Information of major shareholders: The names of shareholders with a shareholding of no less than 5%, and the number and percentage of shares held by each of them. (Table 10)

XXXV. Segment information

(I) Description of the operating segment

Information provided to the chief operating decision-maker for allocating resources and evaluating segment performance focuses on the operating management model of the managing body, with the primary functions of the operational headquarters, the departments for production and sales of medical devices and the department for server chassis as its basis of identification. The following are the reportable segments of the consolidated company:

Operational headquarters – Mainly HEC, where the primary functions are performed by the business, administrative, manufacturing and R&D departments.

Manufacturing – Mainly the subsidiaries of the consolidated company in Mainland China, including WCX, WSE, WSF, DWC, WJA and WCF, where the primary functions include production, manufacturing and R&D.

Channels – Mainly the subsidiaries of the domestic and foreign sales channels of the consolidated company, including FCC, WYT, JCC, UCC and KCC, where the primary functions include marketing and sales.

Department for medical devices – Mainly OPT and the subsidiaries of the consolidated company, where the primary functions include the manufacturing, sales and purchase of medical devices and equipment.

Department for server chassis – Mainly LFE and the subsidiaries of the consolidated company, where the primary functions include the manufacturing, sales and purchase of server chassis.

Other – Mainly other holding or trading companies of the consolidated company, including GVG, WII, GSG, HIT, GPH and GTH, where the primary functions include shareholdings in investee companies, order management and funding management.

(II) Segment revenues and operating results

The following is an analysis of the revenues and operating results of the consolidated company by reportable segment:

	Operational headquarters	Manufacturing	Channels	Department for medical devices	Department for server chassis	Others	Adjustment and write-off	Amount after adjustment
2022								
Segment revenue from customers other than the company	\$ 3,898,227	\$ 85,850	\$ 523,374	\$ 345,441	\$ 1,522,550	\$ -	\$ -	\$ 6,375,442
Segment revenue from other segments in the company	234,734	3,279,278	83,257	110,854	2,762,062	-	(6,470,185)	-
Total revenue	<u>\$ 4,132,961</u>	<u>\$ 3,365,128</u>	<u>\$ 606,631</u>	<u>\$ 456,295</u>	<u>\$ 4,284,612</u>	<u>\$ -</u>	<u>(\$ 6,470,185)</u>	<u>\$ 6,375,442</u>
Segment profit/loss	<u>\$ 111,487</u>	<u>\$ 71,908</u>	<u>(\$ 75,485)</u>	<u>(\$ 9,812)</u>	<u>\$ 334,125</u>	<u>(\$ 41,529)</u>	<u>\$ 89,757</u>	<u>\$ 480,451</u>
Interest income								24,479
Other incomes								68,790
Other profits and losses								92,348
Financial cost								(22,233)
Share of profits/losses of associates accounted for using the equity method								(3,372)
Pre-tax net profit								<u>\$ 640,463</u>
2021								
Segment revenue from customers other than the company	\$ 5,587,049	\$ 83,558	\$ 501,064	\$ 609,746	\$ 1,511,772	\$ -	\$ -	\$ 8,293,189
Segment revenue from other segments in the company	303,133	2,170,098	706,959	104,978	3,983,938	-	(7,269,106)	-
Total revenue	<u>\$ 5,890,182</u>	<u>\$ 2,253,656</u>	<u>\$ 1,208,023</u>	<u>\$ 714,724</u>	<u>\$ 5,495,710</u>	<u>\$ -</u>	<u>(\$ 7,269,106)</u>	<u>\$ 8,293,189</u>
Segment profit/loss	<u>\$ 157,901</u>	<u>\$ 52,382</u>	<u>\$ 1,664</u>	<u>(\$ 71,815)</u>	<u>\$ 280,722</u>	<u>(\$ 24,642)</u>	<u>\$ 53,031</u>	<u>\$ 449,243</u>
Interest income								18,873
Other incomes								85,086
Other profits and losses								(14,041)
Financial cost								(19,003)
Share of profits/losses of associates accounted for using the equity method								159
Pre-tax net profit								<u>\$ 520,317</u>

Segment profit means the profit earned by each segment. The consolidated company has not allocated non-operating revenues and expenses (including interest income and expense, profit on disposal of investments and exchange profit/loss) and income tax expense to the reportable segments. The measured amount is provided to the chief operating decision-maker for allocating resources to a segment and evaluating its performance.

The chief operating decision-maker of the consolidated company makes a decision based on the operating result of each segment and does not evaluate the information of classified assets and liabilities for the performance of different business activities. Therefore, only the operating results of the reportable segments are presented.

(III) Information by region

The consolidated company mainly operates in three regions – Asia, Europe and Americas.

The following is the information of the consolidated company's revenue from the operations of external customers, listed by the region of external customers, and non-current assets, listed by the region where the consolidated company operates:

	Revenues from external customers		Non-current assets	
	2022	2021	December 31, 2022	December 31, 2021
Asia	\$ 4,504,464	\$ 5,638,264	\$ 1,595,829	\$ 1,786,774
Americas	465,893	932,140	18,307	23,410
Europe	1,375,954	1,673,074	-	-
Others	29,131	49,711	-	-
	<u>\$ 6,375,442</u>	<u>\$ 8,293,189</u>	<u>\$ 1,614,136</u>	<u>\$ 1,810,184</u>

Non-current assets do not include investments accounted for using the equity method, goodwill and those classified as financial assets, deferred income tax assets and net defined benefit assets.

(IV) Information of major customers

The following are details of the consolidated company whose respective sales revenue accounts for no less than 10% of the net sales revenue in the statement of consolidated income:

	2022		2021	
	Amount	%	Amount	%
Company A	\$ 1,500,388	24	\$ 1,981,676	24
Company B	461,698	7	963,690	12
	<u>\$ 1,962,086</u>	<u>31</u>	<u>\$ 2,945,366</u>	<u>36</u>

Appendix 2 Parent-only financial report audited and certified by CPAs in the most recent year

CPA's Audit Report

To Compucase Enterprise Co., Ltd.:

Audit opinions

We audited the parent-only balance sheets of Compucase Enterprise Co., Ltd. (“HEC”) as of December 31, 2022 and 2021, its parent-only statements of comprehensive income, parent-only statements of changes in equity and parent-only statements of cash flows for the periods from January 1 to December 31, 2022 and 2021, and the notes to its parent-only financial statements (including the summary of material accounting policies).

According to the result of our audit, with respect to all material aspects, the foregoing parent-only financial statements were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and thus provided a fair presentation of the parent-only financial positions of HEC as of December 31, 2022 and 2021 and the parent-only financial performance and cash flows for the periods from January 1 to December 31, 2022 and 2021.

Basis of Audit Opinions

We conducted audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and relevant auditing standards. All personnel at our firm who are subject to independence requirements have, in accordance with the Standards of Professional Ethics for Certified Public Accountants, remained independent from HEC and have fulfilled all other responsibilities under the standards. We believe that we have acquired sufficient and appropriate audit evidence as the basis of our audit opinions.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the parent-only financial statements of HEC for 2022. Such matters were addressed in the context of our audit of the parent-only financial statements as a whole and, in forming our opinions thereon, we have not provided any separate opinion on these matters.

The following are the key audit matters in the parent-only financial statements of HEC for 2022:

Truthfulness of the recognition of revenues from certain customers

The main sources of revenues for HEC are revenues from the sales of computer chassis and power supplies. Its overall sales revenue in 2022 decreased from 2021, although the sales revenues from certain major customers saw significant growth. Therefore, in accordance with the requirement of the Statement of Auditing Standards that revenues be presumed as a significant risk, we have deemed the truthfulness of the recognition of the sales revenues from those certain customers to be a key audit matter.

The main audit procedures conducted by us include:

- I. Understanding and sample testing of the effectiveness of the design and implementation of internal controls related to the recognition of revenues.
- II. Sampling in the statements of sales revenues from certain customers and reviewing shipment certificates to confirm if such revenues have actually occurred.
- III. Reviewing samples of payment receipts to check if the payers match the purchasers.

Responsibilities of the Management and Governing Bodies for Parent-only Financial Statements

The management is responsible for preparing parent-only financial statements with fair presentation in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and maintaining the necessary internal control related to preparation of the parent-only financial statements to ensure that the parent-only financial statements are free of material misstatement due to fraud or error.

During preparation of the parent-only financial statements, the management is also responsible for evaluating HEC's going concern ability, disclosure of relevant matters and application of the going concern basis of accounting, unless the management intends to liquidate or cease the operation of HEC, or there are no other actual feasible solutions other than liquidation or cessation of operation.

The governing bodies (including the Audit Committee) of HEC are responsible for supervising the process of financial reporting.

Responsibilities of CPAs for the Audit of Parent-only Financial Statements

The purpose of our audit of the parent-only financial statements is to obtain reasonable assurance about whether the parent-only financial statements are free of material misstatements due to fraud or error, with an audit report issued thereafter. Reasonable assurance means a high degree of assurance. However, there is no guarantee that any material misstatement contained in the parent-only financial statements will be discovered during an audit conducted in accordance with relevant auditing standards. A misstatement may be due to fraud or error. A misstatement is deemed material if the individual or aggregate amount misstated is reasonably expected to affect economic decisions made by users of the parent-only financial statements.

We rely on our professional judgment and professional skepticism during an audit conducted in accordance with relevant auditing standards. We also perform the following tasks:

- I. We identify and assess the risk of misstatement in the parent-only financial statements due to fraud or error, design and implement appropriate measures in response to the assessed risk, and acquire sufficient and appropriate audit evidence as the basis of our audit opinions. Since fraud may involve collusion, forgery, intentional omission, fraudulent statement or violation of internal control, the risk of misstatement due to fraud is higher than that due to error.
- II. We acquire necessary understanding of the internal control related to an audit to design audit procedures appropriate for the current circumstances, provided that the purpose of the foregoing is not to express opinions regarding the effectiveness of the internal control of HEC.
- III. We assess the appropriateness of the accounting policies adopted by the management and the reasonableness of the accounting estimates and relevant disclosures made by the management.

- IV. We have drawn a conclusion about the appropriateness of the application of the going concern basis of accounting by the management and whether there is material uncertainty in an event or circumstances which may cast significant doubt about the ability of HEC to remain a going concern. If any material uncertainty is deemed to exist in such event or circumstance, we must provide a reminder in the audit report for the users of the parent-only financial statements to pay attention to the relevant disclosures therein, or revise our audit opinions when any such disclosure is inappropriate. Our conclusion is based on the audit evidence obtained as of the date of this audit report. However, future events or circumstances could result in a situation where HEC is no longer able to remain a going concern.
- V. We assess the overall presentation, structure and contents of the parent-only financial statements (including relevant notes) and whether the parent-only financial statements provide a fair presentation of the relevant transactions and events.
- VI. We acquire sufficient and appropriate audit evidence of the financial information of the entities forming HEC to provide opinions regarding the parent-only financial statements. We are responsible for guidance, supervision and implementation in relation to audit cases and for formation of audit opinions for HEC.

The matters for which we communicate with the governing bodies include the planned scope and time of audit, and our material audit findings (including the significant deficiencies of internal control identified during the audit).

We also provide a declaration to the governing bodies stating that our CPAs who are subject to independence requirements have complied with the independence requirements in the Standards of Professional Ethics for Certified Public Accountants, and we communicate with the governing bodies regarding all relationships and other matters (including relevant safeguard measures) which are deemed likely to affect the independence of CPAs.

The key audit matters in the audit of the parent-only financial statements of HEC for 2022 have been determined by us from the matters regarding which we have communicated with the governing bodies. We have specified such matters in the audit report, except where public disclosure of certain matters is prohibited by applicable laws or regulations, or where, under very exceptional circumstances, we have decided not to cover communicate certain matters in the audit report due to the reasonable expectation that any negative effect arising from such communication would be greater than the public interest enhanced.

Deloitte Taiwan

CPA Wang Teng-Wei

CPA Li Chi-Chen

No. of Approval Document from the
Financial Supervisory Commission
Jin-Guan-Zheng-Shen-Zi No. 1100356048

No. of Approval Document from the
Securities and Futures Commission
Tai-Cai-Zheng-Liu-Zi No. 0920123784

March 23, 2023

Compucase Enterprise Co., Ltd.

Parent-only Balance Sheet

December 31, 2022 and 2021

Unit: NTD thousand

Code	Asset	December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
	Current assets				
1100	Cash and cash equivalents (Notes 4 and 6)	\$ 634,160	10	\$ 533,774	9
1170	Net accounts receivable (Notes 4 and 7)	1,250,156	21	1,311,691	22
1180	Accounts receivable – related parties (Notes 4, 7 and 27)	49,005	1	96,633	2
1200	Other receivables (Note 4)	24,743	-	18,761	-
1210	Other receivables – related parties (Notes 4, 9 and 27)	176,162	3	66,993	1
130X	Inventory (Notes 4 and 8)	220,211	4	436,491	7
1410	Prepayments	3,276	-	4,885	-
1479	Other current assets	3,351	-	12,427	-
11XX	Total current assets	<u>2,361,064</u>	<u>39</u>	<u>2,481,655</u>	<u>41</u>
	Non-current assets				
1550	Investment under the equity method (Notes 4 and 9)	3,384,113	56	3,352,196	55
1600	Property, plant and equipment (Notes 4, 10, 27 and 28)	204,870	4	191,348	3
1755	Right-of-use assets (Notes 4 and 11)	1,963	-	2,945	-
1760	Investment property (Notes 4, 12 and 28)	53,741	1	54,648	1
1780	Intangible assets (Notes 4 and 13)	3,437	-	3,921	-
1840	Deferred income tax assets (Notes 4 and 22)	7,260	-	7,299	-
1915	Prepayments for equipment	17,688	-	11,263	-
1920	Deposits paid (Note 4)	1,303	-	1,483	-
15XX	Total non-current assets	<u>3,674,375</u>	<u>61</u>	<u>3,625,103</u>	<u>59</u>
1XXX	Total assets	<u>\$ 6,035,439</u>	<u>100</u>	<u>\$ 6,106,758</u>	<u>100</u>
	Liabilities and equity				
	Current liabilities				
2100	Short-term loans (Note 14)	\$ 1,608,000	27	\$ 1,665,000	27
2110	Short-term notes payable (Note 14)	-	-	59,977	1
2130	Contract liabilities – current (Note 20)	39,666	1	17,472	-
2170	Accounts payable (Note 15)	94,050	1	209,735	4
2180	Accounts payable – related parties (Notes 15 and 27)	1,126,278	19	1,074,231	18
2219	Other payables (Note 16)	125,324	2	128,166	2
2220	Other payables – related parties (Note 27)	360,942	6	406,826	7
2230	Current income tax liabilities (Notes 4 and 22)	36,752	1	17,489	-
2250	Liability provision – current (Notes 4 and 17)	5,959	-	4,339	-
2280	Lease liabilities – current (Notes 4 and 11)	1,039	-	978	-
2399	Other current liabilities	2,785	-	4,120	-
21XX	Total current liabilities	<u>3,400,795</u>	<u>57</u>	<u>3,588,333</u>	<u>59</u>
	Non-current liabilities				
2570	Deferred income tax liabilities (Notes 4 and 22)	-	-	2,583	-
2580	Lease liabilities – non-current (Notes 4 and 11)	1,102	-	2,141	-
2640	Net defined benefit liabilities – non-current (Notes 4 and 18)	7,791	-	8,205	-
2645	Deposits received	479	-	346	-
2670	Other non-current liabilities (Notes 4 and 9)	-	-	17,729	-
25XX	Total non-current liabilities	<u>9,372</u>	<u>-</u>	<u>31,004</u>	<u>-</u>
2XXX	Total liabilities	<u>3,410,167</u>	<u>57</u>	<u>3,619,337</u>	<u>59</u>
	Equity (Notes 4 and 19)				
3100	Share capital	1,132,856	18	1,132,856	19
3200	Capital reserves	<u>425,456</u>	<u>7</u>	<u>425,456</u>	<u>7</u>
	Retained earnings				
3310	Legal reserves	462,810	8	433,734	7
3320	Special reserves	325,826	5	302,988	5
3350	Undistributed earnings	591,666	10	518,213	8
3300	Total retained earnings	<u>1,380,302</u>	<u>23</u>	<u>1,254,935</u>	<u>20</u>
3400	Other equity	(254,240)	(4)	(325,826)	(5)
3500	Treasury stocks	(59,102)	(1)	-	-
3XXX	Total equity	<u>2,625,272</u>	<u>43</u>	<u>2,487,421</u>	<u>41</u>
	Total liabilities and equity	<u>\$ 6,035,439</u>	<u>100</u>	<u>\$ 6,106,758</u>	<u>100</u>

The notes attached hereto constitute part of this parent-only financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

CompuCase Enterprise Co., Ltd.
 Parent-only Statement of Comprehensive Income
 January 1 to December 31, 2022 and 2021

Unit: NTD thousand; Earnings per share (EPS): NTD

Code		2022		2021	
		Amount	%	Amount	%
4100	Operating revenue (Notes 4, 20 and 27)	\$ 4,132,961	100	\$ 5,890,182	100
5110	Operating cost (Notes 8, 21 and 27)	<u>3,699,487</u>	<u>89</u>	<u>5,302,801</u>	<u>90</u>
5900	Gross operating profit	<u>433,474</u>	<u>11</u>	<u>587,381</u>	<u>10</u>
5910	Unrealized profits with subsidiaries	(2,354)	-	(9,858)	-
5920	Realized profits with subsidiaries	<u>9,858</u>	<u>-</u>	<u>8,836</u>	<u>-</u>
5950	Realized gross operating profit	<u>440,978</u>	<u>11</u>	<u>586,359</u>	<u>10</u>
	Operating expense (Notes 7, 21 and 27)				
6100	Marketing expense	201,412	5	283,016	5
6200	Management expense	75,268	2	86,403	1
6300	R&D expense	50,232	1	62,165	1
6450	Expected credit Impairment loss (reversal profit)	<u>2,579</u>	<u>-</u>	(<u>3,127</u>)	<u>-</u>
6000	Total operating expenses	<u>329,491</u>	<u>8</u>	<u>428,457</u>	<u>7</u>
6900	Net operating profit	<u>111,487</u>	<u>3</u>	<u>157,902</u>	<u>3</u>
	Non-operating revenues, expenses and losses (Notes 4, 9, 21 and 27)				
7100	Interest income	5,202	-	2,034	-
7010	Other incomes	44,096	1	57,482	1
7020	Other profits and losses	36,126	1	(5,537)	-
7050	Financial cost	(19,913)	(1)	(15,073)	-
7070	Share of interests of subsidiaries accounted for using the equity method	<u>228,463</u>	<u>6</u>	<u>140,271</u>	<u>2</u>
7000	Total non-operating revenues and expenses	<u>293,974</u>	<u>7</u>	<u>179,177</u>	<u>3</u>
7900	Pre-tax net profit	405,461	10	337,079	6
7950	Income tax expenses (Notes 4 and 22)	<u>36,685</u>	<u>1</u>	<u>40,325</u>	<u>1</u>

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Code		2022		2021	
		Amount	%	Amount	%
8200	Net profit in the current year	\$ 368,776	9	\$ 296,754	5
	Other comprehensive income (Notes 4, 18, 19 and 22)				
	Items not reclassified as profit or loss				
8311	Remeasurement of defined benefits plans	414	-	(269)	-
8316	Unrealized valuation profit/loss on investments in equity instruments measured at fair value through other comprehensive income	-	-	1,756	-
8330	Share of other comprehensive income of subsidiaries accounted for using the equity method	646	-	315	-
8349	Income tax related to items not reclassified	(83)	-	54	-
8310	Items likely to be subsequently reclassified as profit or loss	977	-	1,856	-
8361	Exchange differences on translation of financial statements of foreign operations	55,623	1	(22,867)	-
8380	Share of other comprehensive income of subsidiaries accounted for using the equity method	15,963	1	(7,822)	-
8360	71,586	2		(30,689)	-
8300	Other comprehensive income (net after-tax) in the current year	72,563	2	(28,833)	-
8500	Total comprehensive income in the current year	\$ 441,339	11	\$ 267,921	5
9750	EPS (Note 23)	\$ 3.28		\$ 2.63	
9850	Basic				
	Diluted	3.24		2.60	

The notes attached hereto constitute part of this parent-only financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

Compucase Enterprise Co., Ltd.

Parent-only Statement of Changes in Equity

January 1 to December 31, 2022 and 2021

Unit: NTD thousand

EPS unit: NTD

	Retained earnings					Other equity					
	Share capital	Capital reserves	Legal reserves	Special reserves	Undistributed earnings	Exchange differences on translation of financial statements of foreign operations	Unrealized profit/loss on financial assets measured at fair value through other comprehensive income	Total other equity	Treasury stocks	Total equity	
A1	January 1, 2021	\$ 1,132,856	\$ 374,186	\$ 387,146	\$ 337,959	\$ 590,256	(\$ 229,733)	(\$ 73,255)	(\$ 302,988)	(\$ 79,885)	\$ 2,439,530
	Allocation and distribution of earnings in 2020 (Note 19)										
B1	Legal reserves	-	-	46,588	-	(46,588)	-	-	-	-	-
B3	Special reserves	-	-	-	(34,971)	34,971	-	-	-	-	-
B5	Cash dividends – NTD3.1 per share	-	-	-	-	(351,185)	-	-	-	-	(351,185)
D1	Net profit in 2021	-	-	-	-	296,754	-	-	-	-	296,754
D3	Other after-tax comprehensive income in 2021	-	-	-	-	100	(30,689)	1,756	(28,933)	-	(28,833)
D5	Total comprehensive income in 2021	-	-	-	-	296,854	(30,689)	1,756	(28,933)	-	267,921
N1	Share-based payment (Notes 4 and 24)	-	51,270	-	-	-	-	-	-	79,885	131,155
Q1	Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	(6,095)	-	6,095	-	-	-
Z1	Balance on December 31, 2021	1,132,856	425,456	433,734	302,988	518,213	(260,422)	(65,404)	(325,826)	-	2,487,421
	Allocation and distribution of earnings in 2021 (Note 19)										
B1	Legal reserves	-	-	29,076	-	(29,076)	-	-	-	-	-
B3	Special reserves	-	-	-	22,838	(22,838)	-	-	-	-	-
B5	Cash dividends – NTD2.0 per share	-	-	-	-	(226,571)	-	-	-	-	(226,571)
D1	Net profit in 2022	-	-	-	-	368,776	-	-	-	-	368,776
D3	Other after-tax comprehensive income in 2022	-	-	-	-	977	71,586	-	71,586	-	72,563
D5	Total comprehensive income in 2022	-	-	-	-	369,753	71,586	-	71,586	-	441,339
M5	Actually acquired partial equity of subsidiaries (Note 9)	-	-	-	-	(17,815)	-	-	-	-	(17,815)
L1	Purchase of treasury stocks (Note 19)	-	-	-	-	-	-	-	(59,102)	(59,102)	(59,102)
Z1	Balance on December 31, 2022	\$ 1,132,856	\$ 425,456	\$ 462,810	\$ 325,826	\$ 591,666	(\$ 188,836)	(\$ 65,404)	(\$ 254,240)	(\$ 59,102)	\$ 2,625,272

The notes attached hereto constitute part of this parent-only financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

Compucase Enterprise Co., Ltd.
Parent-only Statement of Cash Flows
January 1 to December 31, 2022 and 2021

Unit: NTD thousand

Code		2022	2021
	Cash flow from operating activities		
A10000	Pre-tax net profit in the current year	\$ 405,461	\$ 337,079
A20000	Profits, expenses and losses:		
A20100	Depreciation expense	20,057	15,276
A20200	Amortization expense	1,314	2,387
A20300	Expected credit Impairment loss (reversal profit)	2,579	(3,127)
A20900	Financial cost	19,913	15,073
A21200	Interest income	(5,202)	(2,034)
A21900	Remuneration cost for share-based payment	189	51,478
A22400	Share of interests of subsidiaries accounted for using the equity method	(228,463)	(140,271)
A23900	Unrealized profits with subsidiaries	2,354	9,858
A24000	Realized profits with subsidiaries	(9,858)	(8,836)
A29900	Others	355	734
A30000	Net changes in operating assets and liabilities		
A31150	Accounts receivable	88,394	815,522
A31160	Accounts receivable – related parties	38,025	18,351
A31180	Other receivables	(5,977)	17,735
A31190	Other receivables – related parties	1,828	60,794
A31200	Inventory	215,925	(153,066)
A31230	Prepayments	1,609	(1,399)
A31240	Other current assets	9,076	(4,080)
A32125	Contract liabilities	(7,244)	(21,266)
A32130	Notes payable	-	(6)
A32150	Accounts payable	(115,685)	(16,768)
A32160	Accounts payable – related parties	52,047	(224,359)
A32180	Other payables	(2,810)	(28,116)
A32190	Other payables – related parties	(3,508)	(4,964)
A32200	Liability provision – current	1,620	(2,408)
A32230	Other current liabilities	(1,335)	(2,129)
A32240	Net defined benefit liabilities	-	(3,560)
A33000	Cash generated from operations	<u>480,664</u>	<u>727,898</u>
A33100	Interest received	5,713	1,758
A33300	Interest paid	(19,157)	(15,139)
A33500	Income tax paid	(20,049)	(56,674)
AAAA	Net cash inflow from operating activities	<u>447,171</u>	<u>657,843</u>

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Code		2022	2021
	Cash flow from investing activities		
B00020	Disposal of financial assets measured at fair value through other comprehensive income	\$ -	\$ 83,990
B02400	Share payments returned on capital reduction in investee companies accounted for using the equity method	-	166,362
B02700	Acquisition of property, plant and equipment	(1,576)	(19,499)
B02800	Proceeds from disposal of property, plant and equipment	-	923
B03700	Increase in deposits paid	(160)	(339)
B03800	Decrease in deposits paid	339	-
B04300	Increase in other receivables – related parties	-	(42,842)
B04400	Decrease in other receivables – related parties	51,050	-
B04500	Acquisition of intangible assets	(680)	(83)
B07100	Increase in prepayments for equipment	(37,561)	(616)
B07600	Dividends received	<u>87,589</u>	<u>95,521</u>
BBBB	Net cash inflows from investing activities	<u>99,001</u>	<u>283,417</u>
	Cash flow from fundraising activities		
C00100	Increase in short-term loans	8,750,030	3,226,055
C00200	Decrease in short-term loans	(8,807,030)	(3,458,695)
C00500	Increase in short-term notes payable	92,027	118,789
C00600	Decrease in short-term notes payable	(152,004)	(273,719)
C03000	Increase in deposits received	133	-
C03700	Increase in other payables – related parties	18,605	90,000
C03800	Decrease in other payables – related parties	(60,896)	(266,105)
C04020	Repayment of principal of lease	(978)	(919)
C04500	Distribution of cash dividends	(226,571)	(351,185)
C04900	Cost of repurchase of treasury stocks	(59,102)	-
C05100	Transfer of treasury stocks to employees	<u>-</u>	<u>79,677</u>
CCCC	Net cash outflow from fundraising activities	(<u>445,786</u>)	(<u>836,102</u>)
EEEE	Increase in cash and cash equivalents	100,386	105,158
E00100	Starting balance of cash and cash equivalents	<u>533,774</u>	<u>428,616</u>
E00200	Ending balance of cash and cash equivalents	<u>\$ 634,160</u>	<u>\$ 533,774</u>

The notes attached hereto constitute part of this parent-only financial report.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung

Accounting Manager: Chen Hui-Shan

Compucase Enterprise Co., Ltd.
Notes to Parent-only Financial Report
January 1 to December 31, 2022 and 2021
(All amounts are in NTD thousand unless otherwise specified)

I. History of HEC

Compucase Enterprise Co., Ltd. (hereinafter “HEC”) was founded in February 1979. Originally named Compucase Enterprise Company, it changed to the current name in August 2000. The scope of its primary business includes the manufacturing, processing, sales, import and export of power supplies and the finished goods and components of computer products.

In April 2001, the stocks of HEC were approved for listing and trading at the Taipei Exchange. In August 2002, they were approved for transferring to the Taiwan Stock Exchange for listing and trading.

This parent-only financial report is presented in NTD, our functional currency.

II. Date and procedures of approval of the financial report

This parent-only financial report was approved by the Board of Directors on March 23, 2023.

III. Application of new and amended standards and interpretations

(I) The International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), interpretations (of IFRIC) and pronouncements of interpretation (of SIC) (hereinafter “IFRSs”), which have been approved and published by the Financial Supervisory Commission (hereinafter “FSC”), have been applied for the first time.

Application of the amended IFRSs which have been approved and published by the FSC is unlikely to cause any material change to our accounting policies.

(II) FSC-approved IFRSs applicable in 2023

New/Amended/Revised standards and interpretations	Effective date published by the IASB
Amendments to IAS 1 – “Disclosure of Accounting Policies”	January 1, 2023 (Note 1)
Amendment to IAS 8 – “Definition of Accounting Estimates”	January 1, 2023 (Note 2)
Amendment to IAS 12 – “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 3)

Note 1: The amendment is applicable during the annual reporting period beginning from January 1, 2023.

Note 2: The amendment is applicable to changes in accounting estimates and policies occurring during the annual reporting period beginning from January 1, 2023.

Note 3: Except for recognizing deferred tax for temporary differences related to leases and decommissioning obligations on January 1, 2022, the amendment is applicable to transactions occurring on or after January 1, 2022.

As of the date of approval and publication of this parent-only financial report, we have assessed that the amendments to the standards and interpretations above are unlikely to have any significant effect on the financial condition and performance.

(III) IFRSs published by the IASB which have not been approved and published by the FSC

New/Amended/Revised standards and interpretations	Effective date published by the IASB (Note 1)
Amendments to IFRS 10 and IAS 28 – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	TBD
Amendment to IFRS 16 – “Lease Liability in a Sale and Leaseback”	January 1, 2024 (Note 2)
IFRS 17 – “Insurance Contracts”	January 1, 2023
Amendment to IFRS 17	January 1, 2023
Amendment to IFRS 17 – “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”	January 1, 2023
Amendment to IAS 1 – “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendment to IAS 1 – “Non-current Liabilities with Covenants”	January 1, 2024

Note 1: Unless otherwise specified, each of the new/amended/revised standards or interpretations above shall come into effect during the annual reporting periods beginning from its relevant date.

Note 2: The amendment to IFRS 16 shall be applied retroactively by sellers and lessees to sale and leaseback transactions for which contracts have been signed after the date of first application of IFRS 16.

As of the date of approval and publication of this parent-only financial report, we have continued to assess the effect of the amendments to other standards and interpretations on the financial condition and performance. The relevant effect will be disclosed after completion of the assessment.

IV. Summary of material accounting policies

(I) Statement of compliance

This parent-only financial report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(II) Basis of preparation

Except for financial instruments measured at fair value and net defined benefit liabilities recognized at the present value of defined benefit obligations less the fair value of plan assets, this parent-only financial report has been prepared on the basis of historical cost.

For fair value measurements, the inputs are categorized into Level 1, 2, and 3 based on their observability and priority:

1. Level 1 inputs: Quoted prices in active markets for identical assets or liabilities accessible on the measurement date (unadjusted).
2. Level 2 inputs: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e. the price) or indirectly (i.e. deriving from the price).
3. Level 3 inputs: Unobservable inputs for the asset or liability.

In preparing this parent-only financial report, we have adopted the equity method for investments in subsidiaries. To ensure the profit/loss, other comprehensive income and equity for the current year in this parent-only financial report are identical to the profit/loss, other comprehensive income and equity for the current year attributable to our owners in our consolidated financial report, the differences in accounting treatments on parent-only and consolidated bases are presented as adjustments to “investments accounted for using the equity method,” “share of profit/loss of subsidiaries accounted for using the equity method,” “share of other comprehensive income of subsidiaries accounted for using the equity method” and other related items of equity.

(III) Criteria for classification of assets and liabilities as current and non-current

Current assets include:

1. assets held primarily for the purpose of trading;
2. assets expected to be realized within 12 months after the balance sheet date; and
3. cash and cash equivalents (excluding those restricted to be used for exchange or settlement of liabilities within 12 months after the balance sheet date).

Current liabilities include:

1. liabilities held primarily for the purpose of trading;
2. liabilities maturing for settlement within 12 months after the balance sheet date; and
3. liabilities whose settlement cannot be unconditionally deferred for at least 12 months after the balance sheet date.

Assets or liabilities other than those classified above as current are classified as non-current.

(IV) Foreign currency

In preparing this parent-only financial report, a transaction in a currency other than our functional currency (a foreign currency) has been recorded by translating that currency into our functional currency at the exchange rate on the date of the transaction.

Foreign currency monetary items are translated at the closing rate on each balance sheet date. Exchange differences arising from the settlement or translation of monetary items are recognized in profit or loss of the year in which they arise.

Foreign currency non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction without being retranslated.

In preparing the parent-only financial report, the assets and liabilities of foreign operations (including subsidiaries whose countries of operation are different from those of HEC or which use currencies different from those used by HEC) are translated into NTD at the exchange rate on each balance sheet date. Profit, expense and loss items are translated at the average exchange rate in the current period, and the resulting exchange differences are recognized in other comprehensive income.

(V) Inventory

Inventories include goods, raw materials, work in process and finished goods. Inventories are measured at the lower of cost and net realizable value. Costs and net realizable values, except for inventories of the same category, are compared on an item-by-item basis. Net realizable value means the estimated selling price in the ordinary course of business, less the estimated cost necessary to complete the sale.

The cost of inventories is calculated using the weighted average method.

(VI) Investments in subsidiaries

We use the equity method to account for investments in subsidiaries.

A subsidiary means an entity controlled by us.

Under the equity method, the investment in a subsidiary is initially recognized at cost, and the carrying amount is increased or decreased with our share of the profit or loss and other comprehensive income of and the profit distributed from the subsidiary after the date of acquisition. Additionally, changes in our share of other equity of a subsidiary are recognized in proportion to our shareholding.

Changes in our ownership interest in a subsidiary that do not result in a loss of control are treated as equity transactions. The difference between the carrying amount of an investment and the fair value of consideration paid or received is directly recognized in equity.

If our share of losses of a subsidiary equals or exceeds our equity in the subsidiary (including the carrying amount of the subsidiary under the equity method and other long-term equity de facto constituting part of our net investment in the subsidiary), we will continue to recognize losses in proportion to our shareholding.

In evaluating impairment, we consider the cash generating units in the financial report on an overall basis and compare their recoverable amounts with their carrying amounts. If the recoverable amount of an asset is increased subsequently, reversal of impairment losses is recognized in profit, provided that the carrying amount of the asset after reversal of impairment losses do not exceed the carrying amount of the asset less the amount accounted for in amortization, without recognition of impairment losses. Impairment losses attributable to goodwill should not be reversed in the subsequent period.

Unrealized profits or losses from downstream transactions between us and a subsidiary are eliminated in the parent-only financial report. Profits or losses arising from upstream and side-stream transactions between us and a subsidiary are recognized in the parent-only financial report only to the extent where such profits or losses do not involve our equity in the subsidiary.

(VII) Property, plant and equipment

Property, plant and equipment are initially measured and recognized at cost and subsequently measured at cost less accumulated depreciation.

Each significant part of property, plant and equipment is separately accounted for in depreciation on a straight line basis over its useful life. We review the estimated useful life, the residual value and the depreciation method at least at the end of each year and prospectively account for the effect of the application of changes in accounting estimates.

For derecognition of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in current profit/loss.

(VIII) Investment property

Investment property means property held for earning rents or capital appreciation or for both purposes. It also includes land held for currently undetermined future use.

Private investment property is initially measured at cost (including transaction cost) and subsequently measured at cost less accumulated depreciation and impairment losses.

Investment property is accounted for in depreciation on a straight-line basis.

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

(IX) Intangible assets

1. Individual acquisition

Any individually acquired intangible asset with a limited useful life is initially measured at cost and subsequently measured at cost less

accumulated amortization. An intangible asset is amortized on a straight line basis over its useful life. We review the estimated useful life, the residual value and the amortization method at least at the end of each year and prospectively account for the effect of the application of changes in accounting estimates.

2. Derecognition

For derecognition of any intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit/loss of the current year.

(X) Impairment of property, plant and equipment, right-of-use assets, investment property and intangible assets

We assess whether there is any sign of possible impairment of property, plant and equipment, right-of-use assets, investment property and intangible assets on each balance sheet date. If any such sign of impairment exists, the recoverable amount of the asset is estimated. If the recoverable amount of an asset is not estimable, we estimate the recoverable amount of the cash generating unit of the asset.

The recoverable amount is the higher of the fair value less costs of sale and the value in use. If the recoverable amount of an asset or cash generating unit is less than its carrying amount, the carrying amount of the asset or cash generating unit is decreased to its recoverable amount, with impairment losses recognized in profit/loss.

Where impairment losses are reversed subsequently, the carrying amount of the asset and cash generating unit is increased to the revised recoverable amount, provided that the increased carrying amount does not exceed the carrying amount (less amortization or depreciation) of the asset and cash generating unit determined under the assumption that impairment losses were not recognized in prior years.

Reversal of impairment losses is recognized in profit or loss.

(XI) Financial instruments

Financial assets and liabilities are recognized in the parent-only balance sheet when we become a party to the contractual provisions of the instrument.

For initial recognition of financial assets and liabilities, if financial assets or liabilities are not measured at fair value through profit or loss, they are measured at fair value plus transaction costs directly attributable to acquisition or issuance of financial assets or liabilities. Transaction costs directly attributable to acquisition or issuance of financial assets or liabilities measured at fair value through profit or loss are immediately recognized in profit or loss.

1. Financial assets

Regular transactions of financial assets are recognized and derecognized using the transaction date accounting method.

(1) Types of measurement

We hold the following types of financial assets: Financial assets measured at amortized cost.

Financial assets measured at amortized cost

If our investments in financial assets meet the following two criteria, they are classified as financial assets measured at amortized cost:

- A. Such investments are held under an operating model with the purpose of holding financial assets to receive contractual cash flows; and
- B. the cash flows generated by contractual provisions on specified dates are solely for the purpose of paying principal and interest on outstanding principal.

On initial recognition, financial assets measured at amortized cost (including cash and cash equivalents, accounts receivable measured at amortized cost (including related parties), other receivables (including related parties) and guarantee deposits paid) are measured at the total carrying amount determined using the effective interest method less the amortized cost of any impairment loss, and any profit or loss on foreign currency exchange is recognized in profit/loss.

Interest income is calculated as the effective interest rate multiplied by the total carrying amount of financial assets, except under the following two circumstances:

- A. For any credit-impaired financial assets purchased or originated,

the interest income is calculated as the credit-adjusted effective interest rate multiplied by the amortized cost of the financial assets.

B. For any financial assets which are not credit-impaired on purchase or origination but subsequently become credit-impaired, the interest income is calculated as the effective interest rate multiplied by the amortized cost of the financial assets in the reporting period after such credit impairment.

A credit-impaired financial asset means that the issuer or debtor has incurred significant financial difficulties or defaulted, that the debtor is likely to file for bankruptcy or other financial reorganization, or that the active market of the financial asset has disappeared due to financial difficulties.

Cash equivalents include highly liquid term deposits and bonds with conditions for repurchase that are readily convertible to known amounts of cash with an insignificant risk of changes in value within 3 months from the date of acquisition and are used to meet short-term cash commitments.

(2) Impairment of financial assets

We assess the impairment losses on financial assets (including accounts receivable) measured at amortized cost based on expected credit losses on each balance sheet date.

A loss allowance on accounts receivable is recognized at full lifetime expected credit losses. For other financial assets, we first assess whether the credit risk has significantly increased after initial recognition. In the absence of such significant increase, the loss allowance is recognized at the 12-month expected credit losses. Where there is such significant increase, the loss allowance is recognized at full lifetime expected credit losses.

Expected credit losses are weighted average credit losses with the risks of a default occurring as the weightings. The 12-month expected credit losses represent the expected credit losses on a financial instrument resulting from possible default events within 12 months after the reporting date. Full lifetime expected credit losses

represent the expected credit losses on a financial instrument from all possible default events over the life of the financial instrument.

For the purpose of internal credit risk management, we determine that a default has occurred on financial assets under any of the following circumstances without considering the collateral we hold:

- A. Any internal or external information has indicated the debtor is unable to pay off debts.
- B. The age of accounts has exceeded 365 days, unless any reasonable and provable information indicates that a deferred criteria for default is more appropriate.

Impairment losses on all financial assets are accounted for by decreasing their carrying amounts through allowance accounts.

(3) Derecognition of financial assets

We derecognize a financial asset only when the contractual rights on cash flows from the asset become invalid, or when the asset has been transferred and substantially all of the risks and returns of ownership of the asset have been transferred to other companies.

For derecognition of a financial asset measured at amortized cost in its entirety, the difference between its carrying amount and the consideration received is recognized in profit/loss.

2. Equity instruments

Equity instruments issued by HEC are recognized at the amount of the proceeds acquired less the cost of direct issuance.

The reacquisition of our own equity instruments is recognized in and deducted from equity, with its carrying amount calculated at weighted average by share type. The purchase, sale, issuance or cancellation of our own equity instruments is not recognized in profit/loss.

3. Financial liabilities

(1) Subsequent measurement

Our financial liabilities are all measured at amortized cost using the effective interest method.

(2) Derecognition of financial liabilities

For derecognition of a financial liability, the difference between its carrying amount and the consideration paid (including any non-cash

asset transferred or any liability assumed) is recognized in profit/loss.

(XII) Liability provision

An amount recognized as liability provision is an optimal estimate of expenses required for the settlement obligations on the balance sheet date, taking into account the risk and uncertainty of the obligations. A liability provision is measured at the estimated discounted values.

The obligation to warrant that products conform with the agreed specifications is recognized upon recognition of the revenue from relevant goods based on an optimal estimate by the management of expenses required for the obligation of settlement of HEC.

(XIII) Recognition of revenue

Once we have identified the performance obligations in the contract with a customer, we allocate the transaction price to each performance obligation and recognize revenue after satisfying each performance obligation.

The revenue from sales of goods is generated through the sales of computer chassis, power supplies and associated computer peripherals. At the time of fulfillment of the trading terms for products, the customer already possesses the right to price and use the goods, assumes the primary responsibility to resell them, and bears the risk of the goods being out-of-date. Therefore, we recognize revenue and accounts receivable at that point in time, while payments received in advance for sales of goods are recognized as contract liabilities.

In the case of exporting materials for processing, control over the ownership of processed goods is not transferred, and revenue is not recognized at the time of export.

(XIV) Leases

We assess whether a contract is (or contains) a lease on the date of conclusion of the contract.

1. We are the lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership of the asset to the lessee. All other leases are classified as operating leases.

Under an operating lease, lease payments less the lease incentives are recognized in profit on a straight-line basis over the relevant lease term.

2. We are the lessee

Except that the lease payments for leases of low-value underlying assets and short-term leases to which the recognition exemption applies are recognized in expense on a straight-line basis over the lease term, other leases are recognized in right-of-use assets and lease liabilities on the lease commencement date.

Right-of-use assets are initially measured at cost (at the initially measured amount of lease liabilities) and subsequently measured at cost less accumulated depreciation, with adjusted remeasurement of lease liabilities.

Right-of-use assets are separately presented in the balance sheet.

Right-of-use assets are accounted for in depreciation on a straight-line basis over the period from the lease commencement date to the earlier of the date of expiration of the useful life or the lease term.

Lease liabilities are initially measured at the present value of lease payments (fixed payments). If the interest rate implicit in a lease can be readily determined, the lease payments are discounted at the interest rate.

Where such interest rate cannot be readily determined, the lessee's incremental borrowing rate is used.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, and interest expenses are amortized over the lease term. Lease liabilities are separately presented in the balance sheet.

(XV) Loan cost

A loan cost is recognized as profit/loss in the period of occurrence.

(XVI) Employee benefits

1. Short-term employee benefits

Liabilities related to short-term employee benefits are measured at the undiscounted amount expected to be paid for services rendered by employees.

2. Post-employment benefits

Under a defined contribution plan, pensions are recognized in expense as the amount of pension contribution payable during the period when services are rendered by employees.

Under a defined benefit plan, defined benefit costs (including servicing costs, net interest and remeasurement) are calculated actuarially using the projected unit credit method. The current service cost and net interest on net defined benefit liabilities are recognized as employee benefit expenses at the time of their occurrence. Remeasurement (including actuarial profit/loss and return on plan assets less interest) is recognized as other comprehensive income and in retained earnings at occurrence, and is not subsequently reclassified as profit/loss.

Net defined benefit liabilities are a deficit in the contribution to a defined benefit plan.

(XVII) Employees' stock options

Employees' stock options granted to employees

Employees' stock options are recognized in expenses on a straight-line basis over the vesting period based on the fair value of equity instruments on the grant date and the optimal estimated amount expected to vest, with an adjustment to capital reserves at the same time. For the transfer of treasury stocks to any employee by HEC, the grant date is the date when the number of shares purchased by the employee is confirmed.

(XVIII) Income tax

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

1. Current income tax

We determine the current income (loss) in accordance with the Income Tax Act of the Republic of China (Taiwan) to calculate the income tax payable (recoverable).

The additional income tax levied on undistributed earnings calculated in accordance with the Income Tax Act of the Republic of China (Taiwan) is recognized in the year when the related resolution is adopted by a shareholders' meeting.

Adjustments to income taxes payable in prior years are recognized in current income tax.

2. Deferred income tax

Deferred income tax is calculated as the temporary difference between the carrying amounts of assets and liabilities recorded in the account and the tax base for calculation of taxable income.

Deferred income tax liabilities are generally recognized in respect of all taxable temporary differences. Deferred income tax assets are recognized when it is probable that taxable income will be available for offsetting income tax arising from deductible temporary differences and offsetting of losses.

Taxable temporary differences associated with investments in subsidiaries are recognized as deferred income tax liabilities, unless we 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 assets for deductible temporary differences associated with such investments are recognized only to the extent where it is probable that sufficient taxable income will be available to realize the temporary differences and that they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed on each balance sheet date and reduced to the extent where it is no longer probable that sufficient taxable income will be available to allow the recovery all or part of the assets. Those that are not initially recognized as deferred income tax assets are also reviewed on each balance sheet date and increased to the extent where it is probable that sufficient taxable income will be available in the future to allow the recovery all or part of the assets.

Deferred income tax assets and liabilities are measured at the tax rate of the period when the liabilities or assets are expected to be settled or realized. The tax rate is based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred income tax liabilities and assets are measured to reflect our tax consequences on the balance sheet date arising from the methods that are expected to be used to recover or settle the carrying amount of the assets and liabilities.

3. Current and deferred income taxes

Current and deferred income taxes are recognized in profit or loss, except for those related to items recognized in other comprehensive income or directly in equity, which are recognized separately in other comprehensive income separately or directly in equity.

V. Main sources of uncertainty of material accounting judgments, estimates and assumptions

In adopting accounting policies, our management must make judgments, estimates and assumptions in respect of information that is not readily available from other sources based on historical experience and other relevant factors. The actual results could differ from the estimates.

We have taken the possible effects of the recent development of COVID-19 in Taiwan, the Russia–Ukraine war and relevant international sanctions on the economic environment into the consideration of material accounting estimates. Our management will continue to review the estimates and basic assumptions. If a correction of the estimates affects only the current period, it is recognized in the period when it is made. If a correction of the estimates affects both the current and future periods, it is recognized in the period when it is made and in the future period.

Main source of uncertainty of estimates and assumptions – income tax

As of December 31, 2022 and 2021, the effects of income tax of taxable temporary differences relating to investments in subsidiaries without recognition of deferred income tax liabilities amounted to NTD364,121 thousand and NTD341,069 thousand respectively. With expected remittance of earnings in the future, reversal of taxable temporary differences and recognition of material deferred income tax liabilities are likely to occur with their recognition as income tax expenses over the period of occurrence.

VI. Cash and cash equivalents

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash on hand and working capital	\$ 150	\$ 150
Bank checks and demand deposits	618,655	476,624
Cash equivalents		
Bonds with conditions for repurchase	-	57,000
Time deposits at banks with an original date of maturity within 3 months	<u>15,355</u>	<u>-</u>
	<u>\$ 634,160</u>	<u>\$ 533,774</u>

The following are the interest rate ranges of cash equivalents on the balance sheet date:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Bonds with conditions for repurchase	-	0.27%
Time deposits at banks with an original date of maturity within 3 months	4.1%	-

VII. Accounts receivable (including related parties)

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Measured at amortized cost		
Total carrying amount	\$ 1,304,285	\$ 1,410,869
Less: Loss allowance	<u>5,124</u>	<u>2,545</u>
	<u><u>\$ 1,299,161</u></u>	<u><u>\$ 1,408,324</u></u>

Our average loan period for sales of goods is 1 to 4 months, with zero accrued on accounts receivable. In order to mitigate credit risk, our management has designated special teams for determination of credit lines, approval of loans and other monitoring procedures to ensure that appropriate actions are taken to recover overdue payments receivable. Furthermore, we review the recoverable amounts of payments receivable separately on the balance sheet date to ensure that irrecoverable payments receivable have been accounted for in appropriate impairment losses. Accordingly, our management considers that its credit risks have reduced significantly.

We recognize the loss allowance for accounts receivable based on the full lifetime expected credit losses. The full lifetime expected credit losses are calculated using a provision matrix with consideration of the default history and current financial condition of a customer and the economic trend of the industry. Since our historical experience in credit losses has shown no significant difference in the types of loss between distinct customer bases, we have made no further distinction between the customer bases and have only set the expected credit loss rate based on the number of days of accounting of accounts receivable.

If there is any evidence indicating that the counterparty is faced with severe financial difficulties and that we are not able to reasonably expect any recoverable amount, e.g. the counterparty is undergoing liquidation, we directly write off the relevant accounts receivable, and we will continue to pursue recourse actions. All amounts recovered through recourse are recognized in profit/loss.

Our loss allowances for accounts receivable (including related parties) measured using the provision matrix are as follows:

December 31, 2022

	0 to 90 days	91 to 180 days	181 to 365 days	366 or more days	Total
Total carrying amount	\$ 1,081,741	\$ 219,784	\$ 2,257	\$ 503	\$ 1,304,285
Loss allowance (full lifetime expected credit losses)	(960)	(2,214)	(1,447)	(503)	(5,124)
Amortized cost	<u>\$ 1,080,781</u>	<u>\$ 217,570</u>	<u>\$ 810</u>	<u>\$ -</u>	<u>\$ 1,299,161</u>

December 31, 2021

	0 to 90 days	91 to 180 days	181 to 365 days	366 or more days	Total
Total carrying amount	\$ 1,147,641	\$ 258,921	\$ 4,058	\$ 249	\$ 1,410,869
Loss allowance (full lifetime expected credit losses)	(1,029)	(1,206)	(61)	(249)	(2,545)
Amortized cost	<u>\$ 1,146,612</u>	<u>\$ 257,715</u>	<u>\$ 3,997</u>	<u>\$ -</u>	<u>\$ 1,408,324</u>

The information of changes in loss allowance for accounts receivable (including related parties) is as follows:

	2022	2021
Starting balance	\$ 2,545	\$ 5,672
Accounted for (Reversed) in the current year	<u>2,579</u>	(<u>3,127</u>)
Ending balance	<u>\$ 5,124</u>	<u>\$ 2,545</u>

VIII. Inventory

	December 31, 2022	December 31, 2021
Goods	\$ 70,766	\$ 145,278
Finished goods	66,330	119,415
Work in process	4,823	2,788
Raw materials	<u>78,292</u>	<u>169,010</u>
	<u>\$ 220,211</u>	<u>\$ 436,491</u>

Our inventory-related sales costs in 2022 and 2021 were, respectively, NTD3,699,487 thousand and NTD5,302,801 thousand, and our sales costs in 2022 and 2021 included losses of inventory depreciation amounted to NTD355 thousand and NTD615 thousand respectively.

IX. Investments accounted for using the equity method

Investments in subsidiaries

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Wei Shun Int'l Investments Co., Ltd. (WII)	\$ 1,213,626	\$ 1,127,997
Great Success Group Ltd. (GSG)	633,553	735,085
Grand Victory Group Ltd. (GVG)	1,433	30,113
Heroichi International Trading Co., Limited (HIT)	1,549	37,934
Power Master Co., Ltd. (FCC)	5,062	3,595
CompuCase Corporation (UCC)	23,695	8,882
CompuCase Japan Co., Ltd. (JCC)	69,265	58,737
Cougar Korea Co., Ltd. (KCC) (Note)	198	-
Loyalty Founder Enterprise Co., Ltd. (LFE)	1,203,453	1,120,340
OPT	<u>232,279</u>	<u>229,513</u>
	<u><u>\$ 3,384,113</u></u>	<u><u>\$ 3,352,196</u></u>
Other non-current liabilities		
Cougar Korea Co., Ltd. (KCC) (Note)	\$ _____ -	\$ 17,729

Note: As of December 31, 2021, the balances of our investment in KCC were negative and accounted for in other non-current liabilities.

	Percentage of ownership equity and voting rights (%)	
	<u>December 31, 2022</u>	<u>December 31, 2021</u>
WII (Note 1)	100	100
GSG (Note 2)	100	100
GVG	100	100
HIT	100	100
FCC	60	60
UCC	100	100
JCC	100	100
KCC (Note 3)	100	51
LFE (Note 1)	50.62	50.62
OPT	59.49	59.49

Note 1: In 2021, the subsidiaries WII and LFE engaged in cash capital reduction to return share payments of NTD83,300 thousand and NTD83,062 thousand, respectively.

Note 2: In 2022, the subsidiary GSG engaged in cash capital reduction to return share payments of NTD152,960 thousand. The share payments returned from capital reduction have yet to be received, and were recognized in other receivables – related parties at the end of 2022.

Note 3: In June 2022, we acquired a shareholding of 49% from a non-related party. The

acquisition was deemed an equity transaction to offset against undistributed earnings of NTD17,815 thousand.

For details of the investee subsidiaries directly and indirectly owned by HEC, see Tables 6 and 7.

X. Property, plant and equipment

For the statement of changes in property, plant and equipment, see Table 10.

The depreciation expense is accounted for on a straight-line basis over the following useful lives:

Premises and buildings	
Main factory buildings	25 to 55 years
Mechanical, electrical and power equipment	10 to 20 years
Engineering system	15 to 20 years
Others	5 years
Machine/Equipment	10 to 19 years
Transport equipment	5 to 9 years
Office equipment	5 to 18 years
Other equipment	2 to 15 years

For the amount of our property, plant and equipment pledged as collateral for loans, see Note 28.

XI. Lease agreement

(I) Right-of-use assets

	<u>Land</u>
<u>Cost</u>	
Balances on January 1 and December 31, 2022	<u>\$ 4,908</u>
<u>Accumulated depreciation</u>	
Balance on January 1, 2022	\$ 1,963
Depreciation expense	982
Balance on December 31, 2022	<u>\$ 2,945</u>
Net amount on December 31, 2022	<u>\$ 1,963</u>
<u>Cost</u>	
Balances on January 1 and December 31, 2021	<u>\$ 4,908</u>
<u>Accumulated depreciation</u>	
Balance on January 1, 2021	\$ 982
Depreciation expense	981
Balance on December 31, 2021	<u>\$ 1,963</u>
Net amount on December 31, 2021	<u>\$ 2,945</u>

(II) Lease liabilities

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Carrying amount of lease liabilities		
Current	<u>\$ 1,039</u>	<u>\$ 978</u>
Non-current	<u>\$ 1,102</u>	<u>\$ 2,141</u>

The discount rate ranges for lease liabilities are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Land	1.04%	1.04%

(III) Material lease activities and terms

We have rented land for warehousing and parking purposes with a lease term of 5 years expiring in December 2024.

(IV) Other lease information

	<u>2022</u>	<u>2021</u>
Expenses of short-term and low-value leases	<u>\$ 1,205</u>	<u>\$ 1,383</u>
Total cash outflow from lease	<u>\$ 2,211</u>	<u>\$ 2,340</u>

We opt to apply the recognition exemption to leases of office equipment and warehouses constituting short-term leases and certain computer equipment constituting leases of low-value assets and do not recognize right-of-use assets and lease liabilities relevant to such leases.

XII. Investment property

	Land	Premises and buildings	Total
<u>Cost</u>			
Balances on January 1 and December 31, 2022	<u>\$ 53,018</u>	<u>\$ 50,774</u>	<u>\$ 103,792</u>
<u>Accumulated depreciation and impairment</u>			
Balance on January 1, 2022	\$ -	\$ 49,144	\$ 49,144
Depreciation expense	<u>-</u>	<u>907</u>	<u>907</u>
Balance on December 31, 2022	<u>\$ -</u>	<u>\$ 50,051</u>	<u>\$ 50,051</u>
Net amount on December 31, 2022	<u>\$ 53,018</u>	<u>\$ 723</u>	<u>\$ 53,741</u>
<u>Cost</u>			
Balances on January 1 and December 31, 2021	<u>\$ 53,018</u>	<u>\$ 50,774</u>	<u>\$ 103,792</u>
<u>Accumulated depreciation and impairment</u>			
Balance on January 1, 2021	\$ -	\$ 48,238	\$ 48,238
Depreciation expense	<u>-</u>	<u>906</u>	<u>906</u>
Balance on December 31, 2021	<u>\$ -</u>	<u>\$ 49,144</u>	<u>\$ 49,144</u>
Net amount on December 31, 2021	<u>\$ 53,018</u>	<u>\$ 1,630</u>	<u>\$ 54,648</u>

The premises and buildings of investment property were depreciated on the straight-line basis over a 55-year useful life.

Based on the valuation conducted by an independent valuator on December 31, 2021, the fair value of investment property amounted to NTD77,528 thousand. Our management has assessed that there is no material change to the fair value on December 31, 2022.

As of December 31, 2022 and 2021, the accumulated amounts of impairment were both NTD23,180 thousand.

All of our investment property is private equity. For the amount of our investment property pledged as collateral for loans, see Note 28.

XIII. Intangible assets

	Trademark rights	Patent rights	Computer software	Total
<u>Cost</u>				
Balance on January 1, 2022	\$ 1,992	\$ 1,387	\$ 28,086	\$ 31,465
Individual acquisition	-	-	680	680
Derecognition	-	-	(133)	(133)
Reclassification	-	-	152	152
Balance on December 31, 2022	<u>\$ 1,992</u>	<u>\$ 1,387</u>	<u>\$ 28,785</u>	<u>\$ 32,164</u>
<u>Accumulated amortization</u>				
Balance on January 1, 2022	\$ 761	\$ 1,336	\$ 25,447	\$ 27,544
Amortization expense	155	8	1,151	1,314
Derecognition	-	-	(133)	(133)
Reclassification	-	-	2	2
Balance on December 31, 2022	<u>\$ 916</u>	<u>\$ 1,344</u>	<u>\$ 26,467</u>	<u>\$ 28,727</u>
Net amount on December 31, 2022	<u>\$ 1,076</u>	<u>\$ 43</u>	<u>\$ 2,318</u>	<u>\$ 3,437</u>
<u>Cost</u>				
Balance on January 1, 2021	\$ 1,992	\$ 1,387	\$ 28,003	\$ 31,382
Individual acquisition	-	-	83	83
Balance on December 31, 2021	<u>\$ 1,992</u>	<u>\$ 1,387</u>	<u>\$ 28,086</u>	<u>\$ 31,465</u>
<u>Accumulated amortization</u>				
Balance on January 1, 2021	\$ 602	\$ 1,327	\$ 23,228	\$ 25,157
Amortization expense	159	9	2,219	2,387
Balance on December 31, 2021	<u>\$ 761</u>	<u>\$ 1,336</u>	<u>\$ 25,447</u>	<u>\$ 27,544</u>
Net amount on December 31, 2021	<u>\$ 1,231</u>	<u>\$ 51</u>	<u>\$ 2,639</u>	<u>\$ 3,921</u>

The amortization expense is accounted for on a straight-line basis over a useful life of 3 to 20 years.

XIV. Loans

(I) Short-term loans

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Bank loans		
Credit loans	<u>\$ 1,608,000</u>	<u>\$ 1,665,000</u>

The annual interest rates of short-term loans are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Credit loans	1.3%-1.8%	0.78%-0.85%

(II) Short-term notes payable – only on December 31, 2021

Short-term notes payable which are yet to mature are as follows:

Guaranteeing/ Accepting agency	Par value	Contractual term	Amount of discount	Carrying amount	Interest rate range	Name of collateral
Dah Chung Bills Finance Corp.	\$ 30,000	December 2021 – January 2022	\$ 14	\$ 29,986	0.848%	None
International Bills Finance Corp.	30,000	December 2021 – February 2022	9	29,991	0.848%	None
	<u>\$ 60,000</u>		<u>\$ 23</u>	<u>\$ 59,977</u>		

XV. Notes and accounts payable (including related parties)

Our notes and accounts payable (including related parties) have all arisen from our operations. For purchases, the average credit period is 1 to 3 months on a basis of monthly settlement. We have established financial risk management policies to ensure that all accounts payable are paid off within the pre-agreed credit period.

XVI. Other payables

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Salaries and bonuses payable	\$ 32,461	\$ 34,118
Remuneration payable to employees, directors and supervisors	45,051	31,313
Commission payable	17,280	22,918
Advertising fee payable	4,451	12,414
Payment for unused leave	2,252	2,455
Others	23,829	24,948
	<u>\$ 125,324</u>	<u>\$ 128,166</u>

XVII. Liability provision – current

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Provision for warranty liability	<u>\$ 5,959</u>	<u>\$ 4,339</u>

The provision for warranty liability is the present value of an optimal estimate by our management of future outflow of economic benefits incurred due to the obligation of warranty according to the agreement for sales of goods. The estimate is based on the historical experience in warranty and is adjusted after taking into account new raw materials, change in the manufacturing process or other factors affecting product quality.

XVIII. Post-employment benefit plans

(I) Defined contribution plan

The pension system under the “Labor Pension Act,” as applied by us, is a defined contribution plan managed by the government. A pension equal to 6% of an employee’s monthly salary is allocated and deposited into a special personal account at the Bureau of Labor Insurance.

(II) Defined benefit plan

The pension system adopted by HEC in accordance with the “Labor Pension Act” is a defined benefit plan managed by the government. The pension paid to an employee is calculated based on the length of his/her service and the average salary over the 6 months prior to the approved date of his/her retirement. We allocate a fixed amount each month as pension and deposit it into a special account at the Bank of Taiwan in the name of the Labor Pension Fund Supervisory Committee. If, by the end of each year, the estimated balance in the special account is insufficient for payments to employees who are expected to meet the criteria for retirement in the next year, we will allocate the difference in a lump sum by the end of March next year. The special account is managed by the Bureau of Labor Funds, Ministry of Labor, and HEC does not have any right to influence the investment management strategies.

The amounts of defined benefit plan included in the parent-only balance sheet are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Present value of defined benefit obligations	\$ 10,142	\$ 14,702
Fair value of plan assets	(2,351)	(6,497)
Net defined benefit liabilities	<u>\$ 7,791</u>	<u>\$ 8,205</u>

The changes in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Balance on January 1, 2021	<u>\$ 15,940</u>	(<u>\$ 4,444</u>)	<u>\$ 11,496</u>
Interest expense (income)	<u>56</u>	(<u>17</u>)	<u>39</u>
Recognized in profit/loss	<u>56</u>	(<u>17</u>)	<u>39</u>
Remeasurement			
Return on plan assets (excluding any amount included in net interest)	- (68)	(68)	(68)
Actuarial loss – changes in demographic assumptions	720	-	720
Actuarial profit – changes in financial assumptions	(568)	- (568)	(568)
Actuarial loss – experience adjustment	185	- (185)	(185)
Recognized in other comprehensive income	337	(68)	269
Employer contribution	-	(3,599)	(3,599)
Payment of benefits	(1,631)	1,631	-
Balance on December 31, 2021	<u>14,702</u>	(<u>6,497</u>)	<u>8,205</u>
Interest expense (income)	<u>\$ 110</u>	(<u>\$ 49</u>)	<u>\$ 61</u>
Recognized in profit/loss	<u>110</u>	(<u>49</u>)	<u>61</u>
Remeasurement			
Return on plan assets (excluding any amount included in net interest)	- (446)	(446)	(446)
Actuarial profit – changes in financial assumptions	(645)	- (645)	(645)
Actuarial loss – experience adjustment	677	- (677)	(677)
Recognized in other comprehensive income	32	(446)	(414)
Employer contribution	-	(61)	(61)
Payment of benefits	(4,702)	4,702	-
Balance on December 31, 2022	<u>\$ 10,142</u>	(<u>\$ 2,351</u>)	<u>\$ 7,791</u>

Due to the pension system under the “Labor Standards Act,” we are exposed

to the following risks:

1. Investment risk: The Bureau of Labor Funds, Ministry of Labor has, for own discretionary use or through contracted management, invested the labor pension funds into domestic (foreign) equity and debt securities and bank deposits, even though the distributable amount of HEC's plan assets is a profit calculated at an interest rate no less than that for a 2-year time deposit with a local bank.
2. Interest rate risk: A decrease in the interest rates of government bonds will increase the present value of defined benefit obligations, but will also increase the return on debt investments in plan assets. Both increases have a partial offsetting effect against the impact of net defined benefit liabilities.
3. Salary risk: The present value of defined benefit obligations is calculated based on the future salary of the plan participants. As a result, an increase in the salary of the plan participants will raise the present value of defined benefit obligations.

The present value of our defined benefit obligations is calculated actuarially by a qualified actuary. The material assumptions on the date of measurement are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate	1.4%	0.75%
Expected salary increase rate	2.25%	2.25%

In the event of reasonably possible changes in the material actuarial assumptions, the resulting increase (decrease) in the present value of defined benefit obligations where all other assumptions remain the same is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate		
Increase by 0.25%	(\$ <u>253</u>)	(\$ <u>361</u>)
Decrease by 0.25%	\$ <u>261</u>	\$ <u>374</u>
Expected salary increase rate		
Increase by 0.25%	\$ <u>252</u>	\$ <u>359</u>
Decrease by 0.25%	(\$ <u>245</u>)	(\$ <u>349</u>)

Since the actuarial assumptions may be correlated and changes in only a single

assumption are unlikely, the sensitivity analysis above may not reflect actual changes in the present value of defined benefit obligations.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Expected contribution within 1 year	<u>\$ 108</u>	<u>\$ 61</u>
Average maturity period of defined benefit obligations	<u>11 years</u>	<u>12 years</u>

XIX. Equity

(I) Common share capital

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Number of authorized shares (thousand shares)	<u>150,000</u>	<u>150,000</u>
Authorized share capital	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Number of issued shares with full payment received (thousand shares)	<u>113,286</u>	<u>113,286</u>
Issued share capital	<u>\$ 1,132,856</u>	<u>\$ 1,132,856</u>
Publicly issued common shares	<u>\$ 1,032,856</u>	<u>\$ 1,032,856</u>
Privately placed common shares	<u>100,000</u>	<u>100,000</u>
	<u>\$ 1,132,856</u>	<u>\$ 1,132,856</u>

Common shares are issued at a par value of NTD10, with each share entitled to one voting right and the right to receive dividends.

On September 28, 2016, our annual shareholders' meeting adopted a resolution for capital increase by cash via private placement. On September 30, 2016, the Board of Directors adopted a resolution for private placement of 10,000 thousand common shares at NTD32.8 per share totaling NTD328,000 thousand.

The foregoing privately placed common shares are, in accordance with the Securities and Exchange Act, subject to restrictions on circulation and transfer, and an application for their public listing and trading may be filed only after a lapse of 3 years from the date of their delivery and following their public listing. The rights and obligations of privately placed common shares are same as those of our

outstanding common shares.

The share capital retained from the authorized share capital for the issuance of employees' stock warrants is 6,000 thousand shares.

(II) Capital reserves

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Usable for offsetting of losses, distribution of cash or contribution to share capital (Note 1)</u>		
Shares issued in excess of par value	\$ 357,543	\$ 357,543
Trading of treasury stocks	60,966	60,966
Consolidated surplus	254	254
<u>Usable only for offsetting of losses (Note 2)</u>		
Recognized changes in ownership equity in subsidiaries	6,693	6,693
	<u><u>\$ 425,456</u></u>	<u><u>\$ 425,456</u></u>

Note 1: This category of capital reserves may be used to offset losses, or to distribute cash dividends or be contributed to the share capital if HEC has no losses, provided that such contribution to the share capital does not exceed a certain percentage of the paid-in share capital each year.

Note 2: This category of capital reserves are the effects of equity transactions recognized due to changes in the equity of subsidiaries where HEC has not actually acquired or disposed of the equity of subsidiaries.

(III) Retained earnings and dividend policy

According to the earnings distribution policy under the Articles of Incorporation, where HEC has earnings in the final accounts of a fiscal year, it shall set aside 10% thereof as legal reserves after paying taxes and offsetting losses as legally required, unless the amount of such legal reserves equals or exceeds HEC's paid-in capital. The remaining amount of the foregoing earnings shall be set aside or reversed as special reserves in accordance with the law. If there are still any remaining earnings, the Board of Directors shall, depending on the operating performance, retain such earnings plus the accumulated undistributed earnings, and shall prepare a proposal for distribution of earnings and submit the proposal to a

shareholders' meeting for a resolution on distribution of bonuses to shareholders. For the policy of distribution of the remuneration for employees, directors and supervisors in the Articles of Incorporation, see Note 21(7) "Remuneration for employees, directors and supervisors."

In consideration of its future investment funding needs and its financial structure, HEC has adopted a balanced and stable dividend policy for the purposes of sustainable management and long-term development, with shareholders' interests and other factors taken into account. Each year, no less than 10% of the distributable earnings shall be appropriated for distribution of bonuses to shareholders. No such distribution is required if the cumulative distributable earnings amount to less than 2% of the paid-in share capital. For distribution of dividends in any future year, it is expected that the amount of cash dividends distributed will be no less than 10% of the total dividends distributed in that year, and that such dividends will, based on the investment funding needs and the level of dilution of earnings per share, be distributed in stock or cash, as appropriate.

Legal reserves may be used to offset losses. Where HEC has no losses and if legal reserves exceed the total paid-in capital by 25%, the excess amount may be contributed to the share capital or distributed in cash.

At the annual shareholders' meetings held in June 2022 and July 2021, the proposals for distribution of earnings in 2021 and 2020 were approved as follows:

	Distribution of earnings		Dividends per share (NTD)	
	2021	2020	2021	2020
Legal reserves	\$ 29,076	\$ 46,588		
Special reserves set aside (reversed)	22,838	(34,971)		
Cash dividends	226,571	351,185	\$ 2.0	\$ 3.1

On March 23, 2023, the Board of Directors proposed distribution of earnings in 2022 as follows:

	Distribution of earnings	Dividends per share (NTD)
Legal reserves	\$ 35,194	
Special reserves reversed	(71,586)	
Cash dividends	226,571	\$ 2.04

The proposal for distribution of earnings in 2022 will be subject to a resolution of the 2023 annual shareholders' meeting.

(IV) Special reserves

At the time of our first adoption of IFRSs, we had set aside special reserves from the increase of NTD103,094 thousand in retained earnings generated due to conversion.

(V) Other equity

1. Exchange differences on translation of financial statements of foreign operations

	2022	2021
Starting balance	(\$ 260,422)	(\$ 229,733)
Incurred in the current year		
Net exchange on translation of financial statements of foreign operations	55,623	(22,867)
Share of subsidiaries accounted for using the equity method	15,963	(7,822)
Ending balance	<u>(\$ 188,836)</u>	<u>(\$ 260,422)</u>

2. Unrealized profit/loss on financial assets measured at fair value through other comprehensive income

	2022	2021
Starting balance	(\$ 65,404)	(\$ 73,255)
Incurred in the current year		
Unrealized profits or losses – equity instruments	-	1,756
Cumulative losses on disposal of equity instruments	<u>–</u>	<u>6,095</u>

	transferred to retained earnings		
	Ending balance	(\$ 65,404)	(\$ 65,404)
(VI)	Treasury stocks		
	Reason for repurchase	Shares transferred to employees (thousand shares)	
		2022	2021
	Number of shares at start of year	-	3,066
	Increase in the current year	2,000	-
	Decrease in the current year	-	(3,066)
	Number of shares at end of year	2,000	-

In accordance with the Securities and Exchange Act, treasury stocks held by HEC may not be pledged and are not entitled to any dividends distributed or voting rights.

XX. Revenue

	2022	2021
Revenue from contracts with customers		
Sales revenue	<u>\$ 4,132,961</u>	<u>\$ 5,890,182</u>
(I) Contract balance		
	December 31, 2022	December 31, 2021
Payments receivable	<u>\$ 1,299,161</u>	<u>\$ 1,408,324</u>
	January 1, 2021	
		<u>\$ 2,299,723</u>
<u>Contract liabilities</u>		
Sales of goods	<u>\$ 39,666</u>	<u>\$ 17,472</u>
		<u>\$ 38,738</u>

Any change in contract liabilities mainly arises from the difference between the time of fulfillment of contractual obligations and the time of payment by a customer.

The following are the amounts accounted for as revenue in the current year with respect to the starting contract liabilities:

	2022	2021
<u>Starting contract liabilities</u>		
Sales of goods	<u>\$ 15,861</u>	<u>\$ 31,813</u>

(II) Sub-items of revenue from contracts with customers

The sales revenue of HEC is generated through the sales of products including power supplies and computer chassis, detailed as follows:

	2022	2021
Power supplies	\$ 1,571,868	\$ 1,649,338
Computer chassis	1,473,052	2,255,586
Private brands of computer and gaming peripherals	903,663	1,658,585
Others	<u>184,378</u>	<u>326,673</u>
	<u><u>\$ 4,132,961</u></u>	<u><u>\$ 5,890,182</u></u>

XXI. Pre-tax net profit

(I) Interest income

	2022	2021
Bank deposits	\$ 3,553	\$ 1,167
Loaning of funds to related parties (Note 27)	<u>1,649</u>	<u>867</u>
	<u><u>\$ 5,202</u></u>	<u><u>\$ 2,034</u></u>

(II) Other incomes

	2022	2021
Revenue from support services (Note 27)	\$ 17,445	\$ 17,418
Revenue from shipping fees	14,896	20,989
Rent revenue (Note 27)	2,398	1,926
Others	<u>9,357</u>	<u>17,149</u>
	<u><u>\$ 44,096</u></u>	<u><u>\$ 57,482</u></u>

(III) Other profits and losses

	2022	2021
Net profit (loss) on foreign currency exchange	\$ 37,438	(\$ 3,909)
Depreciation of investment property	(907)	(906)
Loss on disposal of property, plant and equipment	- (405)	(119) (603)
Others	<u><u>\$ 36,126</u></u>	<u><u>(\$ 5,537)</u></u>

(IV) Financial cost

	2022	2021
Interest of bank loans	\$ 19,347	\$ 14,431
Loans from related parties (Note 27)	538	604
Interest of lease liabilities	28	38
	<u>\$ 19,913</u>	<u>\$ 15,073</u>

(V) Depreciation and amortization

	2022	2021
Property, plant and equipment	\$ 18,168	\$ 13,389
Right-of-use assets	982	981
Investment property	907	906
Intangible assets	1,314	2,387
	<u>\$ 21,371</u>	<u>\$ 17,663</u>
Summary of depreciation expenses by purpose		
Operating costs	\$ 4,117	\$ 4,475
Operating expense	15,033	9,895
Other profits and losses	907	906
	<u>\$ 20,057</u>	<u>\$ 15,276</u>
Summary of amortization expenses by purpose		
Operating costs	\$ 24	\$ 50
Operating expense	1,290	2,337
	<u>\$ 1,314</u>	<u>\$ 2,387</u>

(VI) Employee benefit expenses

	2022	2021
Short-term employee benefits	<u>\$ 186,883</u>	<u>\$ 178,316</u>
Post-employment benefits	4,746	5,055
Defined contribution plan		
Defined benefit plan (Note 18)	61	39
	<u>4,807</u>	<u>5,094</u>
Share-based payment – equity settlement (Note 24)	189	51,478
	<u>\$ 191,879</u>	<u>\$ 234,888</u>
Summarized by purpose		
Operating costs	\$ 6,455	\$ 6,998
Operating expense	185,424	227,890
	<u>\$ 191,879</u>	<u>\$ 234,888</u>

(VII) Remuneration for employees, directors and supervisors

In accordance with the Articles of Incorporation, we allocate 2%–10% and no more than 4% of the pre-tax profit in the current year before subtracting the remuneration distributed to employees, directors and supervisors as the remuneration for employees and for directors and supervisors, respectively. The remuneration for employees, directors and supervisors in 2022 and 2021 was approved by the Board of Directors in March 2022 and 2021, respectively, as follows:

<u>Estimated percentage</u>	<u>2022</u>	<u>2021</u>
Remuneration for employees	8%	7%
Remuneration for directors and supervisors	2%	1.5%
<u>Amount</u>	<u>2022</u>	<u>2021</u>
	<u>Cash</u>	<u>Cash</u>
Remuneration for employees	<u>\$ 36,041</u>	<u>\$ 25,787</u>
Remuneration for directors and supervisors	<u>\$ 9,010</u>	<u>\$ 5,526</u>

Any change in the amount after the date of approval and publication of the annual parent-only financial report is treated as a change in accounting estimates and will be adjusted to be accounted for in the next year.

There is no difference between the actually distributed amounts of the remuneration for employees, directors and supervisors in 2021 and 2020 and the amounts recognized in the parent-only financial report of each year.

For information of the remuneration for employees, directors and supervisors as approved by the Board of Directors, visit the “Market Observation Post System” of the Taiwan Stock Exchange.

(VIII) Profit/Loss on foreign currency exchange

	<u>2022</u>	<u>2021</u>
Total profit on foreign currency exchange	\$ 215,923	\$ 81,688

Total loss on foreign currency exchange	(178,485)	(85,597)
Net profit (loss)	<u>\$ 37,438</u>	(<u>\$ 3,909</u>)

XXII. Income tax

(I) Main items under income tax expense recognized as profit/loss

	2022	2021
Current income tax		
Tax incurred in the year	\$ 36,598	\$ 36,990
Additional tax on undistributed earnings	557	4,975
Adjusted from prior years	<u>2,157</u>	(<u>4,013</u>)
	<u>39,312</u>	<u>37,952</u>
Deferred income tax		
Tax incurred in the year	(<u>2,627</u>)	2,373
	<u>\$ 36,685</u>	<u>\$ 40,325</u>

Adjustments to accounting income and income tax expenses are as follows:

	2022	2021
Pre-tax net profit	<u>\$ 405,461</u>	<u>\$ 337,079</u>
Income tax expense on pre-tax net profit calculated at the statutory tax rate	\$ 81,092	\$ 67,416
Expenses and losses not deductible from tax	53	20
Effect of adjustments on income tax		
Effect of profit/loss of investment in domestic subsidiaries on income tax	(31,296)	(12,757)
Unrecognized taxable temporary difference of investment in subsidiaries	(14,397)	(15,297)
Other temporary differences unrecognized	(1,481)	(19)
Additional tax on undistributed earnings	557	4,975
Adjustment to income tax	<u>2,157</u>	(<u>4,013</u>)

in prior year	<u>\$ 36,685</u>	<u>\$ 40,325</u>
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(II) Income tax profit (expense) recognized in other comprehensive income

	2022	2021
<u>Deferred income tax</u>		
Incurred in the current year		
Remeasurement of defined benefits plans	(\$ 83)	\$ 54

(III) Income tax assets and liabilities in the current period

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Income tax payable	<u>\$ 36,752</u>	<u>\$ 17,489</u>

(IV) Deferred income tax assets and liabilities

Changes in deferred income tax assets and liabilities are as follows:

	<u>2022</u>		<u>Recognized in other comprehensive income</u>		<u>Ending balance</u>
Deferred income tax assets	<u>Starting balance</u>	<u>Recognized in profit/loss</u>			
Temporary difference					
Defined benefit retirement plan	\$ 1,641	\$ -	(\$ 83)		\$ 1,558
Unrealized exchange losses	-	1,838		-	1,838
Unrealized gross sales margin	1,972	(1,501)		-	471
Accumulated impairment on property	1,200	-		-	1,200
Liability provision	868	324		-	1,192
Refund liabilities	609	(539)		-	70
Others	<u>1,009</u>	<u>(78)</u>	<u>(\$ 83)</u>		<u>931</u>
	<u><u>\$ 7,299</u></u>	<u><u>\$ 44</u></u>	<u><u>(\$ 83)</u></u>		<u><u>\$ 7,260</u></u>
Deferred income tax liabilities					
Temporary difference					
Unrealized exchange profits	<u>\$ 2,583</u>	<u>(\$ 2,583)</u>	<u>\$ -</u>		<u>\$ -</u>

2021

Deferred income tax assets	Starting balance	Recognized in profit/loss	Recognized in other comprehensive income	Ending balance
Temporary difference				
Defined benefit retirement plan	\$ 2,299	(\$ 712)	\$ 54	\$ 1,641
Unrealized gross sales margin	1,767	205	-	1,972
Accumulated impairment on property	1,200	-	-	1,200
Liability provision	1,350	(482)	-	868
Refund provision	1,198	(589)	-	609
Others	1,017	(8)	-	1,009
	<u>\$ 8,831</u>	<u>(\$ 1,586)</u>	<u>\$ 54</u>	<u>\$ 7,299</u>
Deferred income tax liabilities				
Temporary difference				
Unrealized exchange profits	<u>\$ 1,796</u>	<u>\$ 787</u>	<u>\$ -</u>	<u>\$ 2,583</u>

(V) Consolidated amount of temporary differences relating to investments without recognition of deferred income tax liabilities

To meet the need of foreign investee companies for working capital, our management has decided that the undistributed earnings of foreign subsidiaries will be first used for permanent reinvestments without any distribution of profit. Such temporary differences are unlikely to be reversed in the foreseeable future.

As of December 31, 2022 and 2021, the taxable temporary differences relating to the foregoing investments in subsidiaries without recognition of deferred income tax liabilities amounted to NTD1,820,605 thousand and NTD1,705,345 thousand respectively.

(VI) Approval of income tax

The return of our profit-seeking enterprise income tax up until 2020 was approved by the tax authority.

XXIII. Earnings per share

The earning and the weighted average number of common shares used for calculation of EPS are as follows:

Net profit in the current year

	2022	2021
Net profit in the current year	<u>\$ 368,776</u>	<u>\$ 296,754</u>

Number of shares

	Unit: thousand shares	
	2022	2021
Basic EPS		
Starting number of outstanding common shares	113,286	113,286
Less: Weighted average number of treasury shares	(808)	(302)
Weighted average number of common shares used for calculation of basic EPS	112,478	112,984
Effect of dilutive potential common shares:		
Remuneration for employees	<u>1,391</u>	<u>968</u>
Weighted average number of common shares used for calculation of diluted EPS	<u>113,869</u>	<u>113,952</u>

Where we choose to distribute the remuneration for employees in shares or cash, the diluted EPS is calculated by adding the number of dilutive potential common shares to the weighted average number of outstanding shares under the assumption that the remuneration for employees will be distributed in shares. The dilutive effect of the potential common shares is taken into account when calculating the diluted EPS before a resolution is adopted on the number of shares distributable as the remuneration for employees.

XXIV. Agreement on share-based payment

2022

In June 2022, the subsidiary OPT issued employees' stock options for 2,870 thousand shares, the recipients of which included the employees of HEC and OPT, with 200 thousand shares granted to the employees of HEC. The stock options are valid for three years, and a holder of their warrants may, on each anniversary of the date of their issuance, exercise a certain percentage of such options granted.

	2022	
	Unit (thousand shares)	Weighted average price of issue (NTD)
<u>Employees' stock options</u>		
Outstanding at start of period	-	\$ -
Granted in the current period	200	11.7
Outstanding at end of period	<u>200</u>	
Weighted average fair value of employees' stock options granted in the current period (NTD)	<u>\$ 2.35</u>	

Regarding the employees' stock options granted by OPT to our employees in June 2022, OPT used the Black-Scholes pricing model adopting the following parameters:

Price on the grant date	NTD11.7
Expected lifetime	2 to 2.5 years
Expected dividend yield	0%
Risk-free interest rate	1.212%~1.216%

In 2022, we recognized NTD189 thousand as remuneration cost.

2021

In January 2021, we issued employees' stock options for 3,066 thousand treasury shares to recipients including the employees of HEC and subsidiaries, with their vesting criteria being immediate vesting. Their issuance was completed in January 2021.

The following is the information of employees' stock options for treasury shares:

	2021	
	Unit (thousand shares)	Weighted average price of issue (NTD)
<u>Employees' stock options for treasury shares</u>		
Outstanding at start of period	-	\$ -
Granted in the current period	3,066	26.0656
Issued in the current period	(<u>3,066</u>)	26.0656
Outstanding at end of period	<u>-</u>	
Weighted average fair value of employees' stock options for treasury shares granted in the current period	<u>\$ 16.79</u>	

Regarding the employees' stock options for treasury shares granted in January 2021, we have used the Black-Scholes pricing model adopting the following parameters:

Transfer price	NTD26.0656
Expected lifetime	7 days
Share price on the date of granting	NTD42.85
Expected rate of share price fluctuation	10.971%
Expected dividend yield	0%
Risk-free interest rate	0.35%

The expected rate of share price fluctuation is based on the annualized standard deviation of the daily returns during December 25, 2020 to January 5, 2021. In 2021, the recognized remuneration cost was NTD51,478 thousand, and the capital reserves generated by transferring treasury shares to employees amounted to NTD51,270 thousand.

XXV. Capital risk management

Our chief management periodically reviews our capital structure, including consideration of the costs and relevant risks of all categories of capital. Therefore, we engage in capital management for the purpose of ensuring the availability of required financial resources and operational plans to meet the needs for working capital, capital expenditure, R&D expense, debt repayment and dividend expense in the next 12 months.

XXVI. Financial instruments

(I) Fair value information – financial instruments not measured at fair value

Our management considers that the carrying value of financial assets and liabilities not measured at fair value is near its fair value.

(II) Types of financial instruments

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial assets</u>		
Financial assets measured at amortized cost (Note 1)	\$ 2,135,529	\$ 2,029,335
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	3,315,073	3,544,281

Note 1: The balance included financial assets measured at amortized cost, such as cash and cash equivalents, accounts receivable (including related parties), other receivables (including related parties) and guarantee deposits paid.

Note 2: The balance includes financial liabilities measured at amortized cost,

such as short-term loans, short-term bills payable, notes and accounts payable (including related parties), other payables (including related parties) and deposits received.

(III) Purposes and policies of financial risk management

Our primary financial instruments include cash and cash equivalents, accounts receivable and accounts and loans payable. Our financial management department is responsible for providing services to business units, planning and coordinating operations for entry into domestic and international financial markets, and monitoring and managing financial risks in relation to our operations using internal risk reports that analyze risk exposure based on the level and scope of risks. Such risks include market risks (including exchange rate risk, interest rate risk and other price risks), credit risk and liquidity risk.

1. Market risks

The risks of change in foreign exchange rates (see (1) below) and in interest rates (see (2) below) are the major financial risks we bear as a result of our operating activities.

There has been no change in our exposure to the market risks of financial instruments or our methods for management and measurement of such exposure.

(1) Exchange rate risk

We engage in transactions of the sale and purchase of goods denominated in foreign currencies, exposing us to the risk of change in foreign exchange rates.

For the carrying amounts of our monetary assets and liabilities denominated in non-functional currencies on the balance sheet date, see Note 29.

Sensitivity analysis

We are affected primarily by fluctuations in the exchange rates of USD and RMB.

The following table describes in detail our sensitivity analysis in the event where the exchange rate of NTD (our functional currency) to each foreign currency increases or decreases by 1%. 1% is the sensitivity rate used in an internal report to our primary management

regarding exchange rate risk, and also represents the range of reasonable possible change in foreign exchange rates as assessed by our management. The positive number in the following table means the amount of increase (decrease) in the pre-tax net profit when NTD depreciates by 1% against each foreign currency. When NTD appreciates by 1% against each foreign currency, the effect on the pre-tax net profit is a negative (positive) number of the same amount.

	2022	2021
USD	\$ 6,042	\$ 4,328
RMB	(6)	(442)

(2) Interest rate risk

The interest rate risk exposure occurs due to the borrowing of funds by us at both fixed and floating interest rates. We manage interest rate risks by maintaining a proper combination of fixed and floating interest rates.

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
With cash flow interest rate risk		
Financial assets	\$ 618,651	\$ 476,624
Financial liabilities	945,000	720,000

Our assessment has indicated no significant fair value risk with regard to the time deposits at banks with fixed interest rate, bonds with conditions for repurchase, short-term loans, short-term notes payable and lease liabilities held by us.

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposure of non-derivative instruments on the balance sheet date. The analysis focuses on assets and liabilities with floating interest rates under the assumption that the amounts of outstanding assets and liabilities on the balance sheet date are outstanding over the

reporting period. A 1% increase or decrease in interest rate is the rate of change used in an internal report to our primary management regarding interest rate, and also represents the range of reasonable possible change in interest rate as assessed by its management.

If the interest rate increases/decrease by 1% with all other variables remaining constant, our pre-tax net profits in 2022 and 2021 would decrease/increases by NTD3,263 thousand and NTD2,434 thousand respectively, mainly due to the interest rate risk exposure of the cash flows of our deposits and loans with floating interest rate.

2. Credit risk

Credit risk means the risk of financial loss incurred by us as a result of a delay by the counterparty in fulfilling contractual obligations. The greatest credit risk exposure of financial losses we are likely to incur as of the balance sheet date due to failure of the counterparty to fulfill its obligations and our provision of financial guarantees include:

- (1) The carrying amount of financial assets recognized in the parent-only balance sheet.
- (2) The highest amount we may need to pay in providing financial guarantees, regardless of the likelihood of its occurrence.

The balances of accounts receivable from customers with a significant concentration of credit risk.

	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Company A	\$ 567,594	44	\$ 433,879	31
Company B	149,387	11	238,759	17
Company C	61,655	5	185,139	13

3. Liquidity risk

We manage and maintain cash and cash equivalents for sufficient positions to sustain our operations and mitigate the effects of fluctuations in cash flows. Our management supervises the use of bank financing amounts and ensures compliance with the terms of loan contracts.

Our working capital and the bank financing amounts acquired are sufficient to meet the needs of our future operations. Thus, there is no

liquidity risk arising from inability to raise funds for the fulfillment of contractual obligations.

Bank loans are an important source of liquidity for us. For our undisbursed financing amounts, see the description in “(2) Financing limit” below.

(1) Table of liquidity and interest rate risks of non-derivative financial liabilities

The analysis of maturity of the remaining contracts of non-derivative financial liabilities is prepared based on the earliest date when we are likely to be required to make repayment and the undiscounted cash flow of financial liabilities (including principal and estimated interest). Thus, any bank loan for which we are likely to be required to make immediate repayment is listed within the earliest period in the following table, regardless of the probability of the bank enforcing its rights immediately, and the analysis of maturity of other non-derivative financial liabilities is prepared based on the agreed repayment date.

For the cash flow of interest paid at a floating interest rate, the undiscounted amount of interest is derived according to the yield curve on the balance sheet date.

December 31, 2022

	Within 3 months	3 to 6 months	Over 6 months
<u>Non-derivative financial liabilities</u>			
Non-interest-bearing liabilities	\$ 1,706,594	\$ -	\$ 479
Lease liabilities	264	264	1,636
Instruments with floating interest rate	547,727	251,034	150,266
Instruments with fixed interest rate	546,039	118,306	-
Financial guarantee liabilities	540	-	-
	<u>\$ 2,801,164</u>	<u>\$ 369,604</u>	<u>\$ 152,381</u>

December 31, 2021

	<u>Within 3 months</u>	<u>3 to 6 months</u>	<u>Over 6 months</u>
<u>Non-derivative financial liabilities</u>			
Non-interest-bearing liabilities	\$ 1,818,958	\$ -	\$ 346
Lease liabilities	251	251	2,667
Instruments with floating interest rate	476,209	245,249	-
Instruments with fixed interest rate	1,005,912	-	-
Financial guarantee liabilities	498	-	-
	<u>\$ 3,301,828</u>	<u>\$ 245,500</u>	<u>\$ 3,013</u>

(2) Financing limit

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Limit of credit loan		
Disbursed amount	\$ 1,608,000	\$ 1,725,000
Undisbursed amount	<u>2,572,000</u>	<u>2,165,000</u>
	<u>\$ 4,180,000</u>	<u>\$ 3,890,000</u>
Limit of mortgage loan		
Disbursed amount	\$ -	\$ -
Undisbursed amount	<u>300,000</u>	<u>300,000</u>
	<u>\$ 300,000</u>	<u>\$ 300,000</u>

XXVII. Related party transactions

The following are transactions between HEC and related parties:

(I) Names of related parties and their relationship with HEC

Name of related party	Relationship with HEC
WII	Subsidiary
GSG	Subsidiary
Wei Shuo Electronics (Shen Zhen) Co., Ltd. (WSE)	Subsidiary
Wei Chang Xing Electronics (Shen Zhen) Co., Ltd. (WCX)	Subsidiary
Wei Yu International Trading (Shenzhen) Co., Ltd. (WYT)	Subsidiary
Anyuan Weijia Electronic Co., Ltd. (WJA)	Subsidiary
Anyuan Weichangfeng Electronic Co., Ltd. (WCF)	Subsidiary
UCC	Subsidiary
JCC	Subsidiary
KCC	Subsidiary
FCC	Subsidiary
HIT	Subsidiary
GVG	Subsidiary
LFE	Subsidiary
Loyalty Founder Enterprise Company (D.G) Ltd. (LFDG)	Subsidiary
OPT	Subsidiary

(II) Operating revenue

Account item	Type of related party	2022	2021
Sales revenue	Subsidiary	<u>\$ 292,229</u>	<u>\$ 303,188</u>

In terms of our sales to a related party and regular sales, there is no comparable sales price of any product of the same category. The loan period for a related party is approximately 3-4 months with payment received based on the overall funding condition, while the loan period for a regular customer is approximately 1-3 months.

(III) Purchase

Type/Name of related party	2022	2021
Subsidiary		
WSE	\$ 1,666,040	\$ 658,732
LFDG	1,199,274	3,183,951
WYT	86,332	697,002
Others	<u>189,639</u>	<u>88,003</u>
	<u>\$ 3,141,285</u>	<u>\$ 4,627,688</u>

In terms of our purchase from a related party and regular purchases, there is no comparable price for any product of the same category. The payment period for a

related party is 3 months on a basis of monthly settlement, with payment paid based on the overall funding condition, while the payment period for a regular supplier is approximately 2-3 months.

(IV) Payments receivable from related parties (excluding loans to related parties)

Account item	Type/Name of related party	December 31, 2022	December 31, 2021
Accounts receivable – related parties	Subsidiary	<u>\$ 49,005</u>	<u>\$ 96,633</u>
Other receivables – related parties	Subsidiary		
	GSG	\$ 153,550	\$ -
	Others	<u>13,009</u>	<u>6,340</u>
		<u><u>\$ 166,559</u></u>	<u><u>\$ 6,340</u></u>

Payments receivable from related parties are unsecured and non-interest-bearing, and other payments receivable from related parties primarily consist of share payments returned from capital reduction that are receivable, with no loss allowance set aside.

(V) Payments payable to related parties (excluding loans from related parties)

Account item	Type/Name of related party	December 31, 2022	December 31, 2021
Accounts payable – related parties	Subsidiary		
	WSE	\$ 710,527	\$ 357,859
	LFDG	383,824	541,077
	WYT	82	130,001
	Others	<u>31,845</u>	<u>45,294</u>
		<u><u>\$1,126,278</u></u>	<u><u>\$1,074,231</u></u>
Other payables – related parties	Subsidiary	<u><u>\$ 3,765</u></u>	<u><u>\$ 7,358</u></u>

The outstanding balance of payments payable to related parties is not secured.

(VI) Acquisition of property, plant and equipment

Type of related party	2021
Subsidiary	<u>\$ 366</u>

(VII) Disposal of property, plant and equipment

Type/Name of related party	Disposal proceeds	Loss on disposal
Brother corporation LFDG	\$ <u>890</u>	(\$ <u>114</u>)

(VIII) Rental agreement

Type/Name of related party	2022	2021
Subsidiary		
LFE	\$ 229	\$ 229
FCC	95	-
	<u>\$ 324</u>	<u>\$ 229</u>
Type/Name of related party	December 31, 2022	December 31, 2021
<u>Contract liabilities</u>		
Subsidiary	\$ 48	\$ -

For the lease of our office to a related party, the rent is agreed with reference to the market price and will be prepaid semiannually and paid on a monthly basis.

(IX) Loans to related parties – other receivables – related parties

Type/Name of related party	December 31, 2022	December 31, 2021
Subsidiary		
UCC	\$ 9,603	\$ 33,520
KCC	-	27,133
	<u>\$ 9,603</u>	<u>\$ 60,653</u>

Type/Name of related party	2022	2021
Interest income		
Subsidiary		
OPT	\$ 868	\$ -
UCC	489	520
KCC	292	347
	<u>\$ 1,649</u>	<u>\$ 867</u>

We provide unsecured loans to our subsidiaries. The annual interest rates on December 31, 2022 and 2021 were 1.44%–2.5% and 2.5%, respectively.

(X) Loans from related parties – other payables – related parties

Type/Name of related party	December 31, 2022	December 31, 2021
Subsidiary		
WII	\$ 267,177	\$ 248,572
LFE	90,000	90,000
Others	-	60,896
	<u>\$ 357,177</u>	<u>\$ 399,468</u>

Type/Name of related party	2022	2021
Interest expense		
Subsidiary	\$ 538	\$ 604

All loans we borrow from our subsidiaries are unsecured and bear no interest, except in the case of LFE where interest was accrued at annual interest rates of 1.61% and 0.7% in 2022 and 2021 respectively.

(XI) Endorsements/Guarantees

The following are the limits of guarantees provided by us to related parties:

Type/Name of related party	December 31, 2022	December 31, 2021
Subsidiary		
LFDG	\$ 153,550	\$ 138,400
FD	118,870	114,560
WJA	-	7,750
	<u>\$ 272,420</u>	<u>\$ 260,710</u>

The actual amounts disbursed on December 31, 2022 and 2021 were NTD540 thousand and NTD498 thousand, respectively.

(XII) Other related party transactions

Type/Name of related party	2022	2021
<u>Revenue from service support</u>		
Subsidiary		
LFE	\$ 12,700	\$ 12,632
OPT	4,119	4,196
Others	626	590
	<u>\$ 17,445</u>	<u>\$ 17,418</u>

(XIII) Remuneration for key management

	2022	2021
Short-term employee benefits	\$ 27,784	\$ 26,363
Post-employment benefits	285	344
Share-based payment	-	13,818
	<u>\$ 28,069</u>	<u>\$ 40,525</u>

The remuneration for directors and other key management is determined by the Remuneration Committee based on personal performance and market trends.

XXVIII. Pledged and mortgaged assets

The following assets have been provided to financial institutions as collateral for our consolidated credit line:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Investment property	\$ 53,038	\$ 53,945
Land	-	106,130
Premises and buildings – net	-	10,076
	<u>\$ 53,038</u>	<u>\$ 170,151</u>

XXIX. Information of foreign currency assets and liabilities with significant effect

The following information is summarized and presented based on foreign currencies other than our functional currency. The disclosed exchange rate represents the rate at which each such foreign currency is translated to the functional currency. The following is the information of foreign currency financial assets and liabilities with significant effect:

Unit: (Foreign currency)/NTD thousand

December 31, 2022

<u>Foreign currency assets</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Monetary item</u>			
USD	\$ 68,006	30.71 (USD:NTD)	\$ 2,088,450
RMB	436	4.408 (RMB:NTD)	1,921
<u>Non-monetary item</u>			
Subsidiaries accounted for using the equity method			
USD	60,974	30.71 (USD:NTD)	1,872,422
<u>Foreign currency liabilities</u>			
<u>Monetary item</u>			
USD	48,332	30.71 (USD:NTD)	1,484,278
RMB	560	4.408 (RMB:NTD)	2,474

December 31, 2021

<u>Foreign currency assets</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>Carrying amount</u>
<u>Monetary item</u>			
USD	\$ 67,972	27.68 (USD:NTD)	\$ 1,881,470
RMB	437	4.344 (RMB:NTD)	1,900
<u>Non-monetary item</u>			
Subsidiaries accounted for using the equity method			
USD	69,186	27.68 (USD:NTD)	1,909,898
<u>Foreign currency liabilities</u>			
<u>Monetary item</u>			
USD	52,341	27.68 (USD:NTD)	1,448,665
RMB	10,746	4.29 (RMB:NTD)	46,069

Our (realized and unrealized) foreign exchange profits/losses in 2022 and 2021 were an exchange profit of NTD37,438 thousand and an exchange loss of NTD3,909 thousand, respectively. Due to the great number of foreign currencies used for transactions, it is not possible to disclose the exchange profit/loss of each foreign currency with significant effect.

XXX. Note disclosures

(I) Information of material transactions:

1. Funds loaned to others: Table 1.
2. Endorsements/guarantees to others: Table 2.
3. Securities held at end of period (excluding those controlled by investee subsidiaries and associates): Table 3.
4. Cumulative amount of purchase or sale of the same securities equaling or exceeding NTD300 million or 20% of the paid-up capital: None.
5. Amount of acquisition of real property equaling or exceeding NTD300 million or 20% of the paid-up capital: None.
6. Amount of disposal of real property equaling or exceeding NTD300 million or 20% of the paid-up capital: None.
7. Amount of purchase/sale of goods from/to related parties equaling or exceeding NTD100 million or 20% of the paid-up capital: Table 4.
8. Payments receivable from related parties equaling or exceeding NTD100 million or 20% of the paid-up capital: Table 5.

9. Transactions of derivative instruments: None.

(II) Information of investee companies: See Table 6.

(III) Information of investments in Mainland China:

1. The names, scope of primary business and amounts of paid-in capital of the investee companies in Mainland China, the methods of investment, funds remitted inwardly and outwardly, shareholdings, profits/losses of current period and investment profits/losses recognized, the carrying amounts of investment at end of period, remitted investment profits/losses, and limits on the amount of investments in Mainland China: Table 7.
2. The following material transactions with the investee companies in Mainland China directly or indirectly through a third area, and the prices, payment terms and unrealized profits/losses of such transactions:
 - (1) The amount and percentage of purchases, and the ending balance and percentage of the relevant payments payable: Table 8.
 - (2) The amount and percentage of sales, and the ending balance and percentage of the relevant payments receivable: Table 8.
 - (3) The amount of property transactions and the resulting amount of profits/losses: None.
 - (4) The ending balance and purposes of note endorsements/guarantees or collateral provided: Table 2.
 - (5) The maximum balance, ending balance, interest rate range and total current interest for financing of funds: Table 1.
 - (6) Other transactions with significant effect on current profits/losses or the financial conditions, such as the rendering or receiving of services: None.

(IV) Information of major shareholders: The names of shareholders with a shareholding of no less than 5%, and the number and percentage of shares held by each of them: Table 9.

CompuCase Enterprise Co., Ltd.

Chairman: Wang Chun-Tung

President: Wang Chun-Tung