

NOVATEK MICROELECTRONICS CORP.

2021 Annual Report

- I. Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw>
- II. Novatek annual report is available at <http://www.novatek.com.tw>

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Notice to Readers:

The reader is advised that the annual report has been prepared originally in Chinese. The English version is directly translated from Chinese version.

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IV. Auditor:

Company: Ernst & Young

Auditors: Hans Chen, Eric Kuo

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V. Name of overseas securities dealers and methods to inquire into overseas securities:

Not Applicable

VI. Company website: www.novatek.com.tw

Novatek Microelectronics Corp.

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I. Letter to the Shareholders

Dear Shareholders,

I. Business plan implementation and operating results of 2021

Even with the economic turmoil experienced around the world caused by the COVID-19 pandemic, the pandemic has in-turn catalyzed business opportunities of telecommuting, which ultimately accelerated the digital transformation of businesses around the world. Benefiting from the business opportunities of telecommuting as well as the continuous growth of the stay-at-home economy, demand for the semiconductor industry is increasing. With the joint efforts of all employees, the annual revenue in 2021 surpassed the NT\$100 billion mark for the first time, reaching NT\$135.366 billion from NT\$79.956 billion of the previous year, showing an increase of 69.30%. The gross margin rose to 49.78% from 34.97%, a 14.81 percent point growth over 2020. Net income achieved NT\$38.866 billion, showing an increase of 228.9% compared to NT\$11.817 billion of the previous year, while the earnings per share was NT\$63.87. The Company's revenue, gross margin and net income all reached record highs, setting a new milestone in the company's operational performance.

The pandemic has boosted the demand for various consumer electronics and application products. However, due to the inadequate capacity of the semiconductor supply chain as well as the shortage of foundry supply, the prices of IC chips have risen significantly. With the advantaged grasp of production capacity and flexibility in supply chain, the shipment of Novatek's mobile phone display drivers and touch-integrated ICs continued to reach record highs, leading the industry in its market share. Novatek's revenue in large-size panel driver ICs, timing control ICs, and TV SoCs continued to grow as well. Additionally, due to the success in the development of the automotive market, the sales of automotive display driver ICs have increased by several folds. The automotive display driver and touch-integrated ICs have also been successfully introduced to leading brand car manufacturers for mass production. Furthermore, Novatek has fully grasped market opportunities to expand its market share of power management ICs for display products. The shipment and market share of smart surveillance solutions for brand customers increased, resulting in significant sales increase. In 2021, with the rising of both the price and sales volume of various products, revenue continued to reach record highs.

Novatek is committed to improving the corporate governance of the Company and attaching greater importance to corporate sustainable development. In response to the continuous expansion of operations, the newly purchased office building in Tai Yuen Hi-Tech Industrial Park was awarded the "Silver Award in Green Building Standards" by the Ministry of the Interior. The design and planning of the office area fulfilled the Company's concepts for energy-saving and carbon reduction, achieved the goal of environmental sustainability through real practices. The building was ready for use in September 2021. To actively recruit and retain key R&D talents, the salary structure of employees has been adjusted to render the reward system more effective for employee motivation

and retention. Childcare allowances have also been added in response to the government's policy for encouraging childbirth. With regards to social welfare, Novatek has long supported sports promotion and offered care for the disadvantaged in rural areas, actively encouraging its employees to engage in related events. In 2021, the percentage of Novatek's employees who participated in charity donation activities reached 41.5%. We organized the Yunlin Summer Story Camp for Disadvantaged School Children, the Yunlin and Hualien Rural Elementary School Reading Promotion Programs, the Hsinchu County Rural Elementary School Night Angel Lighting Program, and percussion courses for visually impaired students in Changhua providing 11 sessions and a total of 1,233 hours of volunteer service. Moreover, Novatek was awarded the "Youth Volunteer Outstanding Utilization Unit" issued by the Ministry of Education for four consecutive years, giving back to society with practical actions.

II. Research development status of 2021

To reinforce our growth momentum and maintain our leading position in technology, Novatek has long invested in the research and development of key technologies and promoted new applications of various products. In 2021, our R&D expenses amounted NT\$16.601 billion, which increased by 51.0% year-over-year from NT\$10.994 billion in 2020, showing a continuous rise in R&D expenditures. In terms of product and technology planning, as the penetration rate of OLEDs in mobile phone displays continues to increase, Novatek took the lead in developing OLED mobile phone display driver and touch-integrated ICs, which were well received by the market, boosting our revenue. As brand manufacturers successively launch products with Mini LED backlighting to accelerate the development of related industries, Novatek has grasped the market trends and developed the Mini LED backlight driver ICs for VR and the Mini LED backlight control ICs for laptops to attract more business opportunities. As for the automotive market, Novatek has launched local dimming timing controller ICs as well as touch panel solutions to provide the best solution for high-end automotive displays. In response to the development of ultra-high-definition TVs, a new generation of TV display interfaces and ultra-high-speed source driver ICs have also been launched to meet the needs of 8K4K TVs with ultra-high-definition displays. As for SoC products, the dynamic compensation technology for TV has been successfully utilized to develop a mobile phone image processing IC capable of providing high resolution and power saving functions.

III. Business guideline and plan for 2022

Novatek aims to become the best partner for customers in the field of smart imaging and display technologies, is focused on integrating its core technologies with sustainable development, and is committed to developing innovative products with high performance and low power consumption, making contributions to global energy conservation and environmental protection. To take the lead in technological upgrades and raise barriers to competition, Novatek makes every effort to introduce OLED display drivers and touch-integrated ICs to brand mobile phone manufacturers by being at the forefront of OLED technology. In response to the explosive growth of the electric vehicle industry and the increase in the number of in-vehicle display panels, and the size enlargement and high-

standard image quality requirements driven by the development of smart vehicles, Novatek has been actively developing automotive display driver and touch-integrated ICs, and studying comprehensive solution for introducing Mini LEDs and OLEDs as automotive displays, and large-sized automotive displays to gain business opportunities in the automotive market. Additionally, through internal technology integration, Novatek has also developed a solution that combines large-size display driver ICs with timing control ICs and power management ICs to strengthen long-term technical competitiveness, aiming to reach number one in market share for all display-related products. In terms of boosting the revenue and profit of its SoC products, Novatek will continue to strengthen the competitiveness of SoC technology for smart TVs, develop high-standard gaming display control ICs, and promote smart security control ICs. Furthermore, we will integrate key IP and system technologies to extend product applications and expand ASIC business. As for timing control ICs, we will integrate driver as well as touch control functions, plan the development of high-speed interface technology, and launch value-added and differentiated products to expand the market, building the foundation for future operational growth.

Owing to the continuous increase of the penetration rate of 5G smartphones as well as the expansion of OLED production capacity of panel display manufacturers in China, OLED display driver IC's have become the main product on the market. The penetration rate of OLED in small and medium-sized displays is expected to exceed 50%, and the size of the OLED TV market will also grow rapidly. According to the projection conducted by Sigmaintell, the annual growth rate will reach 41%. On the other hand, display technologies such as Mini LEDs, Micro LEDs and QD-OLEDs are also emerging in the market. With the maturity of 5G technology and the rise of the Metaverse, these new applications are bound to set off the next wave of upgrades for the display industry, accelerating the introduction of new display technologies to various application devices such as laptops, computer displays and tablets. Novatek has long been building strong relationships with brand customers, and working with collaborative partners to commercialize the above technologies, providing customers with more complete, one-stop integrated services. Moreover, through the implementation of product portfolio sales models, the dilemma of "excessive supplies or shortage of supplies" encountered by customers can be eliminated to improve the revenue and gross margin of a company in the long run. In terms of improving the speed of product development, Novatek actively collaborates with customers to determine product specifications prior to the development of the product. When encountering tight production capacity in the supply chain, more flexible production and sales strategies are adopted. It is expected that improvements in product development speed, production capacity management, and customer adhesion will benefit the expansion of our customer base and the diversification of the market, creating long-term revenue and profits for the Company.

IV. Future development strategies, and impact by external competition, regulatory and macroeconomic environment

Looking ahead, the COVID-19 pandemic will continue to impact the world. In addition to vaccines, antiviral drug treatments for COVID-19 have also been recently launched. Hopefully, travel restrictions and border control measures will be loosened soon to promote economic recovery. Nevertheless, due to the conflict between the world's two major economies, China and the United States, which continues to create geopolitical risks and soaring inflation around the world, we will enter a cycle of raising interest rates, which may affect consumption and the economy, suggesting that the overall economy of Taiwan in 2022 will still be challenging. With the aforementioned above in mind, the semiconductor industry is expanding rapidly, the global supply chain has been re-distributed, and the competition in the market for talents is fierce. In the face of these uncertainties, Novatek actively recruits R&D talents to improve its R&D capabilities, and uses flexible strategic plans to strengthen its long-term collaborative relations with brand system manufacturers to provide customers with comprehensive solutions and create diversified product value. In addition, Novatek also engages in ESG activities to fulfill its corporate responsibilities and gain recognition from stakeholders, pursuing sustainable development and enhancing long-term shareholder returns.

We wish you all health and happiness.

Sincerest regards,

Chairman

Tai-Shung, Ho

President and Vice Chairman

Steve Wang

II. Company Overview

A. Date incorporated

May 28, 1997

B. Milestones

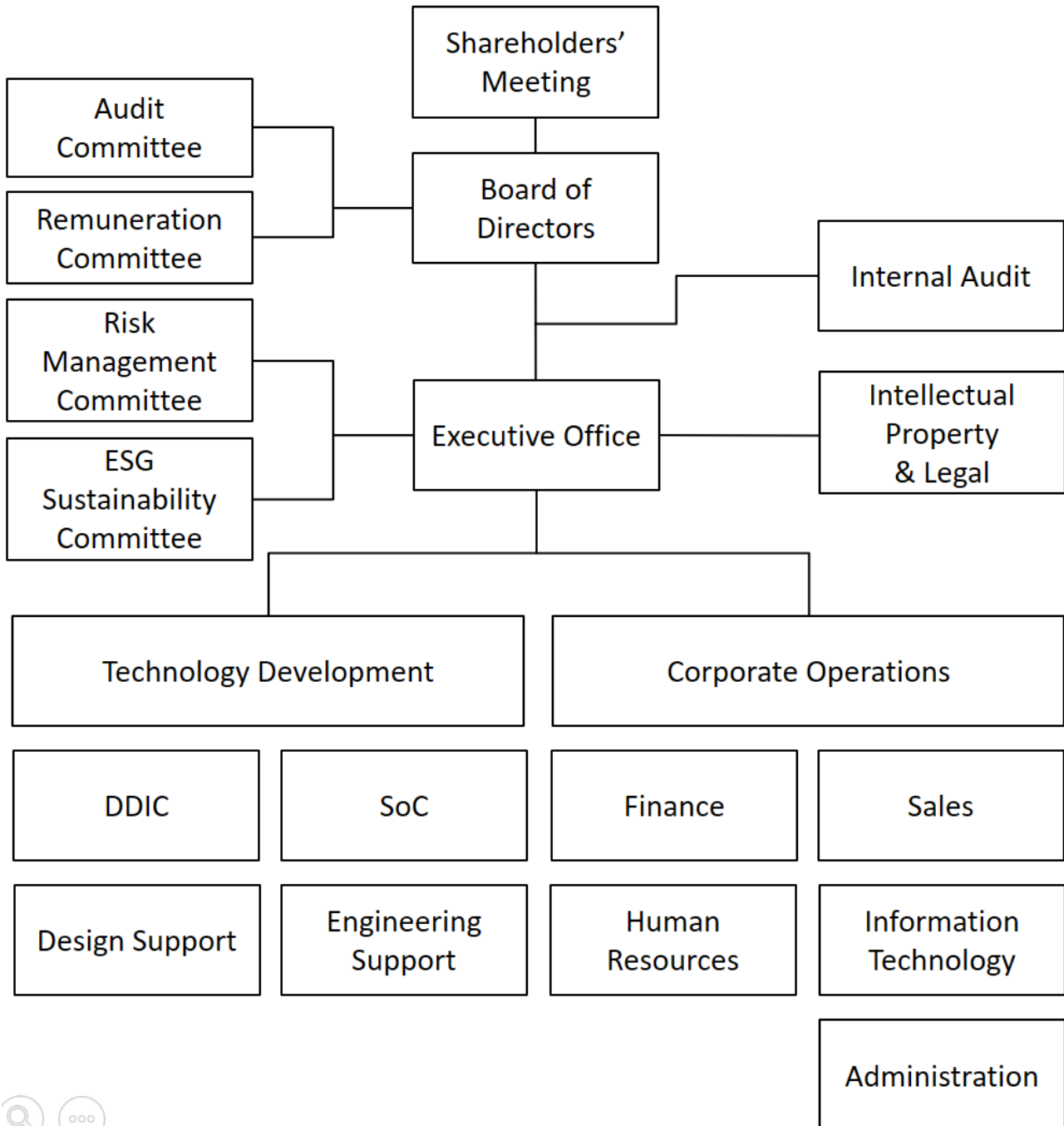
- 1997 May Novatek established from the commercial products division of United Microelectronics Corp.
- 1997 July Novatek begins official operations.
- 1997 Nov Cash capitalization of \$300 million for a total capital of \$600 million.
- 1999 July Shares begin public trading.
- 2000 Dec Initial public offering on OTC market approved by SEC.
- 2001 Apr Listed on OTC market; stock code: 5499.
- 2001 Oct Establishes Novatek Japan subsidiary to better serve Japanese customers.
- 2002 Aug Listed on Taiwan Stock Exchange main board; stock code: 3034.
- 2002 Sep Establishes Novatek (Suzhou) subsidiary to reinforce its service customers in China.
- 2003 Jan Technology Building is completed and begins operation.
- 2003 Dec Agreement reached with Wiseware for a merging of the two companies.
- 2004 Mar Merges with Wiseware by issuing new shares totaling \$45 million.
- 2006 Sep Purchase 53.63% ownership of office building and facilities from Media Tek Inc., which located in No.1-2, Innovation Road I, Hsinchu Science Park.
- 2007 May Purchases office space at the Lyons Technology Center on Ruiguang Road to serve as Novatek's Taipei office.
- 2007 Nov Novatek Board of Directors passes resolution to merge with Cheertek Inc.
- 2008 Apr Taiwan Financial Supervisory Commission approved the issuance of new shares for the merger of Novatek and Cheertek.
- 2009 Dec Consolidated sales revenue totaled NT\$27.013 billion with consolidated net income of NT\$4.018 billion.
- 2010 Dec Consolidated sales revenue totaled NT\$36.316 billion with consolidated net income of NT\$4.584 billion
- 2011 Aug Establishes Novatek (Xian) subsidiary, mainly engaged in computer software design, computer systems integration services, offering technology consulting and after-sales services for its customers in China.
- 2011 Dec Consolidated sales revenue totaled NT\$35.070 billion with consolidated net income of NT\$3.695 billion.
- 2012 Dec Consolidated sales revenue totaled NT\$37.029 billion with consolidated net income of NT\$4.440 billion.
- 2013 Dec Consolidated sales revenue totaled NT\$41.450 billion with consolidated net income of NT\$4.745 billion.
- 2014 Dec Consolidated sales revenue totaled NT\$54.067 billion with consolidated net income of NT\$7.209 billion.
- 2015 Feb Establishes Novatek (Shenzhen) subsidiary, mainly engaged in design and testing of semiconductor application software, and offering customer service.
- 2015 Dec Consolidated sales revenue totaled NT\$50.87 billion with consolidated net income of NT\$6.399 billion.
- 2016 Dec Consolidated sales revenue totaled NT\$45.65 billion with consolidated net income of NT\$5.004 billion.

2017 Jan	Novatek Board of Directors passes resolution to acquire surveillance business from Faraday Technology Corporation, which includes DVR and IP-Cam SOC and other products, along with related intellectual property, technology, and fixed asset.
2017 Dec	Consolidated sales revenue totaled NT\$47.074 billion with consolidated net income of NT\$5.024 billion.
2018 Dec	Consolidated sales revenue totaled NT\$54.834 billion with consolidated net income of NT\$6.391 billion.
2019 Dec	Consolidated sales revenue totaled NT\$64.372 billion with consolidated net income of NT\$7.927 billion.
2020 Nov	Establishes Novatek Zhubei branch.
2020 Dec	Chosen as a component in FTSE4Good TIP Taiwan ESG Index.
2020 Dec	Consolidated sales revenue totaled NT\$79.956 billion with consolidated net income of NT\$11.817 billion.
2021 Feb	Introduced automobile 1/2-chip cascade embedded OSD TDDI product for in-cell touch automotive display solution.
2021 Mar	Mass production AMOLED DDIC which carries out camera-under-display technology and realized full-screen display in smartphones.
2021 Apr	Launched AMOLED TDDI for smartphones which integrates display driver IC and touch controller in a single chip.
2021 Aug	Introduced LTPS LCD DDIC features local dimming and blinking-backlight technology, increasing LCD's contrast ratio and reducing motion blur for AR/VR applications.
2021 Aug	Establishes Novatek (Beijing) Co., Ltd., mainly engaged in technical service, software development, selling goods in software and electronics, and offering customer service.
2021 Sep	Next generation automotive TCON solution, embedded with HDCP decryption, in-cell touch & local dimming feature, driving the market for higher level large size automotive display.
2021 Dec	Consolidated sales revenue totaled NT\$135.366 billion with consolidated net income of NT\$38.866 billion.

III. Corporate Governance

A. Company Organization

1. Organization Chart:



2. Organization and its respective functions:

Department	Key Responsibilities
DDIC	Research and development of panel driver chip, organic light-emitting diode driver chip, LED driver chip and automotive electronics, and power/analog related IC product planning.
SoC	Research and development of digital TV products, digital consumer products and image sensors.
Design Support	IP development, IC physical design engineering, software and hardware development and design.
Engineering Support	Product development and mass production, quality and reliability management, customer satisfaction management, production planning and procurement.
Sales	Product sales, customer development, customer relationship maintenance etc.
Intellectual Property & Legal	Corporate law, business contracts, patents and other intellectual property rights management.
Finance	Capital and asset management, financial accounting management, tax management, stock operations, etc.
Human Resources	Human resource management, training and development, remuneration management, etc.
Information Technology	Information system framework, operations and production information management, information security management etc.
Administrative	Employee Relationship, General affairs, plant operations, and industrial safety and health etc.

B. Information of Directors and Officials

1. Directors' information

a. Directors' information table

April 11, 2022; Unit: K shares, %

Title	Nationality/ Country of Origin	Name	Gender Age	Date elected (appointed)	Term of Office	Date first Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Other Selected Current Positions	Managers are Spouse or within Second-degree Relatives of Consanguinity to Each Other (Note 2)		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relation
Chairman	R.O.C	Tai-Shung, Ho	Male (60~70)	2021.7.20	3 years	1997.5.13	8,515	1.40	8,515	1.40	-	-	-	-	Master of Electronic Engineering, National Tsing Hua University Division Director of Commercial Product Business, UMC	Chairman of Novatek Chairman of NTK International Limited Chairman of Novatek Japan Kabushiki-Kaisha Director of Coretronic Corp. (Representative of Hsun Chieh Investment Co., Ltd.)	-	-	-
Vice Chairman	R.O.C	Steve Wang	Male (60~70)	2021.7.20	3 years	2003.6.9	2,844	0.47	2,314	0.38	-	-	-	-	Bachelor of Electronic Engineering, Chung Yuan Christian University Vice President of AU Optronics Corp	Vice Chairman of Novatek Chairman of Novatek (Shenzhen) Co., Ltd. Chairman of Novatek (Suzhou) Co., Ltd. Chairman of Novatek (Xian) Co., Ltd. Chairman of Novatek (Shanghai) Co., Ltd. Executive Director of Novatek (Beijing) Co., Ltd.	-	-	-
Director	R.O.C	J.H. Chang	Male (60~70)	2021.7.20	3 years	2018.6.8	76	0.01	76	0.01	-	-	-	-	Ph.D. of Computer Science, University of California, Berkeley IBM TJ Watson Research Center, Research Staff Member Sun Microsystems, Design Manager Trident Microsystems, CTO, VP of Engineering, President Senior Vice President of Novatek, President of VISG	Director of Novatek (Xian) Co., Ltd. Director of Novatek (Shanghai) Co., Ltd.	-	-	-
Institutional Director	R.O.C	United Microelectronics Corp. (UMC)	-	2021.7.20	3 years	1997.5.13	16,445	2.70	16,445	2.70	-	-	-	-	-	-	-	-	-
(Note 1)	R.O.C	Chi-Tung, Liu	Male (50~60)	2021.7.20	3 years	2003.6.9	-	-	-	-	-	-	-	-	Senior Vice President and CFO of UMC EMBA, Business Administration, National Taiwan University	Director of Fortune Venture Capital Corp. Director of TLC Capital Co., LTD. Director of Unimicron Technology Corp. Director of HeJian Technology (Suzhou) Co., Ltd. Chairman of United Semiconductor (Xiamen) Co., LTD.	-	-	-
Director	R.O.C	Max Wu	Male (60~70)	2021.7.20	3 years	2006.6.12	-	-	-	-	-	-	-	-	Bachelor of Electrical Engineering, National Chiao Tung University Partner of InveStar Capital President of Acer America Corporation Chairman of Hua Nan Management & Consulting Co., Ltd. Chairman of Spring Foundation of NCTU	Chairman of Birch Venture Capital Director of YODN Lighting Corp. Independent Director of Apacer Technology Inc. Independent Director of ANTEC INC. Independent Director of Gigastone Corp. Independent Director of Harvatek Corp.	-	-	-
Independent Director	R.O.C	Jack Tsai	Male (60~70)	2021.7.20	3 years	2012.6.6	-	-	-	-	-	-	-	-	Master of Computer Science, George Washington University Bachelor of Computer Science, National Chiao Tung University President of Heidrick & Struggles (Taiwan) President of Accenture (aka Andersen Consulting) (Taiwan) Chief Adviser of AGS, Maryland, USA	The CID Group Partner and COO Director of Advanced Power Electronics Corp.	-	-	-
Independent Director	R.O.C	Jack Liu	Male (60~70)	2021.7.20	3 years	2021.7.20	-	-	-	-	-	-	-	-	Master of Business Administration, Miramar University Bachelor of Accounting, Tunghai University Global Vice President & Asia's CFO of Applied Materials, Inc. Chairman of Applied Materials, Inc. (Taiwan) CFO & Operation VP of Applied Materials, Inc. (Taiwan) CFO of Wintek Semiconductor Corp.	Independent Director of Rafael Microelectronics, Inc. Independent Director of Advanced Power Electronics Corp.	-	-	-

Title	Nationality / Country of Origin	Name	Gender Age	Date elected (appointed)	Term of Office	Date first Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Education & Selected Past Positions	Other Selected Current Positions	Managers are Spouse or within Second-degree Relatives of Consanguinity to Each Other (Note 2)		
							Share	%	Share	%	Share	%	Share	%			Title	Name	Relation
Independent Director	R.O.C	TingTing Hwang	Female (60~70)	2021.7.20	3 years	2021.7.20	-	-	-	-	-	-	-	-	Ph.D of Computer Science, Pennsylvania State University Master of Computer Science, Pennsylvania State University Bachelor of Public Administration of Political Science, National Taiwan University Distinguished Professor of Computer Science, National Tsing Hua University (NTHU) Chief Secretary of NTHU Chair of Computer Science, NTHU Vice Dean of College of Electrical Engineering and Computer Science, NTHU Director of NTHU / ITRI Joint Research Center	Distinguished Professor of Computer Science, National Tsing Hua University	-	-	-

Note 1: Chi-Tung Liu is authorized by institutional director, UMC to attend the meetings of the current session of the Board of Directors.

Note 2: President (or someone with an equivalent job responsibility, i.e. the highest ranking manager of the company) and Chairman are not (1) the same person, (2) in a material relationship with each other, or (3) within one degree of consanguinity.

Table 1: List of Institutional Shareholders of Novatek's Major Institutional Shareholders

Institutional Shareholders	Major Shareholder of Institutional Shareholders	Percentage of Shares Held by Novatek's Institutional Shareholders (Note)
United Microelectronics Corp.	JP Morgan, as representative of holders of UMC ADRs	5.84
	Fubon Life Insurance Co., Ltd.	4.16
	Hsun Chieh Investment Co., Ltd.	3.55
	New Labor Pension Fund	2.53
	Silicon Integrated Systems Corp.	2.60
	Yann Yuan Investment Co., Ltd.	1.62
	CTBC Bank Employee Stock Ownership Trust Account of UNITED MICROELECTRONICS CORP.	1.57
	Norges Bank - internal - NBIM PF EQ INTERNAL CFD	1.23
	Nan Shan Life Insurance Co., Ltd	1.20
	JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	1.06

Note: The shareholdings are as of April 10, 2021, the book closure date of UMC.

Table 2: List of Institutional Shareholders of Novatek's Major Institutional Shareholders

Name	Major Shareholders of the Institutional Shareholders	Percentage of Shares Held by Institutional Shareholders
JPMorgan, as representative of holders of UMC ADRs	Inapplicable	Inapplicable
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co.	100.00
Hsun Chieh Investment Co., Ltd.	Hsieh Yung Investment Co. Ltd.	63.48
	United Microelectronics Corp.	36.49
New Labor Pension Fund	Inapplicable	Inapplicable
Silicon Integrated Systems Corp. (Note 1)	United Microelectronics Corp.	19.01
	Hsun Chieh Investment Co., Ltd.	4.80
	Hsing-Shen Liu	1.38
	Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	1.12
	JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	0.96
	Standard Chartered Bank Limited as custodian of Credit Suisse International	0.90
	Cong-Ming Zhuang	0.46

Name	Major Shareholders of the Institutional Shareholders	Percentage of Shares Held by Institutional Shareholders
Silicon Integrated Systems Corp. (Note 1)	Wen-Chi Chen	0.45
	Vanguard FTSE All-World ex-US Small-Cap Index Fund, a series of Vanguard International Equity Index Funds	0.35
	Vanguard Fiduciary Trust Company Institutional Stock Market Index Trust II	0.35
Yann Yuan Investment Co., Ltd. (Note 2)	Hsun Chieh Investment Co., Ltd.	2.46
	Siliconware Investment Co., Ltd.	29.44
	United Microelectronics Corp.	28.22
	King Yuan Electronics Corp.	15.34
	Unimicron Technology Corp.	12.27
	Coretronic Corporation	7.98
	Sigurd Microelectronics Corp.	4.29
CTBC Bank Employee Stock Ownership Trust Account of UNITED MICROELECTRONICS CORP.	Inapplicable	Inapplicable
Norges Bank - internal - NBIM PF EQ INTERNAL CFD	Inapplicable	Inapplicable
Nan Shan Life Insurance Co., Ltd (Note 3)	Ruenchen Investment Holding Co., Ltd.	89.55
	Ruen Hua Dyeing & Weaving Co Ltd.	1.34
	Y. T. Du	1.16
	RUEN TAI SHING Co., Ltd.	0.97
	Ruentex Development Co., Ltd.	0.23
	Ruentex Industries Co., Ltd.	0.21
	Yen Sin Investment Corporation	0.16
	Ruentex Leasing Co., Ltd.	0.13
	Chi-Pin Investment Company	0.11
	PAN CITY CO., LTD	0.09
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	Inapplicable	Inapplicable

Note 1: The shareholdings are as of Sep. 6, 2021.

Note 2: The shareholdings are as of Dec. 31, 2021.

Note 3: The shareholdings are as of Feb. 28, 2022.

b. Disclosure of information on the professional qualifications of directors and the independence of independent directors

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
Tai-Shung Ho	<p>Mr. Tai-Shung Ho holds a master's degree from the Department of Electrical Engineering, National Tsing Hua University. He served as the director of the Commercial Product Business Division of UMC and the president of Novatek. He is currently the chairman of Novatek and the director of Coretronic Corporation.</p> <p>Mr. Tai-Shung Ho is specialized in the management of the IC design and the semiconductor industries, and has a diversified professional background covering business operating judgement, business management, crisis management, leadership, and decision-making skills.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	Not applicable	0
Steve Wang	<p>Mr. Steve Wang holds a bachelor's degree from the Department of Electronic Engineering, Chung Yuan Christian University. He served as the vice president of AU Optronics Corp and is currently the president of Novatek. He is also the vice chairman of the Company since 2015.</p> <p>Mr. Steve Wang is specialized in the management of the semiconductor and the display industries. As a manager in the Board of Directors, he communicates major operational strategies with all directors. He has a diversified professional background covering business operating judgement, business management, crisis management, leadership, and decision-making skills.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	Not applicable	0
J.H. Chang	<p>Mr. J.H. Chang holds a doctoral degree from the Department of Computer Science, University of California, Berkeley. He has substantial work experience in several</p>	Not applicable	0

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
	<p>big international companies. He served as a research staff in IBM, a research manager in Sun Microsystems, the CTO (Chief Technology Officer) and president of Trident Microsystems, and the president of the VISG Business Group of Novatek.</p> <p>Mr. J.H. Chang is devoted to the computer software, hardware and Internet technology service industries, specializing in the field of imaging and display IC, and has management experience and vision in the software, communication, and IC design industries. His expertise covers business, international market, business operating judgment, leadership and decision-making skills to provide diversified management and strategic thinking for the Board of Directors.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>		
Chi-Tung Liu (Institutional Director representing UMC)	<p>Mr. Chi-Tung Liu holds a master's degree from the EMBA Program of National Taiwan University. He is currently the senior vice president and CFO (Chief Financial Officer) of UMC. He also serves as a director and chairman of a number of venture capital, printed circuit board and semiconductor companies.</p> <p>Mr. Chi-Tung Liu is familiar with the operation, development and investment management of the semiconductor industry. His expertise covers accounting, financial analysis, business operating judgment, business management and decision-making skills to provide management strategies and financial as well as risk management advices for the Board of Directors.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	Not applicable	0
Max Wu	Mr. Max Wu holds a bachelor's degree from the Department of Electrical Engineering, National Chiao Tung	Not applicable	3

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
	<p>University. He served as the president of Acer America Corporation and chairman of Hua Nan Gold Management & Consulting Co., Ltd. Currently, he serves as a director or independent director of several listed companies.</p> <p>Mr. Max Wu is familiar with the development of the computer information and the semiconductor industries, and specializes in investment management. His expertise covers industry knowledge, business management, leadership and decision-making skills to provide industrial development and strategic investment advices for the Board of Directors.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>		
<p>Jack Tsai (Independent Director and Convenor of the Remuneration Committee)</p>	<p>Mr. Jack Tsai holds a master's degree from the Department of Computer Science, George Washington University. He served as a senior executive in many international companies. He is currently the Partner and COO (Chief Operating Officer) of the CID Group since 2012.</p> <p>Mr. Jack Tsai has a diversified professional background and practical experience in business management, investment management, human resources management and leadership. He can provide advices on operation management, strategic investment, international market outlook and talent recruitment for the Board of Directors.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	<p>Comply with the independence requirements listed in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", including but not limited to the following matters:</p> <ul style="list-style-type: none"> • The person concerned, his/her spouse and relatives within the second degree of kinship do not serve as directors, supervisors or employees of the Company or its affiliated companies. • The person concerned, his/her spouse and relatives within the second degree of kinship (or in the name of others) do not hold shares of the Company. • The person concerned do not serve as a director, supervisor or employee of a company that has a specific relationship with the Company. • The person concerned do not receive any remuneration for 	<p>0</p>

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
		providing business, legal, financial, and accounting services to the Company or its affiliated companies in the past 2 years.	
Jack Liu (Independent Director and Convenor of the Audit Committee)	<p>Mr. Jack Liu holds a master's degree from the Department of Business Administration, Miramar University and a bachelor's degree from the Department of Accounting, Tunghai University. His expertise is in accounting. He served as the CFO (Chief Financial Officer) of Winstek Semiconductor Technology Co., Ltd., and the global vice president and CFO of Applied Materials, Inc. in Asia Pacific region. He also served as the CFO, vice president and chairman of Applied Materials, Inc., Taiwan. He is currently the independent director and member of the Remuneration Committee of Advanced Power Electronics Corp. and Rafael Microelectronics, Inc. since 2014 and 2016, respectively.</p> <p>Mr. Jack Liu has a diversified professional background covering accounting and financial analysis, business operating judgment, crisis management, business management, and leadership to provide corporate governance and international market advices for the Board of Directors and improve the supervision capability of the Audit Committee.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	<p>Comply with the independence requirements listed in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", including but not limited to the following matters:</p> <ul style="list-style-type: none"> • The person concerned, his/her spouse and relatives within the second degree of kinship do not serve as directors, supervisors or employees of the Company or its affiliated companies. • The person concerned, his/her spouse and relatives within the second degree of kinship (or in the name of others) do not hold shares of the Company. • The person concerned do not serve as a director, supervisor or employee of a company that has a specific relationship with the Company. • The person concerned do not receive any remuneration for providing business, legal, financial, and accounting services to the Company or its affiliated companies in the past 2 years. 	2
TingTing Hwang (Independent Director)	<p>Ms. TingTing Hwang holds a doctoral degree from the Department of Computer Science, Pennsylvania State University. She has been a professor in the Department of Computer Science, National Tsing Hua University (NTHU) since 1990 and has held various administrative positions in NTHU. She also served as a director of NTHU/ITRI Joint Research Center,</p>	<p>Comply with the independence requirements listed in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", including but not limited to the following matters:</p> <ul style="list-style-type: none"> • The person concerned, 	0

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
	<p>and member of the Examination Yuan for 6 years since 2014. She is currently a distinguished professor of NTHU.</p> <p>Ms. TingTing Hwang is familiar with the information technology industry, and has a diversified professional background covering industry development and application insight, leadership and decision-making skills to provide industry forward-looking information and talent cultivation as well as recruitment strategies for the Board of Directors.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	<p>his/her spouse and relatives within the second degree of kinship do not serve as directors, supervisors or employees of the Company or its affiliated companies.</p> <ul style="list-style-type: none"> • The person concerned, his/her spouse and relatives within the second degree of kinship (or in the name of others) do not hold shares of the Company. • The person concerned do not serve as a director, supervisor or employee of a company that has a specific relationship with the Company. • The person concerned do not receive any remuneration for providing business, legal, financial, and accounting services to the Company or its affiliated companies in the past 2 years. 	

c. Diversification and Independence of the Board of Directors

(1) Diversification of the Board of Directors

i. Policy:

The Company's Articles of Incorporation stated that the number of directors of the Company shall be between seven to nine. According to the scale of business development and the actual operation needs of the Company, there are currently eight directors. The election of directors adopts the candidate nomination system. The composition of the Board members shall be diversified in accordance with the provisions of the Company's "Principles of Corporate Governance". In addition to limiting the number of directors who also serve as managers of the Company to less than one-third of the total directors, appropriate diversification policies shall be formulated based on the operation, business model and development needs of the Company.

- Basic criteria and values:

No restrictions on gender, age, nationality and culture.

- Professional knowledge and capabilities:

To achieve the ideal goals of corporate governance, the Board members as a whole

are required to have the following capabilities:

- (1) Business operating judgment
- (2) Accounting and financial analysis capability
- (3) Business management capability
- (4) Crisis management capability
- (5) Industrial knowledge
- (6) International market perspective
- (7) Leadership
- (8) Decision-making skills

ii. Goal:

- Basic criteria and values: At least one female director
- Professional knowledge and capabilities:
 - (1) At least one director with accounting expertise
 - (2) At least one director with academic background
 - (3) Diverse industrial experience: Experience of directors covers at least 3 different industries

iii. Current status:

- The Company currently has 8 directors, including seven male directors and one female director (accounting for 87.5% and 12.5% of all directors, respectively). Among them, two directors who are employees of the Company (accounting for 25%); three independent directors (accounting for 37.5%); two independent directors with their term of office less than 1 year (accounting for 66.7%); one independent director with their term of office between 9~10 years (accounting for 33.3%); seven directors have age in between 60 and 70 years old (87.5%), while one director has age in between 50 and 60 years old (12.5%). All directors (100%) are Taiwanese citizen.
- All directors of the company have the knowledge, skills and education required to perform the duties of executive directors, meeting the eight major capabilities specified by the policies of the Company. Among them, the director serving as the convener of the Audit Committee has expertise in accounting and experience as a chief financial officer. One director, who is from academia, is a distinguished professor of National Tsing Hua University, while the other seven directors have industrial experience in more than 4 different industries including the semiconductor industry, panel industry, computer information industry and investment industry, achieving the goal of diversified industrial experience for the Company.
- For more information on directors' education, gender, professional qualifications, work experience and diversity, please refer to (1) Directors' Information in 3. Corporate Governance.

(2) Independence of the Board of Directors:

In accordance with the “Rules for the Election of Directors”, the Company adopts a cumulative voting system and a candidate nomination system for the election of directors and independent directors, encouraging the participation of shareholders. Shareholders holding more than 1% of the total issued shares of the Company can submit their list of candidates in writing. The Financial Department is responsible for reviewing the qualifications of the candidates and confirming that the candidates do not have any of the circumstances listed in Article 30 of the Company Act to avoid the nomination rights being monopolized or too superfluous, and maintain independence.

The procedures for the election of all directors of the Company are open and fair, and comply with the Company’s “Articles of Incorporation”, “Rules for the Election of Directors”, and “Principles of Corporate Governance”, as well as the “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies” and the provisions of “Article 14-2 of the Securities and Exchange Act”. The current Board of Directors consists of three independent directors, three external directors and two directors who are employees of the Company (accounting for 37.5%, 37.5% and 25% of all directors, respectively). Among them, the percentage of Directors who are employees of the Company (25%) does not exceed 1/3 of all directors. Two independent directors were newly elected in 2021, with their term of office less than 1 year. All directors are not a spouse or relative within the second degree of kinship to any of other directors, complying with the provisions of Paragraphs 3 and 4, Article 26-3 of the Securities and Exchange Act.

2. Information on President and Vice Presidents

April 10, 2022; Unit: K shares, %

Title	Nationality	Name	Gender	Date elected (appointed)	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience & Education (Note 1)	Serves concurrently as	Managers who are spouse or second-degree relative (Note 2)		
					Total	%	Total	%	Total	%			Title	Name	Relation
President	R.O.C	Steve Wang	Male	2001.10.24	2,314	0.38	-	-	-	-	Bachelor Degree in Electronic Engineering, Chung Yuan Christian University Vice President of AU Optonics Corp.	Director of Novatek Affiliated	-	-	-
Vice President	R.O.C	Tommy Chen	Male	1997.7.1	6,195	1.02	69	0.01	-	-	Master Degree in Management of Technology, National Chiao Tung University Director of Commercial Product Business, UMC	Director of Novatek Affiliated	-	-	-
Vice President	R.O.C	J.D. Lai	Male	1997.7.1	4,663	0.77	1	0.00	-	-	Bachelor Degree in Electronic Engineering, Feng Chia University Director of Commercial Product Business, UMC	Director of Novatek Affiliated	-	-	-
Vice President	R.O.C	Jeff Hsu	Male	2004.11.18	2,019	0.33	0.7	0.00	-	-	Bachelor Degree in Electronic Engineering, Chung Yuan Christian University Director of Sales and Marketing, UMC	None	-	-	-
Vice President	R.O.C	David Chen	Male	2010.6.24	927	0.15	312	0.05	-	-	Bachelor Degree in Electrical Engineering, National Tsing Hua University Director of Testing Div., Novatek	None	-	-	-
Vice President	R.O.C	Jang-San, Chen	Male	2014.4.23	324	0.05	-	-	-	-	Master Degree in Electronic Engineering, National Sun Yat-sen University Director of OA/TV Div., Novatek	None	-	-	-
Vice President	JAPAN	Nagayasu	Male	2014.4.23	116	0.02	0.9	0.00	-	-	Master Degree in Electronic Engineering, National Taiwan University Business marketing manager of AU Optonics Corp.	None	-	-	-
Vice President	R.O.C	Jason Huang	Male	2016.5.6	144	0.02	-	-	-	-	Bachelor Degree in Industrial Management, National Taiwan University of Science and Technology Sales Manager, UMC	Director of Novatek Affiliated	-	-	-
Assistant Vice President	R.O.C	Edward Tsai	Male	2016.5.6	388	0.06	0.8	0.00	-	-	Master Degree in Computer Science, National Tsing Hua University Assistant Manager of System Application, UMC	Director of Novatek Affiliated	-	-	-
Assistant Vice President	R.O.C	Jimmy Su	Male	2018.4.1	34	0.01	0.1	0.00	-	-	Master Degree in Electronic Engineering, National Tsing Hua University Director of iHOME-TC Div., Novatek	None	-	-	-
Assistant Vice President	R.O.C	Jason Hsieh	Male	2020.5.4	4	0.00	-	-	-	-	Master Degree in Electronic Engineering, Chung Yuan Christian University Director of MD Div., Novatek	None	-	-	-
Assistant Vice President	R.O.C	Michael Cheng	Male	2021.4.1	5	0.00	-	-	-	-	Master Degree in Electronic Engineering, National Chiao Tung University Director of GPL Div., Novatek	None	-	-	-
Assistant Vice President	R.O.C	Daniel Ping	Male	2021.4.1	60	0.01	-	-	-	-	Doctoral Degree in Computer Science, National Chiao Tung University Director of VISG/iHOME Div., Novatek	None	-	-	-

Note 1: If there is any experience related to current position, such as previous employment by the auditing and attesting accounting firms or affiliated company during the aforementioned period, the job position and job duty should be specified: None.

Note 2: President (or someone with an equivalent job responsibility, i.e. the highest ranking manager of the company) and Chairman are not (1) the same person, (2) in a material relationship with each other, or (3) within one degree of consanguinity.

C. Remuneration for Directors, President and Vice Presidents

1. Directors' Remuneration

December 31, 2021; Unit: NT\$K, %

Title	Name	Director remuneration								A + B + C+D as percentage of net income after tax (Note 6)				Remuneration from concurrent position as employee								A + B + C + D + E+F+G as percentage of net income after tax (Note 6)				Remuneration received from re-investment business other than subsidiaries
		Remuneration (A)		Pension (B) (Note 7)		Remuneration from profit distribution (C) (Note 2)		Business expenses (D) (Note 3)		Total		as percentage of net income after tax		Salaries, bonuses and special expenses (E) (Note 4)		Pension (F)		Profit distribution for employee compensation (G) (Note 5)				Total		as percentage of net income after tax		
		Novarek	Consolidated Entities	Novarek	Consolidated Entities	Novarek	Consolidated Entities	Novarek	Consolidated Entities	Novarek	Consolidated Entities	Novarek	Consolidated Entities	Novarek	Consolidated Entities	Novarek	Consolidated Entities	Novatek		Consolidated Entities		Novarek	Consolidated Entities	Novarek	Consolidated Entities	
																		Cash	Stock	Cash	Stock					
Chairman and Officer	Tai-Shung, Ho	-	-	-	-	1,500	1,500	-	-	1,500	1,500	0.00	0.00	120,735	120,735	27	27	-	-	-	-	125,262	125,262	0.32	0.32	None
Vice Chairman and President	Steve Wang	-	-	-	-	1,500	1,500	-	-	1,500	1,500	0.00	0.00					-	-	-	-					
Director and Senior Vice President	J.H. Chang (Note 9)	-	-	-	-	1,500	1,500	-	-	1,500	1,500	0.00	0.00					-	-	-	-					
Director	UMC (Note 1)	720	720	-	-	1,500	1,500	70	70	2,290	2,290	0.01	0.01	-	-	-	-	-	-	-	-	2,290	2,290	0.01	0.01	None
Director	Max Wu	720	720	-	-	1,500	1,500	70	70	2,290	2,290	0.01	0.01	-	-	-	-	-	-	-	-	2,290	2,290	0.01	0.01	None
Independent Director	Chen-en, Ko	532	532	-	-	826	826	50	50	1,408	1,408	0.00	0.00	-	-	-	-	-	-	-	-	1,408	1,408	0.00	0.00	None
Independent Director	Max Fang	399	399	-	-	826	826	40	40	1,265	1,265	0.00	0.00	-	-	-	-	-	-	-	-	1,265	1,265	0.00	0.00	None
Independent Director	Jack Tsai	1,001	1,001	-	-	1,500	1,500	70	70	2,571	2,571	0.01	0.01	-	-	-	-	-	-	-	-	2,571	2,571	0.01	0.01	None
Independent Director	Jack Liu	643	643	-	-	674	674	20	20	1,337	1,337	0.00	0.00	-	-	-	-	-	-	-	-	1,337	1,337	0.00	0.00	None
Independent Director	TingTing Hwang	375	375	-	-	674	674	20	20	1,069	1,069	0.00	0.00	-	-	-	-	-	-	-	-	1,069	1,069	0.00	0.00	None

1. Independent Directors' remuneration policies, procedures, standards and structure, as well as the linkage to responsibilities, risks and time spent:

Independent director's remuneration includes the remuneration, the remuneration from profit distribution, and business expenses, taking into account the extent and value of the services provided for the management of the Company and the standards of the industry. Directors serve as convener of the Remuneration Committee and the Audit Committee have different remuneration. Business expenses refer to transportation expenses and the payment of which is based on attendance. According to Article 23-1 of the Company's Articles of Incorporation, no more than 0.4% of the profit of the current year shall be distributed as remuneration to directors. Moreover, in accordance with the Director Remuneration Regulations, the remuneration from profit distribution for each director in 2021 shall not exceed NT\$ 1,500 thousand and is calculated based on the term of office. Individual remunerations have been submitted to the Remuneration Committee and the Board of Directors for approval.

2. Other than the disclosure in the above table, director remuneration earned by providing services to Novatek and all consolidated entities (such as serving as a non-employee consultant for the parent company/all companies in the financial statements/re-investment businesses) in the most recent financial statements: Director J.H. Chang served as the consultant of the Company and received NT\$ 2,717 thousand as the consultant fee.

Note 1: Chi-Tung Liu is authorized by institutional director, UMC to attend the meetings of the current session of the Board of Directors; the remuneration (A) and business expenses (D) are entitled to person, while the remuneration from profit distribution (C) is entitled to UMC.

Note 2: Each director's remuneration has been approved by the Board of Directors.

Note 3: Refers to transportation expenses.

Note 4: Refers to remuneration received as an employee, including salary, work bonuses, severance pay, various awards, transportation expenses, special expenses, allowances, and living expenses. The Company cars for Chairman and Vice chairman totaled NT \$6,435 thousand as of Dec. 31, 2021 are not included.

Note 5: The employee compensation has been approved by the Board of Directors.

Note 6: The percentage was based on the 2021 parent company only net income after tax.

Note 7: Pensions funded according to applicable law.

Note 8: Directors did not receive any remuneration from affiliated companies.

Note 9: Director J.H. Chang retired on April 1, 2021 and resigned as the manager of the Company. The calculation period for his remuneration received as employee of the Company was from January 2021 to March 2021.

Remuneration Range

Remuneration Range	Name of Directors			
	Total remuneration (A+B+C+D)		Total remuneration (A+B+C+D+E+F+G)	
	Novatek	Consolidated Entities	Novatek	Consolidated Entities
Less than \$1,000,000				
\$1,000,000 (incl.) ~ \$2,000,000(excl.)	Tai-Shung, Ho Steve Wang J.H. Chang Chen-en, Ko Max Fang Jack Liu TingTing, Hwang	Tai-Shung, Ho Steve Wang J.H. Chang Chen-en, Ko Max Fang Jack Liu TingTing, Hwang	Chen-en, Ko Max Fang Jack Liu TingTing, Hwang	Chen-en, Ko Max Fang Jack Liu TingTing, Hwang
\$2,000,000 (incl.) ~ \$3,500,000(excl.)	UMC (Note) Max Wu Jack Tsai	UMC (Note) Max Wu Jack Tsai	UMC (Note) Max Wu Jack Tsai	UMC (Note) Max Wu Jack Tsai
\$3,500,000 (incl.) ~ \$5,000,000(excl.)				
\$5,000,000 (incl.) ~ \$10,000,000(excl.)				
\$10,000,000 (incl.) ~ \$15,000,000(excl.)				
\$15,000,000 (incl.) ~ \$30,000,000(excl.)			J.H. Chang	J.H. Chang
\$30,000,000 (incl.) ~ \$50,000,000(excl.)			Tai-Shung, Ho	Tai-Shung, Ho
\$50,000,000 (incl.) ~ \$100,000,000(excl.)			Steve Wang	Steve Wang
\$100,000,000 and above				
Total	10	10	10	10

Note: Chi-Tung Liu is authorized by institutional director, UMC to attend the meetings of the current session of the Board of Directors; the remuneration (A) and business expenses (D) are entitled to person, while the remuneration from profit distribution (C) is entitled to UMC.

2. President's and Vice Presidents' Remuneration

Dec 31, 2021; Unit: \$K, %

Title	Name	Salary (A) (Note 1)		Pension (B) (Note 2)		Bonuses and special expenses (C) (Note 3)		Employee compensation from profit distribution (D) (Note 4)				A + B + C+D as percentage of net income after tax (Note 5)				Remuneration received from re- investment business other than subsidiaries
		Novatek	Consolidated Entities	Novatek	Consolidated Entities	Novatek	Consolidated Entities	Novatek		Consolidated Entities		Total		as percentage of net income after tax		
								Cash	Stock	Cash	Stock	Novatek	Consolidated Entities	Novatek	Consolidated Entities	
Vice Chairman and President	Steve Wang	34,066	34,066	1,370	1,370	243,553	243,553	-	-	-	-	278,989	278,989	0.72	0.72	None
Director and Senior Vice President (Note 7)	J.H. Chang															None
Vice President	Tommy Chen															None
Vice President	J.D. Lai															None
Vice President	Jeff Hsu															None
Vice President	David Chen															None
Vice President	Jang-San, Chen															None
Vice President	Nagayasu															None
Vice President	Jason Huang															None
Assistant Vice President	Edward Tsai															None
Assistant Vice President	Jimmy Su															None
Assistant Vice President	Jason Hsieh															None
Assistant Vice President (Note 8)	Michael Cheng															None
Assistant Vice President (Note 9)	Daniel Ping															None

Note 1: Including salaries, work bonuses and severance pay.

Note 2: Pensions funded according to applicable law.

Note 3: Including awards, bonuses, transportation expenses, special expenses, allowances, living expenses, and other remuneration. The Company cars for Vice chairman and president totaled NT\$3,037 thousand as of Dec. 31, 2021 are not included.

Note 4: The employee compensation has been approved by the Board of Directors.

Note 5: The percentage was based on the 2021 parent company only net income after tax.

Note 6: President and Vice Presidents did not receive any remuneration from affiliated companies.

Note 7: Director and Senior Vice President, J.H. Chang retired on April 1, 2021 and resigned as the manager of the Company. The calculation period for his remuneration received was from January 2021 to March 2021.

Note 8: The remuneration of Assistant Vice President, Michael Cheng, and Daniel Ping were calculated from April 2021 to December, 2021.

Remuneration Range

Remuneration Range	Name of Presidents and Vice Presidents	
	Novatek	Consolidated Entities
Less than \$1,000,000		
\$1,000,000 (incl.) ~ \$2,000,000 (excl.)		
\$2,000,000 (incl.) ~ \$3,500,000 (excl.)		
\$3,500,000 (incl.) ~ \$5,000,000 (excl.)		
\$5,000,000 (incl.) ~ \$10,000,000 (excl.)	Michael Cheng	Michael Cheng
\$10,000,000 (incl.) ~ \$15,000,000 (excl.)	J.H. Chang, J.D. Lai Jeff Hsu, Edward Tsai Daniel Ping	J.H. Chang, J.D. Lai Jeff Hsu, Edward Tsai Daniel Ping
\$15,000,000 (incl.) ~ \$30,000,000 (excl.)	Tommy Chen, David Chen Jang-San, Chen, Nagayasu Jason Huang, Jimmy Su, Jason Hsieh	Tommy Chen, David Chen Jang-San, Chen, Nagayasu Jason Huang, Jimmy Su, Jason Hsieh
\$30,000,000 (incl.) ~ \$50,000,000 (excl.)		
\$50,000,000 (incl.) ~ \$100,000,000 (excl.)	Steve Wang	Steve Wang
\$100,000,000 and above		
Total	14	14

Employee Bonuses for Officers

December 31, 2021; Unit: \$K, %

Title	Name	Stock	Cash (Note 1)	Total	Percentage of net income after tax (Note 2)
Chairman and Officer	Tai-Shung, Ho	-	-	-	-
Vice Chairman and President	Steve Wang				
Director and Senior Vice President (Note 3)	J.H. Chang				
Vice President	Tommy Chen				
Vice President	J.D. Lai				
Vice President	Jeff Hsu				
Vice President	David Chen				
Vice President	Jang-San, Chen				
Vice President	Nagayasu				
Vice President	Jason Huang				
Assistant Vice President	Edward Tsai				
Assistant Vice President	Jimmy Su				
Assistant Vice President	Jason Hsieh				
Assistant Vice President	Michael Cheng				
Assistant Vice President	Daniel Ping				
Finance Director	Sheng-Cheng, Chou				

Note 1: The employee compensation has been approved by the Board of Directors.

Note 2: The percentage was based on 2021 parent company only net income after tax.

Note 3: Senior Vice President, J.H. Chang retired on Apr. 1, 2021 and resigned from the Company manager at the same time.

3. Remuneration paid to each of its top five management personnel:

Inapplicable.

4. Comparative analysis of percentage of remuneration for Directors, Supervisors, President and Vice Presidents versus parent company only net profit after tax over the last two years, and explanation of remuneration strategies, standards, decision processes and relationship between strategy and performance.

- a. Remuneration paid to Directors, President and Vice Presidents are paid by the Company. No other remuneration was paid by its affiliated companies.
- b. Percentage of total remuneration paid to Directors, President and Vice President compared to parent company only net income after tax in 2021 and 2020.

Item	2021	2020
Directors' remuneration (including employee compensation as Officer)	0.35 %	0.90%
President, Vice Presidents, Assistant Vice Presidents' remuneration	0.72 %	1.62%

Note: The employee compensation has been approved by the Board of Directors.

- c. Directors' remuneration includes the remuneration, the remuneration from profit distribution, and business expenses. Directors who concurrently serve as managers or consultants do not receive monthly remuneration. The monthly remuneration of external directors and independent directors takes into account the extent and value of the services provided for the management of the Company, supervision of the Company's sustainable development plan and the standards of the industry. Independent directors serve as convener of the Remuneration Committee and the Audit Committee have different remuneration. Business expenses refer to transportation expenses, which are not paid to directors who are concurrently serving as managers or consultants, while the payment of business expenses to external directors and independent directors is based on attendance. According to Article 23-1 of the Company's Articles of Incorporation, no more than 0.4% of the profit of the current year shall be distributed as remuneration to directors. Moreover, in accordance with the Director Remuneration Regulations, the remuneration from profit distribution for each director in 2021 shall not exceed NTS 1,500 thousand and is calculated based on the term of office. Individual remunerations have been submitted to the Remuneration Committee and the Board of Directors for approval.
- d. The remunerations of managers such as the president and vice president of the Company are determined based on the "Company-Wide Salary and Remuneration Rules" and the salary levels of the same job positions in the industry, including fixed salary, performance bonus, employee remuneration, and other remunerations; performance bonus and employee remuneration will depend on the operation performance and the evaluation according to the "Principles of Performance Evaluation, Salary and Remuneration for Managers" and the "Rules for the Performance Evaluation and Reward of Business Department". The evaluation indicators include job position, management performance, and annual performance target achievement rate of the Business Department such as revenue, gross margin, net profit, the achievement rate of the Company's sustainable development goals and self-defined important indicators (product market share, new customers, new products, and incorporation of new technology). The amount is calculated according to the comprehensive evaluations of annual profit, future risk and development strategy before it is submitted to the Remuneration Committee and the Board of Directors for approval.

D. Corporate Governance

1. Board of Directors Governance

The Board of Directors held meeting 6 times (A) in 2021. Attendance status of Directors is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) [B/A] (see note)	Remarks
Chairman	Tai-Shung, Ho	6	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 6 times.
Vice Chairman	Steve Wang	6	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 6 times.
Director	J.H. Chang	6	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 6 times.
Director	UMC, substitute attendance of the current session: Chi-Tung, Liu	6	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 6 times.
Director	Max Wu	6	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 6 times.
Independent Director	Chen-en, Ko	4	0	100%	The term of office ended at the shareholders' meeting on July 20, 2021 (former independent directors). The attendance in 2021 shall be 4 times
Independent Director	Max Fang	3	1	75%	The term of office ended at the shareholders' meeting on July 20, 2021 (former independent directors). The attendance in 2021 shall be 4 times
Independent Director	Jack Tsai	6	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 6 times.

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) [B/A] (see note)	Remarks
Independent Director	Jack Liu	2	0	100%	On July 20, 2021, the ninth-term independent directors were newly elected. The attendance in 2021 shall be 2 times.
Independent Director	TingTing, Hwang	2	0	100%	On July 20, 2021, the ninth-term independent directors were newly elected. The attendance in 2021 shall be 2 times.
Other disclosures:					
1. (1) Securities and Exchange Act §14-3 resolutions:					
Date	Meeting	Resolutions		Independent Director Opinion	Action of the Company in responding to the Independent Director Opinion
2021.02.25	The 13 th meeting of the 8 th Board	1. The 2020 internal control statement 2. Approved the announcement of no lending funds of Novatek to other parties in the fourth quarter of 2020		None	No comments need to be dealt with. If there is any, it will be proposed at the Board meeting and approved by all the directors attending the meeting.
2021.03.17	The 14 th meeting of the 8 th Board	1. Joining the incorporation of “TGVest Fund II”			
2021.04.26	The 15 th meeting of the 8 th Board	1. Capital increase in subsidiary Novatek International (BVI) Ltd. 2. The establishment of Novatek Beijing subsidiary 3. The 2021 CPA’s audit fee 4. Approved the announcement of no lending funds of Novatek to other parties in the first quarter of 2021			
2021.07.30	The 1 st meeting of the 9 th Board	1. Capital increase in subsidiary Cheertek International Inc. 2. Approved the announcement of no lending funds of Novatek to other parties in the second quarter of 2021			
2021.10.29	The 2 nd meeting of the 9 th Board	1. The 2022 “Internal Audit plan” 2. Capital increase in subsidiary Novatek International (BVI) Ltd. 3. Approved the announcement of no lending funds of Novatek to other parties in the third quarter of 2021			
Independent director’s handling of the resolution results of major bills and the Company’s handling of the opinions from its independent directors: The independent directors all showed approval of the major bills and the Company would report the execution status of the approved bills in the next meeting.					
(2) There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2021.					

2. Recusals of Directors due to conflicts of interests in 2021 are as follows:			
Name	Agenda	Reason of recusals	Vote
Tai-Shung, Ho Steve Wang	Donated NT\$ 14 million to the “Novatek Educational Foundation”	The director of the Foundation	Did not participated
Tai-Shung, Ho Steve Wang J.H. Chang	Deliberating on 2021 fixed pay and 2020 performance bonus of managers	The managers of the Company	Did not participated
J.H. Chang	Mr. J.H. Chang, senior vice president of the Company, resigned as the “manager” of the Company and became a consultant	The manager of the Company	Did not participated
Jack Tsai Jack Liu TingTing, Hwang	Appointed member of the Company’s Remuneration Committee	Independent director is appointed as the member of the Remuneration Committee	Did not participated
TingTing, Hwang	The Company signed an industry-university collaboration contract and an academic feedback mechanism contract with National Tsing Hua University	Independent director is the distinguished professor of NTHU	Did not participated
Tai-Shung, Ho Steve Wang J.H. Chang Chi-Tung Liu Max Wu Jack Tsai Jack Liu TingTing, Hwang	Deliberating the remuneration regulations for the ninth-term directors of the Company	When discussing items involving the director’s own remuneration, recusal is required during the discussion and voting	Did not participated
3. Performance evaluation of the Board of Directors: refer to Note 2 “Execution situation for evaluation of board of directors”			
4. Measures taken to strengthen the functionality of the Board:			
<p>The Company is dedicated to implementation of governance of board directors, perfection of supervisory function, enhancement of management performance of board of directors, and improvement of information transparency.</p> <p>(1) The Company attaches great importance to the diversification of the composition of the Board of Directors, and conducts training courses for the Directors every year to enhance their expertise. After passing the “Guidelines for Director Performance Evaluation” in 2019, the performance evaluation of the Board of Directors will be carried out every year. In 2021, the internal evaluation results of the Board of Directors, the Audit Committee, and the Remuneration Committee were “Excellent”.</p> <p>(2) In addition to the annual performance evaluation of the Board of Directors, the Company also entrusted the Taiwan Corporate Governance Association to evaluate the performance of the Company’s Board of Directors in 2021. Please refer to the Company’s website for the evaluation summary and suggestions.</p> <p>(3) The Company has formulated the “Principles of Corporate Governance”, the “Sustainable Development Best Practice Principles”, and the “Principles of Ethical Corporate Management”, and continues to strengthen corporate governance in accordance with the corporate governance evaluation indicators set by the competent authority. In addition, Novatek continues to update corporate governance-related information on its official website in real time to enhance information transparency.</p>			

Note 1: Attendance rate= Number of meetings each board member actually attends / total number of board meetings held within his or her service period.

Note 2: Execution situation for evaluation of board of directors

Evaluation cycle	Evaluation period	Scope of evaluation	Evaluation approach	Content of evaluation
Annually	January 1st, 2021 to December 31st, 2021	Board of directors, Audit Committee, Remuneration Committee, Individual directors	Internal self-assessment for board of directors, internal self-assessment for audit committee, internal self-assessment for remuneration committee, and self-assessment for directors	<ol style="list-style-type: none"> 1. Performance evaluation for Board of Directors: participation in company operation, enhancement of decision making quality of board of directors, composition and structure of board of directors, selection and constant advanced training of directors, and internal control. 2. Performance evaluation for Audit Committee: participation in company operation, awareness of audit committee's responsibilities, enhancement of decision making quality of audit committee, composition and member selection of audit committee, and internal control. 3. Performance evaluation for Remuneration Committee: participation in company operation, awareness of remuneration committee's responsibilities, enhancement of decision making quality of remuneration committee, and composition and member selection of remuneration committee. 4. Performance evaluation for Individual Director: understanding of company objectives and tasks, awareness of directors' responsibilities, participation in company operation, management and communication of internal relationship, professionalism and constant advanced training of directors, and internal control.
Once every three years	December 1, 2020 to November 30, 2021	Board of Directors	The Taiwan Corporate Governance Association, an external independent evaluation agency, conducted a performance evaluation on the Board of Directors of the Company through online self-evaluation and on-site personal interviewers.	<p>Evaluation Criteria:</p> <ol style="list-style-type: none"> 1. Composition of the Board of Directors 2. Guidance of the Board of Directors 3. Authorization of the Board of Directors 4. Supervision of the Board of Directors 5. Communication of the Board of Directors 6. Internal control and risk management 7. Self-discipline of the Board of Directors 8. Others such as Board meetings, support systems, etc.

2. Audit Committee Status or Supervisors' Meeting Status

a. Audit Committee Status:

The Audit Committee held meeting 5 times (A) in 2021. Attendance status of Independent Directors is as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) [B/A] (see note)	Remarks
Independent Director	Chen-en, Ko	3	0	100%	The term of office ended at the shareholders' meeting on July 20, 2021 (former independent directors). The attendance in 2021 shall be 3 times
Independent Director	Max Fang	2	1	67%	The term of office ended at the shareholders' meeting on July 20, 2021 (former independent directors). The attendance in 2021 shall be 3 times
Independent Director	Jack Tsai	5	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 5 times.
Independent Director	Jack Liu	2	0	100%	On July 20, 2021, the ninth-term independent directors were newly elected. The attendance in 2021 shall be 2 times.
Independent Director	TingTing, Hwang	2	0	100%	On July 20, 2021, the ninth-term independent directors were newly elected. The attendance in 2021 shall be 2 times.

Other disclosures:				
1. (1) Securities and Exchange Act §14-5 resolutions				
Date	Meeting	Resolutions	Audit Committee Opinion	Action of the Company in responding to the Audit Committee
2021.02.25	The 12 th meeting of the 3 rd Committee	1. The 2020 business report and financial statements 2. The 2020 internal control statement 3. Approved the announcement of no lending funds to other parties in the fourth quarter of 2020	None	No comments need to be dealt with. If there is any, it will be proposed at the Board meeting and approved by all the directors attending the meeting.
2021.03.17	The 13 th meeting of the 3 rd Committee	1. Joining the incorporation of “TGVest Fund II”		
2021.04.26	The 14 th meeting of the 3 rd Committee	1. Capital increase in subsidiary Novatek International (BVI) Ltd. 2. The establishment of Novatek Beijing subsidiary 3. The 2021 CPA’s audit fee 4. Approved the announcement of no lending funds of Novatek to other parties in the first quarter of 2021		
2021.07.30	The 1 st meeting of the 4 th Committee	1. The 2021 half quarter consolidated financial statements. 2. Capital increase in subsidiary Cheertek International Inc. 3. Approved the announcement of no lending funds of Novatek to other parties in the second quarter of 2021		
2021.10.29	The 2 nd meeting of the 4 th Committee	1. The 2022 “Internal Audit plan” 2. Capital increase in subsidiary Novatek International (BVI) Ltd. 3. Approved the announcement of no lending funds of Novatek to other parties in the third quarter of 2021		
<p>Audit committee’s handling of the resolution results of major bills and the Company’s handling of the opinions from its audit committee: The audit committee all showed approval of the major bills and the Company would report the execution status of the approved bills in the next meeting.</p> <p>(2) There was no resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2021.</p> <p>2. Recusals of independent directors due to conflicts of interests in 2021: None</p> <p>3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors (e.g. the channels, items and/or results of the audits on the corporate finance and/or operations, etc.):</p> <p>The internal audit supervisor provided the Audit Committee with monthly audit report and attended all meetings in 2021 to report the implementation of internal control. If it is deemed as necessary by any Audit Committee member regarding the financial affairs or meeting subject, the Company shall arrange relevant responsible units and personnel to report during such meeting. The Audit Committee member can not only communicate with the audit supervisor via phone or email at any time, but also hold regular discussion meetings. The certified public accountant attended three Audit Committee meetings in 2021 to report financial statements, major issues of internal control, and the latest law amendment,</p>				

demonstrating well-established communication channel. For the communications among the independent directors, the audit supervisor and the certified public accountant, please refer to the Company's website.

4. Focuses of annual works and operations:

- (1) The Audit Committee of the Company is composed of three independent directors and operates in accordance with the Audit Committee Charter, and the focuses of annual audit works include:
 - a. Financial statement
 - b. Amendment of internal control system and execution of internal audit
 - c. Appointment, termination, remuneration and independence assessment of certified public accountant
 - d. Major assets, derivative commodities, capital loans and endorsement guaranteed transactions
 - e. Matters related to directors' own interests
 - f. Major matters stipulated by competent authority
- (2) The Audit Committee held meeting 5 times in 2021, and the attendance rate of the audit committee members was 93%. All propositions were reviewed and passed without any objection. There was proper communication between internal auditor and certified public accountant.

b. Attendance status of Supervisors is as follows:

The functionality of Supervisors has been replaced by Audit Committee in 2012.

3. Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons:

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	V		The Group established its corporate governance principles after taking into consideration the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies,” with a dedicated “Corporate Governance” section established on our company website to all investors, allowing them to inquire about and download our corporate governance regulations.	None.
2. Shareholding Structure & Shareholders’ Rights				
(1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		The Group has spokesperson, acting spokesperson and investment relations unit, and provides contact information as well as communication channel in the “Contact Us” section of the Company’s website, allowing shareholders to express their opinions via phone or email. Moreover, designated personnel are assigned to handle shareholders’ suggestions or disputes.	None.
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		All major shareholders of the Company report their shareholding changes to the Company in accordance with regulations, and the Company’s website also discloses information on the top ten shareholders. Novatek is the major shareholder of related businesses within the Group.	None.
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		Businesses dealings among the related internal companies within the Group are all managed according to internal control systems and related statutes, in order to prevent any abnormal business.	None.
(4) Does the company establish internal rules against insiders trading with undisclosed	V		The internal control of the Group includes the management of preventing insider trading, such as the confidentiality of internal	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
information?			material information that affects the stock price before public disclosure and the regulation on trading prohibition, continuing to promote the policy and commitment to avoid insider trading.	
3. Composition and Responsibilities of the Board of Directors				
(1) Does the Board develop and implement a diversified policy and management goal for the composition of its members?	V		The Company has established the director nomination and election policy, and formulated appropriate diversified policy in accordance with the “Principles of Corporate Governance” while considering the operation, business model and development needs of the Company to implement director diversification. Novatek currently has eight directors, including two internal directors, three external directors and three independent directors. One of them is female and is from academia. Among the eight directors, one has expertise in accounting and financial knowledge, while the other seven directors have experience in 4 different industries. The directors possess the required knowledge, skills and education, and continue to take at least 6 hours of professional courses each year to effectively strengthen the operation of the Board of Directors. For the diversified background of each individual director, management goal and implementation status, please refer to 2021 Annual Report, III. Corporate Governance, 1. Director’s Information.	None.
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?		V	With a Compensation Committee and an Audit Committee to assist the Board of Directors in executing its duties, Novatek has not established any other type of function committee.	Appraisal necessary according to laws, regulations and Board of Directors operations.
(3) Does the company establish a standard to measure the performance of the Board, on an	V		In October 2018, the Board of Directors of the Company passed the “Rules for Board of Directors’ Performance Evaluation”, which	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>annual basis, reported the results of performance to the Board of Directors, and use the results as reference for directors’ remuneration and renewal?</p> <p>(4) Does the company regularly evaluate the independence of CPAs?</p>	V		<p>conducts an internal performance evaluation of the Board of Directors, functional committees and individual Board members once a year. The evaluation results were all “Excellent”. It is also required that a performance evaluation will be conducted by an external professional independent organization every three years. In November 2021, the Company entrusted the Taiwan Corporate Governance Association to carry out the performance evaluation. A summary of the external performance evaluation and the recommendations have been disclosed on the Company’s website. The evaluation results were reported during the Board meeting of Q1, serving as the reference for the remuneration and nomination for the re-election of individual directors.</p> <p>According to Best Practice Principles of Corporate Governance, the Company has conducted independence evaluation for certified public accountant once per year, and the evaluation items include the confirmation of that there is no relative relationship with the Company’s senior executives, there is no capital loan or non-public money exchange with the Company, and the same certified public accountant has not been executing attestation service for more than 7 years. And the independence statement of certified public accountant must be acquired. The latest evaluation has been approved by Audit Committee and Board of Directors in February 2021.</p>	None.
4. Does the company appoint competent and appropriate corporate governance personnel and corporate governance officer to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors, assisting directors’ compliance of law, handling matters related to	V		Based on the resolution passed by the board meeting of the Company on July 26, 2019, the Director of Finance Department Shen-Cheng, Chou was appointed as the governing supervisor of the Company, and two to three employees serving as governing personnel were assigned to be in charge of arranging board meetings and shareholders meetings, providing data required by directors to carry out the business, and assisting directors in constant advanced educations.	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
board meetings and shareholders’ meetings according to law, and recording minutes of boarding meetings and shareholders’ meetings)?			<p>In 2021, the Company has completed the “Corporate Working with Accountant to Conduct Audit: Check the Responsibilities of ‘Fraud’ in Financial Reporting”, the “Latest Corporate Governance 3.0-Blueprint for Sustainable Development”, the “Practical Analysis of Sustainability Report under the Corporate Governance 3.0 Policy”, the “Analysis of Case with ‘Inaccurate Financial Statements’ and Discussion of Related Legal Liability”, the “Latest Corporate Tax Laws and Audit Practice” and the “Latest Development of Taiwan’s IFRS Policy and Financial Statements/Supervision Law Compliance Issue Analysis”, held by the Accounting Research and Development Foundation, as well as the “ESG Trends and Practice Analysis” and “How to Build a High-Performance Board of Directors and Functional Committees through Board Performance Evaluation” held by the Taiwan Corporate Governance Association, with a total training time of 24 hours for the year.</p> <p>The businesses promoted in 2021 are as follows. The operation and implementation related to corporate governance are reported to the Board of Directors once a year:</p> <ul style="list-style-type: none"> • Purchased liability insurance for directors and reported to the Board of Directors after renewal • Conducted the performance evaluation of the Board of Directors and functional committees, including the self-conducted internal evaluation and the external evaluation carried out by the Taiwan Corporate Governance Association • Entrusted the Taiwan Corporate Governance Association to conduct “home-learning” on-the-job training courses for the Board members. All board members have completed at least 6 hours of on-the-job training courses • Compiled the information on the training courses for directors offered by the external organization and the specifications of the 	

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			<p>training courses for statutory directors, and assisted new directors in enrolling on-the-job training courses</p> <ul style="list-style-type: none"> Assisted new independent directors to familiarize themselves with the Company’s overall operating and financial situation, and arranged meetings to report on the Company’s important operations Provided agenda and meeting information to the Board members in accordance with the Procedures and Rules of Board of Directors Meeting and provided meeting minutes within 20 days after the meeting. Prepared relevant meeting notices, meeting manuals and minute books of the shareholders’ meeting in accordance with the statutory deadline. Assisted the auditor and the accountant to communicate regularly with independent directors on audit matters. 	
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employee and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		<p>The Group has already set up an interested party area on its corporate website for customers, suppliers, investors and employees, provided e-mail addresses and specific contact channels for various kinds of related parties to put forth their questions. The questions will be promptly responded to by respective business responsible persons, so good communication channels can be maintained and the concerns and communication methods of various stakeholders can be fully disclosed.</p> <p>The Company’s “ESG Sustainability Committee” is responsible for the identification of stakeholders and related issues throughout the Company. The Committee reports to the Board of Directors at least once a year on important issues of concern to stakeholders and the corresponding countermeasures.</p>	None.
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		Novatek utilizes a transfer agent organization, Horizon Securities, to assist in handling shareholders’ affairs. Related institutes within the Group are 100% owned by Novatek, so there is no need to employ an outside transfer agent organization.	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
7. Information Disclosure				
(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		The Group established website (www.novatek.com.tw) and discloses financial activities, corporate governance and major relevant information on the Group’s subsidiaries.	None.
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	V		The Group’s website includes information in Chinese and English, and we have appointed personnel to be in charge of collecting and disclosing company information. Furthermore, there is an acting spokesperson system via a general spokesperson plan. The Group’s major information is published on the website or disclosed to public information observation websites.	None.
(3) Does the company announce and report the annual financial statements within two months after the end of fiscal year, and announce and report the first, second, and third quarter financial statements as well as the operation status of each month before the prescribed deadline?		V	The Company announced and declared the 2020 annual financial statements within two months after the end of the fiscal year; the financial statements for the first, second and third quarters (Q1, Q2 and Q3) of 2021 were announced prior to the end of each month that follows the end of each quarter. The operating status of each month was announced before the specified deadline.	None.
8. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and	V		<p>The Group adheres to every aspect of the law, values labor relations, provides employment opportunities, expands exports, and strives towards fulfilling our social responsibility. For information on employee rights or employee wellness, please refer to the chapter V. in this year’s annual report.</p> <p>The Group requires all parties within the Group to abide by work principles and resolutely avoid conflicts of interest.</p> <p>Novatek directors all pursue further education based on the needs of their work and the training records were disclosed to public</p>	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
supervisors)?			<p>information observation websites.</p> <p>Novatek has purchased liability insurance for its directors and reported on the board meeting (2021Q1).</p> <p>The general manager office takes the charge of the Group’s risk management integration, instructs each unit which is responsible for the implementation of risk evaluation, arranges insurance for the Company property, and reports to the board of directors if there is any special situation. All the management is fulfilled well and in order.</p> <p>The free flow of communication between the Group and its clients is excellent. For more information on other employee rights or supplier relations, please refer to the related chapters in this year’s annual report.</p>	
9. Please describe the status of the improvement and the improving items of first priority and measures on non-improving items according to the result of cooperate governance evaluation announced by cooperate governance center of TWSE.	<p>To strengthen the corporate governance, Novatek has continued to make improvement according to the results of the corporate governance evaluation. In 2021, the annual financial statements were announced and uploaded before the end of February, and the quarterly financial statements were announced before the next day following the Board meeting to improve information transparency. In 2021, one female director was elected to improve the diversity of directors. In 2022, the Company plans to establish a Nomination Committee to help the Board of Directors strengthen management mechanism, and establish a Risk Management Committee to enhance the Board’s capability in supervising the Company’s risk response, and carrying out Taiwan Intellectual Property Management System (TIPS) certification.</p>			

4. Status of Remuneration Committee :

The Company has established the Remuneration Committee on December 7, 2011, and cooperated with the ninth-term director election in the shareholders' meeting on July 20, 2021 to elect new members of the Remuneration Committee during the Board meeting on July 30, 2021. The Remuneration Committee will hold meetings at least twice a year. Its responsibility is mainly to assist the Board of Directors in revising and evaluating the Company's overall employee compensation system, regularly reviewing the principles of manager performance evaluation and remuneration, and evaluating the remuneration of directors and managers.

When the Remuneration Committee performs its duties, the evaluation will be conducted according to the following principles: remuneration policy of the entire company staff, salary level of the same job position in the industry, individual participation in operation and contribution of director and manager, overall operation performance of the Company, is there any incentive for any director or manager to go beyond the risk of company for pursuing salary remuneration, determination of changing salary payment time due to consideration of the Company's business nature, and the adoption of interest avoidance principles for individual salary remuneration of director or manager.

Professional Background and Independence of the Compensation Committee members

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
Jack Tsai (Independent director and Convenor)	<p>Mr. Jack Tsai holds a master's degree from the Department of Computer Science, George Washington University. He served as a senior executive in many international companies. He is currently the Partner and COO (Chief Operating Officer) of the CID Group since 2012.</p> <p>Mr. Jack Tsai has a diversified professional background and practical experience in business management, investment management, human resources management and leadership. He can provide advices on operation management, strategic investment, international market outlook and talent recruitment for the Board of Directors.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	<p>Comply with the independence requirements listed in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", including but not limited to the following matters:</p> <ul style="list-style-type: none"> • The person concerned, his/her spouse and relatives within the second degree of kinship do not serve as directors, supervisors or employees of the Company or its affiliated companies. • The person concerned, his/her spouse and relatives within the second degree of kinship (or in the name of others) do not hold shares of the Company. • The person concerned do not serve as a director, supervisor or employee of a company that has a specific relationship with the Company. • The person concerned do not receive any remuneration for providing business, legal, financial, and accounting services to the Company or its affiliated companies in the past 2 years. 	0

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
Jack Liu (Independent director)	<p>Mr. Jack Liu holds a master's degree from the Department of Business Administration, Miramar University and a bachelor's degree from the Department of Accounting, Tunghai University. His expertise is in accounting. He served as the CFO (Chief Financial Officer) of Winstek Semiconductor Technology Co., Ltd., and the global vice president and CFO of Applied Materials, Inc. in Asia Pacific region. He also served as the CFO, vice president and chairman of Applied Materials, Inc., Taiwan. He is currently the independent director and member of the Remuneration Committee of Advanced Power Electronics Corp. and Rafael Microelectronics, Inc. since 2014 and 2016, respectively.</p> <p>Mr. Jack Liu has a diversified professional background covering accounting and financial analysis, business operating judgment, crisis management, business management, and leadership to provide corporate governance and international market advices for the Board of Directors and improve the supervision capability of the Audit Committee.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	<p>Comply with the independence requirements listed in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", including but not limited to the following matters:</p> <ul style="list-style-type: none"> • The person concerned, his/her spouse and relatives within the second degree of kinship do not serve as directors, supervisors or employees of the Company or its affiliated companies. • The person concerned, his/her spouse and relatives within the second degree of kinship (or in the name of others) do not hold shares of the Company. • The person concerned do not serve as a director, supervisor or employee of a company that has a specific relationship with the Company. • The person concerned do not receive any remuneration for providing business, legal, financial, and accounting services to the Company or its affiliated companies in the past 2 years. 	2
TingTing Hwang (Independent director)	<p>Ms. TingTing Hwang holds a doctoral degree from the Department of Computer Science, Pennsylvania State University. She has been a professor in the Department of Computer Science, National Tsing Hua University (NTHU) since 1990 and has held various administrative positions in NTHU. She also served as a director of NTHU/ITRI Joint Research Center, and member of the Examination Yuan for 6 years since 2014. She is currently a distinguished professor of NTHU.</p> <p>Ms. TingTing Hwang is familiar</p>	<ul style="list-style-type: none"> • Comply with the independence requirements listed in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", including but not limited to the following matters: • The person concerned, his/her spouse and relatives within the second degree of kinship do not serve as directors, supervisors or employees of the Company or its affiliated companies. • The person concerned, his/her spouse and relatives within the second degree of kinship (or in the 	0

Criteria Name	Professional Qualifications And Experience	Independence Status	Number Of Other Public Companies Concurrently Serving As An Independent Director
	<p>with the information technology industry, and has a diversified professional background covering industry development and application insight, leadership and decision-making skills to provide industry forward-looking information and talent cultivation as well as recruitment strategies for the Board of Directors.</p> <p>Not under any condition pursuant to Article 30 of the Company Act</p>	<p>name of others) do not hold shares of the Company.</p> <ul style="list-style-type: none"> The person concerned do not serve as a director, supervisor or employee of a company that has a specific relationship with the Company. The person concerned do not receive any remuneration for providing business, legal, financial, and accounting services to the Company or its affiliated companies in the past 2 years. 	

Remuneration Committee status

1. There are three members of the Remuneration Committee.
2. The members' tenures are from July 30, 2021 to July 19, 2024. The Remuneration Committee held meeting 4 times (A) in 2021. Attendance statuses of Independent Directors are as follows:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate (%) [B/A] (see note)	Remarks
Convener	Jack Tsai	4	0	100%	On July 20, 2021, the ninth-term directors were re-elected. The attendance in 2021 shall be 4 times.
Member	Chen-en, Ko	3	0	100%	The term of office ended at the shareholders' meeting on July 20, 2021 (former independent directors). The attendance in 2021 shall be 3 times
Member	Max Fang	2	1	67%	The term of office ended at the shareholders' meeting on July 20, 2021 (former independent directors). The attendance in 2021 shall be 3 times
Member	Jack Liu	1	0	100%	On July 20, 2021, the ninth-term independent directors were newly elected. The attendance in 2021 shall be 1 times.
Member	TingTing, Hwang	1	0	100%	On July 20, 2021, the ninth-term independent directors were newly elected. The attendance in 2021 shall be 1 times.

Other disclosures:				
1. There was no recommendation of the Remuneration Committee which was not adopted or modified by the Board of Directors in 2021.				
2. There was no written or otherwise recorded resolution on which a member of the Remuneration Committee had a dissenting opinion or qualified opinion in 2021.				
3. Resolutions, results, and opinions in 2021:				
Date	Meeting	Resolutions	Remuneration Committee Opinion	Action of the Company in responding to the Remuneration Committee
2021.02.25	The 6 th meeting of the 4 th Committee	1. The 2020 remuneration to directors and employees' compensation 2. The 2020 remuneration to individual directors	None	No comments need to be dealt with. If there is any, it will be proposed at the Board meeting and approved by all the directors attending the meeting.
2021.03.17	The 7 th meeting of the 4 th Committee	1. The 2021 fixed pay and 2020 performance bonus of managers.		
2021.04.26	The 8 th meeting of the 4 th Committee	1. The 2021 fixed pay of newly appointed managers.		
2021.10.29	The 1 st meeting of the 5 th Committee	1. The remuneration regulations for the ninth-term directors. 2. Adjust the remuneration structure of the Company's employees		

5. Sustainable development Implementation Status and Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons:

Holding the spirit of civic society, the Group has established Novatek Educational Foundation. The foundation is to promote human development and scientific education, to assist the development of fundamental education, and to encourage the nurture of high-level educated person. Our employees are as well devoted themselves not only to actively participate in volunteer activities but also through our internal groups, such as “NVT Love Club” to engage in social welfare and charitable activities, by which to fulfill social responsibility of citizens and of corporate social citizenship.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
1. Does the company establish governance structure and exclusively (or concurrently) dedicated unit to promote sustainable development, which is handled by first-line managers authorized and supervised by the Board of Directors?	V		The Group has followed materiality principle to conduct risk assessment for environmental, social and corporate governance topics, and establish risk management related policy or strategy. Please refer to the supplementary explanation of “7. Other important information to facilitate better understanding of the company’s sustainable development practices”.	None.
2. Does the company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to the company operation, and establish risk management related policy or strategy?	V		The information disclosed in the Company’s sustainability report covers the Company’s sustainable development performance at its main bases from January 2021 to December 2021. The scope includes the information of the four operating bases (including headquarters) in Hsinchu, Taiwan, as well as the information of the offices in Taipei and Tainan (excluding overseas operating bases). The members of the “ESG Sustainability Committee” collect the opinions provided by various units of the Company, and then analyze them according to the materiality principle of the sustainability report. In addition to identifying the Company’s stakeholders according to the AA1000 Stakeholder Engagement Standard, members of the Committee also refer to domestic/international issues related to the semiconductor industry, Sustainable Development Goals of the United Nations (UN SDGs), SASB, MSCI, and RBA to determine the Company’s major ESG issues in corporate governance, environment and society, and formulate	None.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			effective policies for risk identification, measurement, assessment, supervision and control, and take specific action plans to reduce the impact of related risks. Please refer to the supplementary explanation of “7. Other important information to facilitate better understanding of the company’s sustainable development practices”.	
3. Environmental topic				
(1) Has the company set an environmental management system designed to industry characteristics?	V		Novatek has already adopted ISO 14001 Environmental Management System, ISO 45001 Occupational Health and Safety Management System, and the Taiwan Occupational Safety and Health Management System (TOSHMS). In addition, the Company plans to obtain the certification for the greenhouse gas inventory system (ISO-14064) in 2022.	None.
(2) Is the company committed to improving the energy utilization efficiency and to the use of renewable materials with low environmental impacts?	V		The Group strives for perpetual operations and development. It takes environmental pollution and safety and health risks very seriously, with internal environmental health and safety policies complying with all relevant laws and regulations. The Group has also established management procedures for waste gas, waste water and waste products, effectively cleaning disposed materials with the goal of increasing the utilization of resource cycles. For the reduction and recycling of domestic general waste as well as hazardous waste, driver IC waste is delivered to professional waste treatment operator for gold recovery, increasing the rate of recycling and reuse. For more information, please refer to 4.2 Management Strategy for the Operational Environment in the Sustainability Report.	None.
(3) Does the company evaluate current and future climate change potential risks and opportunities and take measures related to climate related topics?	V		The Group actively pays attention to the risks and impacts that climate change may bring to operation of the Company. The “ESG Sustainability Committee” is the coordinating unit for climate change management. It reviews the Company’s climate change strategies and goals, manages climate change risks and opportunities, and reviews the implementation	None.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(4) Does the company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?	V		<p>status of climate change every year to plan future actions and report to the Board of Directors.</p> <p>The Company identifies climate change risks and opportunities in accordance with the framework of the TCFD (Task Force on Climate-related Financial Disclosures) released by the competent authority. In 2021, the main risks were focused on policies of electricity restriction and carbon emissions regulation that affect supply chain production, extreme weather that affects equipment and operational safety, and the replacement of products and services by low-carbon technologies as well as the mechanism for the incorporation of carbon tax.</p> <p>In response to above mentioned risks, the Company actively develops high-efficiency and green products, promotes resources and energy saving in daily operations, regularly conducts greenhouse gas inventory and carbon information disclosure, plans the construction of green buildings, and purchases green electricity to reduce the risk of climate change. For more information, please refer to 4.1 Response to Climate Change in the Sustainability Report.</p> <p>The Company conducts greenhouse gas inventory and prepares report every year. In accordance with ISO 14064-1 Greenhouse Gas Management System, the Company continues to conduct inventory and management of greenhouse gas emissions, and actively promotes various greenhouse gas emission reduction measures based on the results of the inventory, aiming to reduce the environmental and climate impact of Novatek’s greenhouse gas emissions on global warming through plans and activities of continuous improvement. In 2021, the Company has invested NT\$ 189 million in various greenhouse gas emission reduction plans including the Data Center high-efficiency computer room management plan, the Tai Yuen Building air-conditioning system energy-saving improvement management plan, the Technology Building 4F office lighting energy-saving improvement management plan, and the Tai</p>	None.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			Yuen Building office lighting energy-saving improvement management plan, reducing 3,555,909.83 kg CO ₂ e of greenhouse gases. For more information on the Company’s greenhouse gas emissions, water use and waste quantity data in the past two years, as well as energy saving and carbon reduction, greenhouse gas emission reduction, water use reduction or other waste management policies, please refer to the supplementary explanation 3 of “7. Other important information to facilitate better understanding of the company’s sustainable development practices“, as well as 4.1.2 Greenhouse Gas Management, 4.1.3 Energy Management, 4.2.3 Waste and Water Use Management in the Sustainability Report.	
4. Social topic				
(1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		The Novatek Group follows the Labor Standards Act and other laws, abides by international human rights standards, implements the “Responsible Business Alliance (RBA) Code of Conduct”, formulates the “Novatek Human Rights Policy”, and attaches great importance to labor rights. The Company treats applicants of different race, gender, age, religion, nationality, marital and family status or political affiliation equally, recruits employees through an open and fair selection process, and follows government regulations to protect applicants’ personal data and avoid employment discrimination. For more information, please refer to 5.4 Human Rights and Employee Communication in the Sustainability Report.	None.
(2) Has the company established appropriately managed employee welfare measures (include salary and compensation, leave and others), and link operational performance or achievements with employee salary and compensation?	V		The Group’s Remuneration Committee has formulated an overall, Company-wide remuneration policy. This remuneration policy includes monthly fixed salaries and annual bonuses. The Board of Directors provides a certain percentage of profits as employee bonuses in accordance with Company performance. Article 23, Clause 2, of the Articles of Association also states that if the Company makes a profit for	None.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
			<p>the year, it shall allocate no less than 1 percent of such profits as remuneration for employees to ensure the rationalization of salary and remuneration, and to implement the performance appraisal system and link up with the results of the Company’s operational objectives. In addition to remuneration, Novatek provides its employees with comprehensive and diverse compensation and benefits including annual leave, travel subsidies, childcare allowances that are better than those required by laws. The Company also organizes various themed outdoor activities regularly.</p> <p>The Novatek Group is committed to achieving gender equality as well as equal pay for equal work. It adopts the same standards for both man and woman in each job category. Salaries of employees are based on their job performance and experience. Based on the characteristics of the technology industry and the source of talents in the fields of electronics, electrical engineering, and computer science, the Company's employees in 2021 were dominated by men, accounting for 84.33% of the total employees, while the number of female employees accounted for 15.67%, higher than the percentage of Taiwan’s female graduating students in the field of electronics, electrical engineering, computer science, communications, and telecommunications, which is averaged at 10.84%. In recent years, the Company continued to recruit outstanding female R&D personnel. For the employees with supervisory positions, the percentage of female supervisors accounted for 8.2% of the total employees.</p> <p>The Company’s profit in 2021 increased by 2.28 times compared to 2020. The average salary of employees in 2021 and 2020 was NT\$ 5,162 thousand and NT\$ 3,259 thousand respectively, with a salary adjustment of 58.39%, fully demonstrating the connection between business performance and the remuneration of employees. In addition, a comprehensive structural salary adjustment was also carried out in November 2021 to provide employees with the most competitive salary</p>	

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		<p>and benefits. For more information, please refer to V. Operational Highlights, E. Labor-Management Relations 1. b. Employee relationship of the Annual Report and 5.1.3 Remuneration and Benefits of the Sustainable Report</p> <p>The Group values the protection of both the environment and labor safety and successfully obtained LRQA certification, ISO 14001 Environmental Management System certification and ISO45001 Occupational Safety and Health Management System certification, with validity period until May 28, 2022. It plans to carry out the three-year certification renewal operation work on March to May, 2022. In 2021, the Company conducted office area inspection, factory area disinfection and vector mosquito control measures, public safety inspections and reporting operations for buildings in accordance with laws and regulations, monthly maintenance and testing of fire safety equipment as well as high/low voltage electrical equipment, and monthly inspection and maintenance of factory facilities to provide employees with a safe and hygienic working environment. The Company also organizes environment safety and health related education and training courses and implements health promotion activities in accordance with the annual plan to ensure the physical and mental health of employees. For more information, please refer to V. Operational Highlights, E. Labor-Management Relations 1. e. Working environment and protection of employee safety of the Annual Report and 5.3.2 Personnel Safety and Health Training of the Sustainability Report. Based on the rules for identifying occupational accident disability issued by the Occupational Safety and Health Administration, Ministry of Labor, after excluding traffic accidents that occurred outside the Company, there was no cases of injury or disability for all employees in 2021. Moreover, there was no cases of occupational diseases and work-related death in 2021. For more information, please refer to 5.3.1 Handling of Occupational Injuries or Accidents in the Sustainability Report.</p>	None.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(4) Does the company provide its employees with career development and training sessions?	V		<p>The Group promotes the health management of employees, plans and conducts practical and diverse health promotion lectures (activities), establishes management plans such as health management classification system, maternal labor health protection management, and preventive management for abnormal workload-induced disease to reduce the occurrence of diseases and the risk of the Company. The Company provides on-site physician/counseling services, and topic-based healthcare columns every month to protect the health of employees. In 2021, a total of four blood-drive events, “Donate Blood to Show Love”, have been successfully carried out, making significant contribution to Taiwan’s blood bank in the severe blood shortage period due to the pandemic.</p> <p>The Group attaches great importance to talent training and development, and has established education and training regulations as well as systems. It adopts the short-, medium- and long-term development goals and common core functions of the Company as the training and development guidelines, including training programs for new recruits, the School of Learning and Growth, the School of Innovative Technology, and the School of Leadership Management, to offer common compulsory courses, general education elective courses, foreign language learning courses, and professional skill or leadership management courses. The Group also conducts a survey on the training needs of supervisors and employees every year, and formulates a company-wide education and training plan for the next year based on the survey results, providing outstanding talents with opportunities for promotion and career development, and allowing employees to grow together with the Group. Related information is detailed in Sustainability Report 5.2 Talent Cultivation and Development.</p>	None.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(5) Does the company’s product and service comply with related regulations and international rules for customers’ health and safety, privacy, sales, labelling and set policies to protect consumers’ rights and consumer appeal procedures?	V		The Group is an IC design company. In product development, design support, product promotion and sales, and mass production support, it follows the ISO 9001 Quality Management System Standard. To ensure customer satisfaction, the “Customer Application Service Operating Procedure” has been established. There have been regular review and evaluation of customer satisfaction, based on which the corresponding improvement plans have been proposed. Email address has been listed on the Company’s website to serve as good complaint and communication channel for customers. For more information, please refer to 3.2 Customer Service in the Sustainability Report.	None.
(6) Does the company set supplier management policy and request supplier to comply with related standards on the topics of environmental, occupational safety and health or labor right, and their implementation status?	V		For the sustainable management of the supply chain, the Group adopts the four strategies of “following procedures”, “risk assessment”, “monitoring and auditing”, and “continuous improvement” to help suppliers develop a socially responsible operation model, making continuous improvements and bold commitments to strive towards sustainable development. Suppliers are required to sign the “Novatek Sustainability Policy Statement” and “Conflict-Free Minerals Declaration” to ensure that they are fully aware of the Company’s sustainability policies on issues such as environmental protection, occupational safety and health, or labor rights. Key suppliers are selected regularly for audit. For more information, please refer to 3.1 Supply Chain Management in the Sustainability Report.	None.
5. Does the company refer to international reporting rules or guidelines to publish Sustainability Report to disclose non-financial information of the company? Has the said Report acquired verification or statement of assurance from a third-party certification body?	V		The Company has carried out the composition and disclosure of report according to the Core of GRI Standards published by Global Sustainability Standards Board, and delegated the verification to independent and credible British Standard Institution (bsi Taiwan) according to AA1000 AS v3 Type 1 Moderate Guarantee Level and the core of GRI Standards. Please refer to the Appendix of the Sustainability Report for the Statement of assurance.	None.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
6. If the company has established the sustainable development principles based on the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation: The Group has formulated the “Sustainable Development Best Practice Principles”. Operations are subject to and in high degree of compliance with the principles. For details, please refer to the Company’s official website at www.novatek.com.tw .				
7. Other important information to facilitate better understanding of the company’s sustainable development practices: (1) Risk management policies or strategies for major environmental, social and corporate governance issues related to the operation of the Company are as follows:				
Major issues	Risk assessment items	Risk management policies or strategies		
Environment	Response to climate change	1. Use the TCFD framework to construct the Company’s climate risk identification process, and identify major climate risks and opportunities through cross-departmental discussions and opinion gathering.		
	Environmental impact and management	1. Follow ISO 14001 Environmental Management System and ISO 14064-1 Greenhouse Gas Management System, continue to carry out the inventory and management of greenhouse gas emissions, and actively promote various greenhouse gas emission reduction measures. 2. The Company is committed to the achievement of environmental safety and health policies, and has obtained LRQA certification, ISO 14001 Environmental Management System certification and ISO 45001 Occupational Safety and Health Management System certification. 3. The Company is committed to environmental protection, continues to implement energy saving and carbon reduction related projects in office, and prioritizes the purchase of green products and the implementation of plastic reduction policy to reduce burden on the environment.		
	Hazardous substance monitoring	1. Pay attention to the management of hazardous substances and the control of environmental risks. Integrate green design with green procurement and production to reduce the impact on the environment, creating ecological sustainability.		

Evaluation Item			Implementation Status			Deviations from the “Sustainable Development Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
			Yes	No	Abstract Explanation	

Major issues	Risk assessment items	Risk management policies or strategies
Society	Healthy workplace	<ol style="list-style-type: none"> To prevent occupational injuries and ensure the safety and health of employees, a Labor Safety, Health and Environmental Protection Committee is established, which regularly holds meetings to discuss labor safety, health and environmental protection-related matters, and promotes various labor safety, health and environmental protection related businesses. According to the training plan, safety and health education/training is conducted for related personnel through physical or online courses or external training on a regular or irregular basis.
Governance	Regulatory compliance	<ol style="list-style-type: none"> Improve the integrity management, pay attention to changes in policies and laws, and implement internal control mechanisms. File patent for the new technology developed by the Company to protect the Company's rights and interests, and attach importance to the maintenance and management of intellectual property.
	Information security	According to the needs of information security, formulate specific information security management plans, convene necessary members or inter-departmental meetings, execute information security operations, coordinate the implementation of information security management systems and the allocation of required resources.

(2) The 2021 ESG implementation results and the 2022 implementation plans:

Task force	2021 implementation results	2022 implementation plan
Corporate Governance	<ol style="list-style-type: none"> Corporate governance evaluation performance: maintained in the top 6-20%. Attendance rate of Board of Directors: 98%. Attendance rate of Remuneration Committee: 92%. Attendance rate of Audit Committee: 93%. The completion rate of the annual integrity management promotion courses: 99.5% of all employees. Financial statements announced next day after its approval by 	<ol style="list-style-type: none"> Corporate governance evaluation performance: rank in the top 6-20%. Attendance rate of Board of Directors and functional committees: 90%. The completion rate of the annual integrity management promotion courses: 99.5% of all employees. Establish a Nomination Committee to assist the Board of Directors in strengthening the management mechanism.

Evaluation Item			Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
			Yes	No	Abstract Explanation	
		the Board of Directors to improve information transparency.			5. Establish a Risk Management Committee to improve corporate risk management. 6. Taiwan Intellectual Property Management System (TIPS) certification.	
	Mutual Benefits of Partners	1. Customer satisfaction: 92% (Target: 90%). 2. The completion rate for key suppliers: 95% (Target: 85%). 3. Improved the sustainability management processes for suppliers: 1) Formulated the “Novatek Code of Conduct for Suppliers”. 2) 100% of key suppliers completed the RBA self-assessment questionnaire (Target: 70%). 3) Novatek’s official website disclosed conflict mineral policy and smelter information.			1. Customer satisfaction reaches 90%, and the completion rate for key suppliers audit reaches 95%. 2. Improved the sustainability management processes for suppliers: 1) Announce the “Novatek Code of Conduct for Suppliers”. 2) 100% of key suppliers completed the RBA self-assessment questionnaire. 3) Complete the social responsibility assessment of 3 suppliers. 3. Conduct exchange forum for sustainable supply chain.	
	Environmental Sustainability	1. 100% of key suppliers obtained ISO 14001 Environmental Management System and its validity. 2. Electricity consumption per capita: 1123 kWh (Target: ≤1035 kWh). 3. Promotion of energy saving plan: Greenhouse Gas Reduction: Completed the construction and operation of high-efficiency computer rooms in the Data Center (Taiyuan and Technology Buildings) to reduce electricity consumption. 4. Renewable energy plan: Completed the evaluation of renewable energy plan in 2021. Start to use renewable energy from 2022, and increase the percentage of use year by year. 5. Goals of energy-saving products: 1) 3% reduction in energy consumption for the existing products in 2021 compared to 2020 (Target: 4%). 2) The revenue of new energy-saving display products			1. Promote energy-saving measures to save 1% of electricity in 2022. 2. Renewable energy plan: 1) Use renewable energy starting from 2022 and sign the procurement contract. 2) Construct a solar power generation system with a capacity of 200 kW for the new Taiyuan building. 3. Environmental management system validation: 1) Include the new Taiyuan building to ISO 14001 & ISO 45001 Management System certification and obtain certificates. 2) Obtain third-party verification for ISO 14064-1 Scope 1 and Scope 2 greenhouse gas inventory. 4. Goals of energy-saving products: 1) 3% reduction in energy consumption for the existing products in 2022 compared to 2021. 2) The revenue of new energy-saving display products	

Evaluation Item			Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
			Yes	No	Abstract Explanation	
		<p>exceeded NT\$ 14 billion in 2021 (accounting for 10.35% of the total revenue).</p> <p>3) Energy Star 9.0 related products (such as driver IC, timing controller, power IC) started mass production and shipment in 2021, reaching a revenue of NT\$ 4 billion.</p> <p>6. The water and electricity consumption information of the new Taiyuan building was included in the statistics from 2021, and the information will be disclosed in 2022.</p>			<p>continues to grow, accounting for more than 11% of the total revenue.</p> <p>5. The supply chain jointly responds to issues related to environmental sustainability:</p> <p>1) The supply chain jointly sets an annual electricity-saving target of 1%.</p> <p>2) The supply chain jointly sets a target of zero day of downtime due to water rationing.</p> <p>3) Encourage key suppliers (Chipbond) to carry out carbon management projects (such as greenhouse gas inventory, carbon footprint).</p> <p>6. Sponsor the air quality purification area in Hsinchu, the “Sea-to-Sky Viewing Area”.</p>	
	Friendly Workplace	<p>1. In 2020, the average salary of “full-time non-supervisor employees” reached NT\$ 3.175 million (an annual growth of 17.03%), and the median salary was NT\$ 2.732 million, which was the highest in the semiconductor industry.</p> <p>2. Implementation rate of annual training courses reached 93%, meeting the target set originally.</p> <p>3. Continued to promote the internal trainings organized by each department; the number of trainings organized by various departments reached 291 sessions.</p> <p>4. Planned ESG management training courses for the CSR Committee and related management.</p> <p>5. Formulated the Novatek Human Rights Policy.</p> <p>6. The turnover rate of full-time employees was 6.19%, which is lower than the turnover rate of the same industry. The retention rate of new recruits within one year reached 93.31%.</p> <p>7. The re-examination rate of major abnormalities in health check reached 100% (the set target was $\geq 95\%$).</p> <p>8. The employee’s voluntary participation rate for health</p>			<p>1. Formulate learning and development plan for functional-oriented supervisors and employees.</p> <p>2. Semiconductor talent cultivation, collaboration and exchange.</p> <p>3. Competitive compensation and benefit system.</p> <p>4. Establish a monitoring, caring and prevention mechanism for employees’ abnormal working hours.</p> <p>5. The re-examination rate of major abnormalities in health check reaches $\geq 95\%$.</p> <p>6. Continue to launch health promotion programs and maintain the employees’ voluntary participation rate at $\geq 30\%$.</p> <p>7. Organize 12 sessions of employee welfare activities, with the number of participation for the events reaching 892.</p> <p>8. The number of employees who used the Company’s travel subsidy to participate in travel activities accounts for 85% of the total number of employees.</p>	

Evaluation Item			Implementation Status		Deviations from the “Sustainable Development Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
			Yes	No	
		<p>promotion programs reached 13%, failing to reach the set target (The set target was $\geq 48\%$).</p> <p>9. The number of employees who used the Company’s travel subsidy to participate in travel activities accounted for 17.4% of the total number of employees, failing to reach the set target (The set target was $\geq 85\%$).</p> <p>10. Organized 12 sessions of employee welfare activities, and the number of participations for the events reached 892.</p>			
Social Participation		<p>1. The amount of grants for promoting talent cultivation in higher education was NT\$ 5.83 million, exceeding the original target of NT\$ 4 million.</p> <p>2. Promoted the reading program for 14 elementary schools in rural areas of Yunlin and Hualien, meeting the set target.</p> <p>3. Sponsored archery and weightlifting sports talents with a total of NT\$ 2.29 million, exceeding the set target of NT\$ 2.2 million.</p> <p>4. Organized 11 corporate volunteer services in a year, failing to meet the set target of 16 volunteer services. The work was recognized by the “2021 Youth Volunteer Outstanding Utilization Unit” award issued by the Youth Development Administration, MOE.</p> <p>5. Raised over NT\$ 10.89 million for the “Novatek Social Caring Fund” and 41.5% of the Company’s employees have made the donations, both of which have exceeded the set target of NT\$ 9 million and 40%, respectively. The theme-based and fixed donations accounted for 49% and 51% of the total donations, respectively.</p> <p>6. Donated more than NT\$ 3.03 million worth of epidemic-prevention materials to the Tainan and Hsinchu County/City Governments.</p>			<p>1. The amount of grants for promoting talent cultivation in higher education exceeds NT\$ 4.5 million.</p> <p>2. Continue to promote the reading program for 14 elementary schools in rural areas of Yunlin and Hualien.</p> <p>3. Sponsor the cultivation of sports talents with a total amount of exceeding NT\$ 3 million.</p> <p>4. Promote the trial of corporate volunteer leave, and organize 12 corporate volunteer services throughout the year.</p> <p>5. Continue to raise money for the “Novatek Social Caring Fund”, maintaining the target of \geq NT\$ 9 million and 40% for the amount of donation and the percentage of employees making the donations, respectively.</p>

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(3) Novatek’s greenhouse gas emissions, water use and waste quantity data, as well as energy saving and carbon reduction, greenhouse gas emission reduction, water use reduction or other waste management policies:				
The Company conducts greenhouse gas inventory and prepares report every year. In accordance with ISO 14064-1 Greenhouse Gas Management System, the Company continues to conduct inventory and management of greenhouse gas emissions, and actively promotes various greenhouse gas emission reduction measures based on the results of the inventory, aiming to reduce the environmental and climate impact of Novatek’s greenhouse gas emissions on global warming through plans and activities of continuous improvement and fulfilling corporate social responsibility.				
1) Greenhouse gas inventory method:				
Organizational boundary	Refer to ISO 14064-1 standard as well as the requirements and recommendations of the Greenhouse Gas Inventory and Registration Guidelines issued by EPA (Environmental Protection Administration), organizational boundaries are set based on operational control, and in part on financial control.			
Inventory type	Seven greenhouse gases are defined by ISO 14064-1, including carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF6), and nitrogen trifluoride (NF3).			
2) 2021 inventory results:				
Novatek’s total greenhouse gas emissions in 2021 were 17,127.715 tons, an increase of 1,155.472 tons compared to 2020. In 2021, the total emissions from direct emission sources (Scope 1) were 276.4467 tons CO2e/year, accounting for 1.61% of the total emissions, while the total emissions from indirect emission sources (Scope 2) were 16,851.2680 tons CO2e, accounting for 98.39% of the total emissions. Carbon dioxide and methane accounted for the majority of the emissions, and the greenhouse gas emission intensity was 0.12653 tons/NT\$ million.				
3) Statistics of greenhouse gas emissions:				
			(tons/ CO2e)	
Greenhouse gas type	2020		2021	
Scope 1	484.6829		276.4467	
Scope 2	15,487.5603		16,851.2680	
Total CO2 emission	15,972.243		17,127.715	
Greenhouse gas emission intensity (tons/NT\$ million)	0.19975		0.12653	

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best- Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
Note a: Greenhouse gas emission intensity =Total CO ₂ emission/total revenue (NT\$ million)				
Note b: Scope 3 is still under planning.				
The total greenhouse gas emissions in 2021 increased by 7.23% compared with 2020, mainly due to the construction of Taiyuan Building is completed in 2021, following the increasing power usage. Resulted from the growth of total revenue, the greenhouse gas emission intensity in 2021 was the lowest since 2018.				
4) Plans for promoting greenhouse gas emission reduction in 2021:				
Data Center high-efficiency computer room management plan				
Plan description	The high-efficiency IT computer rooms on the 2F & 3F of the Technology Building and the 7F of the Taiyuan Building adopt cold/hot-channel closed system and energy-saving equipment to reduce the loading of air-conditioning systems and improve air-conditioning efficiency, reducing power consumption and greenhouse gas emissions.			
Results	<ul style="list-style-type: none">Implementation method: The 3F/IT computer room of the Technology Building was completed in 2019. The setup of equipment was carried out year by year and was completed in 2021. The average load in 2021 was 1238 kW. The 2F/IT computer room of the Technology Building was constructed in two phases. Phase I was completed in 2021 followed by the setup of equipment. The average load in 2021 was 145 kW. The Taiyuan Building 7F/IT computer room was built in 2021 and the setup of equipment was completed in the same year. The average load 2021 was 84 kW.Energy-saving performance: Based on the PUE value of 1.5 for the high-efficiency energy-saving computer room, the total load of 1467 kW for the computer rooms at the end of 2021 (2F of Technology Building+3F of Technology Building+7F of Taiyuan Building) and compared with the PUE value of 1.8 for traditional computer room, it is estimated that the monthly electricity consumption can be reduced by 316,872 kWh, which is equivalent to the saving of 3,802,464 kWh of electricity per year.Greenhouse gas emission reduction: $3,802,464 \times 0.502 = 1,908,836.93$ kgCO₂e/year			
Taiyuan Building air-conditioning system energy-saving improvement management plan				
Plan description	The chillers of the air-conditioning systems in the Taiyuan Building were integrated, and the automatic optimal water outlet temperature frequency conversion energy-saving control of the cooling water tower was introduced to reduce the corresponding switching mode of the chiller on a single floor in traditional commercial building. It reduces the switching frequency of the chiller, maintains efficient operation, and improves the efficiency of the chiller and the number of corresponding pumps to decrease power consumption, reducing greenhouse gas emissions.			
Results	<ul style="list-style-type: none">Implementation method: The original chillers for the air-conditioning systems of the Taiyuan Building were setup with the configuration of one chiller for each household with two households on each floor of the Building. The Building has 11 floors, hence, it has a total of			

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons	
	Yes	No	Abstract Explanation		
			<p>22 chillers. In addition, the cooling water tower is controlled by the traditional direct start-stop control and the number of start-stop units. After the handover of the Building in October 2020, the energy-saving improvement plan for the air-conditioning systems were conducted to integrate the chillers and introduce the smart temperature control of cooling water tower with frequency conversion rotation control. The newly incorporated facilities were activated since the station-in in 2021.</p> <ul style="list-style-type: none">• Energy-saving performance and greenhouse gas emission reduction: The Building’s air-conditioning system operate for an average of 16 hours per day (including holidays and at night), with annual operation of 5,840 hours/year. In 2021, the average refrigeration ton (RT) needed is estimated to be 500 RT (9 floors), and the calculation after the improvement is as follows:<ul style="list-style-type: none">1. Cooling water unit efficiency improvement: All the chillers of the Building are integrated mainly to improve the efficiency of the cooling water system, allowing the activated units to maintain high-load operation. According to the information provided by the Energy-saving Service website, comparing the chiller that maintains long high-load operation and the operation of low-load chiller that starts and stops frequently, the overall cooling efficiency differs by 0.3 kW/RT. Energy-saving performance: 500 RT*0.3 kW/RT*5,840 hours/year = 876,000 kWh/year Greenhouse gas emission reduction: 876,000×0.502 = 439,752.00 kgCO₂e/year2. Energy saving of auxiliary equipment: Before improvement: The original operation mode designed for the Building is that when the chiller of a household starts to supply cooling water, the chiller pump and cooling water pump of that household must be turned on. The total horsepower of the pumps is 545HP, and the annual power consumption is 545HP*0.746 kW* 5,840 hours/year = 2,374,369 kWh/year. After the improvement: All chillers in the Building are integrated to operate simultaneously. Based on the average refrigeration ton of the chiller is 500RT, and the average horsepower of the pump is 125HP (25HP*5), the annual power consumption is 125HP*0.746 kW*5,840 hours/year= 544,580 kWh/year Energy-saving performance: 2,374,369 kWh - 544,580 kWh = 1,829,789 kWh/year Greenhouse gas emission reduction: 1,829,789*0.502=918,553.98 kgCO₂e/year3. Energy saving of cooling water tower: Before the improvement, the C/T controls the temperature based on the number of units that start and stop. Optimization was introduced to calculate water temperature setting + frequency conversion and rotation control. The Taiyuan Building has a central air-conditioning system, and 12 units of cooling water towers are used for heat dissipation. The heat dissipation capacity of each set is 200RT (fan: 7.5hp). The system operates 5,840 hours per year. The power consumption of the cooling water towers: 7.5hp × 6 units (average number of units in operation per year) × 0.746 kW/hp × 5,840 hours/year × 0.7 (average load rate) = 137,234 kWh/year. Under the same load conditions and with the incorporated frequency conversion operation and the energy-saving		

Evaluation Item		Implementation Status			Deviations from the “Sustainable Development Best- Practice Principles for TWSE/TPEx Listed Companies” and Reasons
		Yes	No	Abstract Explanation	
		efficiency of 35% based on the information provided by the Energy-saving Service website (the energy-saving efficiency is typically around 30~40%), the energy-saving performance of the cooling water towers is calculated as follows: Energy-saving performance: 137,234 kWh*35% = 48,032 kWh/year Greenhouse gas emission reduction: 48,032*0.502 kg = 24,112.04 kgCO ₂ e/year Annual greenhouse gas reduction : 1. + 2. + 3. = 439,752.00+918,553.98+24,112.04=1,382,418.02 kgCO ₂ e/year (Estimated based on the electricity emission factor announced in 2020 as 0.502 kg CO ₂ e/kWh)			
Technology Building 4F office lighting energy-saving improvement management plan					
Plan description	The original lamps for the office lighting on the 4th floor of the Technology Building were T8-16 W*4 (558 lamps) T-bar fluorescent lamps. The lamps were replaced with LED flat panel energy-saving lamps. The power consumption of each lamp was reduced from 64 W to 23 W to improve efficiency, reducing electricity consumption and greenhouse gas emissions.				
Results	<ul style="list-style-type: none">Implementation method: The original lamps for the office lighting on the 4th floor of the Technology Building were T8-16 W*4 T-bar fluorescent lamps (558 lamps). The lamps were replaced with LED flat panel energy-saving lamps to reduce power consumption of each lamp from 64 W to 23 W. The annual electricity consumption before the replacement was 148,562 kWh, and the annual electricity consumption after the replacement was 53,389 kWh.Energy-saving performance: Save 95,172 kWh of electricity every yearGreenhouse gas emission reduction: 95,172×0.502=47,776.58 kgCO₂e/year				
Taiyuan Building office lighting energy-saving improvement management plan					
Plan description	The original lamps for the office lighting in the Taiyuan Building were LED 10W*4 T-bar lamps. The lamps were replaced with LED flat panel energy-saving lamps. The power consumption of each lamp was reduced from 40 W to 23 W to improve efficiency, reducing electricity consumption and greenhouse gas emissions.				
Results	<ul style="list-style-type: none">Implementation method: There are 6,109 lamps for the office lighting in the Taiyuan Building. The original design used LED 10W*4 T-bar lamps, which were changed to 23W flat panel LED energy-saving lamps. The power consumption of lamps was reduced from 40W to 23W, and the installation was completed in 2021. The annual power consumption of the original lighting system was 1,016,538 kWh, and that after the change is reduced to 584,509 kWh.Energy-saving performance: Save 432,028 kWh of electricity every yearGreenhouse gas emission reduction: 432,028×0.502=216,878.30 kgCO₂e/year				

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	

5) Waste management:

In addition to the reduction and recycling of domestic general waste, Novatek also delivers its driver IC waste to professional waste treatment operator for gold recovery to increase the recycling of hazardous waste. In 2021, the volume of gold recovered reached 77 kilograms. The Company transferred the recycled gold into the driver supply chain for production (transferred to Bumping House of Novatek), thereby achieving the purpose of circular economy, promoting the development of urban mining, reducing the use of raw materials as well as the generation of waste, and minimizing the impact on the environment.

Statistics of waste disposal in 2021:

Item	Type of waste	Treatment method	Volume treated (ton)	Percentage ^{note}	Gold recovery amount
General waste	Domestic waste	Incineration	23.25	27.72%	
	Waste paper, scrap metal/aluminum container, waste lighting	Recycling	23.62	28.17%	
Hazardous waste	Driver IC waste	Outsourced processing	20.57	24.53%	77
	SoC IC waste	Outsourced processing	16.42	19.58%	
Total			83.86	100%	

Note: Percentage = Volume treated of a specific waste type/Total volume treated

6) Water management:

Novatek has no manufacturing plants; therefore, its water management mainly involves water for domestic use, air-conditioning system condensate and cooling water for computer rooms. The total water consumption in 2021 was 98,113 m³ (one thousand liters), an increase of 22% compared with the previous year. This is mainly due to operation of the Data Center in the Taiyuan Building and the Technology Building.

To effectively manage water resources, the water-saving and recycling strategies were adopted. Currently, water-saving toilets have been installed for all the operation sites of Novatek. With the continuous improvement of water-saving efficiency, gold-level water-saving toilets will be used gradually in the operation sites of Novatek to save more water (an additional 1.2 liters of water can be saved per use). In 2021, the Tai Yuen Building in Zhubei obtained the Green Building Label (Silver Level) issued by the Ministry of the Interior. It adopted a water recycling system to recycle rainwater and RO water, and used it for watering plants, improving the overall water utilization efficiency. The average water saving volume in 2021 was 1,905.5 cm³ (one thousand liters), achieving a water saving rate 1.95%. We will continue to strengthen water management and improve the efficiency of water recycling.

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	

Unit : cm³ (one thousand liters)

Item	Type of waste	Treatment method	Volume treated (ton)	Percentage ^{note}	Gold recovery amount
General waste	Domestic waste	Incineration	23.25	27.72%	
	Waste paper, scrap metal/aluminum container, waste lighting	Recycling	23.62	28.17%	
Hazardous waste	Driver IC waste	Outsourced processing	20.57	24.53%	77
	SoC IC waste	Outsourced processing	16.42	19.58%	
Total			83.86	100%	

Source: Operating sites in Hsinchu

Note 1: Water saving rate = Water saving volume/Water consumption

Note 2: The Company began to calculate water saving volume and water saving rate since 2021, and data has been accumulated since that year.

- (4) For the purposes of promoting science education development, cultivation of outstanding talents, and supporting the education for disadvantaged students in rural areas, the Group founded the Novatek Educational Foundation and set up scholarship (for doctoral and master's degree programs) to continuously sponsor and cultivate outstanding talents of science education in Taiwan. Furthermore, the Foundation has supported the Night Angel Lighting After-School Tutoring Program of the Ministry of Education, caring for the disadvantaged students in rural areas. In addition, the Foundation has been constantly promoting reading programs and activities, such as creative reading, tree climbing experience, and summer story-telling camps for disadvantaged students in rural areas of Hualien and Yulin, and incorporating the concept of environmental protection into the programs and activities, so that we can explore the fun in learning, inspire creativity, and develop lifelong reading habits as well as learning capability for these disadvantaged students in rural areas through diversified learning. The Foundation also sponsored the percussion music class and the charity performance program for the visually-impaired students in Changhua to develop their concentration skills, activate their mind and body, promote their communication and interaction abilities, and improve their voluntary physical activities. Novatek Foundation has been supporting sports promotion for a long time, continuing to sponsor the training of the Fuli Archery Team and the Erh-lin Industrial and Commercial Vocational High School Weightlifting Team, and cultivating a number of outstanding sports talents to win glory for the country. In addition to the above-mentioned sponsorship programs, the Novatek Foundation has been committed to volunteering services for disadvantaged students for quite a long time. Novatek volunteers have conducted the one-on-one countryside walking tours and food ingredient explorations with students from the Taichung School for the Visually Impaired. Moreover, cares were being provided by the Novatek volunteers to disadvantaged children of the Hsinchu Renai Children's Home as well as the Night Angel Lighting Programs in Hsinchu and Miaoli County, carrying out humanities related education and activities. Furthermore, Novatek continues to offer volunteer services and cares to “disadvantaged teenagers”, including the disadvantaged teenagers from the Taichung Tsu-Hsin Children's Home and the Taoyuan Reindeer Children's Home, helping them to gain experience in career exploration. A total of 11 volunteer services

Evaluation Item	Implementation Status			Deviations from the “Sustainable Development Best- Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
were offered in 2021. The Novatek Educational Foundation has been committed to the promotion of long-term corporate volunteer services, and was awarded by the Youth Development Administration, Ministry of Education the “2021 Youth Volunteer Outstanding Utilization Unit” award for four consecutive years. It is hoped that with the power of corporate volunteers, Novatek can make contributions to the society through its actions, attracting the attention of the communities to the education for disadvantaged students.				

6. The Ethical Corporate Management Implementation Status and Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons:

Trustworthiness is one of the Group’s mottos while all employees are asked to obey and follow. A routine introduction of the Group’s business culture and ethics will be addressed by the president at the freshman orientation periodically. In the meantime, in-house seminars and presentations focusing on the business culture and ethics are often conducted from time to time as a reminding for the whole staff. The Group’s business activities and operations are well executed and based on ROC Company Act, Securities and Exchange Act, and local regulations of the affiliated companies while the management and board members are requested to comply with laws, ordinances and the articles of incorporation and shall exercise the duty of a good manager to faithfully engage in their duties, to stay with good understanding of the Group’s financial status with good communication with the accounting firms, while taking into consideration the interests of the Group.

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs				
(1) Does the company have a clear ethical corporate management policy approved by its Board of Directors, and bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board of Directors and the top management team?	V		The Board of Directors of the Company has stipulated the integrity-based policies via the formulation of the “Principles of Ethical Corporate Management” and the president of the Company has signed the “Anti-Corruption and Anti-Bribery Commitment” to declare the adoption of a zero-tolerance policy for corruption, establishing the sound corporate governance and risk control mechanism for directors, management team, and all employees to comply with. The implementation status of annual corporate integrity management will be reported to the Board of Directors once a year.	None
(2) Whether the company has established an assessment mechanism for the risk of unethical conduct; regularly analyze and evaluates within a business context, the business activities with a higher risk of unethical	V		The Group has previously revised and augmented its “Procedures for Ethical Management and Guidelines for Conduct” according to the “Principles of Ethical Corporate Management” to specifically define the business activities with higher risk of dishonest behavior within the scope of business. And there have been specific preventive	None

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>conduct; has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?</p> <p>(3) Whether the company has established relevant policies that are duly enforced to prevent unethical conduct, provided implementation procedures, guidelines, consequences of violation and compliant procedures, and periodically reviews and revises such policies?</p>	V		<p>measures and reporting and processing procedures established with respect to bribing and receiving bribes, providing illegal political contributions, improper charitable donations, and providing or accepting improper benefits.</p> <p>For the purpose of eliminating and preventing the dishonest behaviors, the Group has implemented the “Ethical Operational Procedures and Conduct Guidelines Procedures for Ethical Management and Guidelines for Conduct”, “Procedures of Handling Material Inside Information”, and “Guidelines for Handling Grievance and Whistle-blowing”, organized the course of “Advocacy of Integrity Management Behaviors” once a year, and the advocacy of relevant information once every six months in order to strength the corporate ethnic awareness.</p>	None
2. Fulfill operations integrity policy				
<p>(1) Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?</p> <p>(2) Whether the company has set up a unit which is dedicated to promoting the company’s ethical standards and regularly (at least once a year) reports directly to the Board of Directors</p>	V	V	<p>The Group follows set deliberate procedures in implementing ethics and assessment work when dealing with suppliers and customers, and adheres to the principles of ethics and fairness to carefully select business partners.</p> <p>In addition, through business documents, customers are required to follow the integrity management policy, and suppliers are required to sign the “Novatek Sustainability Policy Statement”, indicating that they are fully aware of the Company's internal policies.</p> <p>In order to achieve sound ethical management, the Intellectual Property and Legal Division and Human Resources Division are responsible for the monitoring and implementation of ethical management policies and prevention programs. It will regularly</p>	<p>None</p> <p>None</p>

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
on its ethical corporate management policy and relevant matters, and program to prevent unethical conduct and monitor its implementation?			<p>report to the President and report the execution situation to the board of directors once a year.</p> <p>Implementation of ethical management was reported to the board of directors in February 2022. The major execution situation is as follows:</p> <ol style="list-style-type: none"> 1. Two impeachment cases of ethical management violations were received from internal/ external whistle-blowing channel. Through audition, the cases were not violations. 2. There was no violation of “Procedures for Ethical Management and Guidelines for Conduct” in 2021. 3. The Company has established “Anti-Corruption and Anti-Bribery Commitment” in 2021, and organized the advocacy of relevant information half year periodically for the entire staff. 4. The annual course of “Advocacy of Integrity Management Behaviors” has been organized in Sep. 2021. The completion rate of the course was 89.8% of newly employees, 99.5% of all employees. 5. Newly added the “Corporate Integrity Management” self-assessment procedures for all relevant units of the Group in 2021. 	
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		A major principle of this group is the forbidding of any situation in which company resources or benefits could possibly be given to an employee’s relative or friend. The Group has been established a suggestion box and the informing mechanism of internal and external violation of integrity management to provide full communication channels on this subject.	None
(4) To implement relevant policies on ethical conducts, has the company established effective accounting and internal control systems, audit plan based on the assessment of	V		Relevant units of the Group regularly complete the “Corporate Integrity Management” internal control self-assessment form every year to self-examine the compliance. Internal auditors also check regularly all transaction cycles in accordance with regulations to	None

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>unethical conduct, and have its ethical conduct program audited by internal auditors or CPA periodically?</p> <p>(5) Does the company regularly hold internal and external educational trainings on operational integrity?</p>	V		<p>ensure that the Company complies with internal control as well as relevant laws and regulations. The internal control is revised in a timely manner and submitted to the Board of Directors for approval to ensure the effectiveness of the designed internal control; routine audit will also be conducted for the accounting firm every year.</p> <p>The Groups’ president personally instructs new employees on the Company’s corporate culture and operating principles. The online course of “Advocacy of Integrity Management Behaviors” has been organized for the entire staff once a year, and the content of this course includes the six major topics of processing of major internal information, prevention of insider transaction, avoidance of conflict of interests, protection of trade secret, integrity management, and informing channel. The advocacy of relevant information has been conducted once every six months.</p>	None
<p>3. Operation of the integrity channel</p> <p>(1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?</p> <p>(2) Whether the company has established standard operation procedures for investigating the complaints received, follow-up measures after investigation are completed, and ensuring such complaints are handled in a confidential manner?</p>	V	V	<p>The Group has stipulated the specific informing and reward systems in the “Procedures for Ethical Management and Guidelines for Conduct” and “Guidelines for Handling Grievance and Whistle-blowing”, and the Intellectual Property and Legal Department and Audit Department will assist in dealing with relevant matters.</p> <p>The Group’s “Procedures for Ethical Management and Guidelines for Conduct” and “Guidelines for Handling Grievance and Whistle-blowing” established related standard operation procedures for reporting unethical conduct. In addition to preparing and organizing an investigation team to clarify the facts in the report, and delivering such to the appropriate police department based on the severity of the case, self-reviews and revisions on internal controls are also conducted in order to prevent any similar situation from reoccurring.</p>	None

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(3) Does the company provide proper whistleblower protection?	V		The “Guidelines for Handling Grievance and Whistle-blowing” of the Group has specified the confidentiality principle with respect to the informant, reward measures, and penalty for rule violation.	None
4. Strengthening information disclosure (1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	V		The Group has established a website (www.novatek.com.tw), and discloses its ethical management principles in the “Corporate Governance” section. The Information Technology Division organized a responsible party to update the information on the website, making it easier to fully disclose all of the Company’s latest ethical management and corporate governance information.	None
5. If the company has established Principles of Ethical Corporate Management based on TSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation. The Group has established Principles of Ethical Corporate Management. The management and board members shall exercise all business activities complied with these principles.				
6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies). The Group places great emphasis on integrity management, not only carefully select business partners but also constantly advocate the integrity management policy to suppliers.				

7. Information Disclosure regarding “Corporate Best-Practice Principles”:

The Group has taken into consideration the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” in establishing its corporate governance principles, with the Company website including a dedicated “Corporate Governance” section that investors are able to inquire about and download related corporate governance regulations.

8. Other Information Disclosure: None.

9. Internal Control Status

a. Statement of internal control

Novatek Microelectronics Corp. Statement of Internal Control

Date: February 25, 2022

Novatek Microelectronics Corp has conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31, 2021, and hereby declares as follows:

1. The Company acknowledges and understands that the establishing, operating and maintaining an internal control system are the responsibility of its board and management. The Company has already established such a system in order to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operation (including profitability, performance and security of assets) (2) the reliability of financial reporting and (3) the compliance with applicable laws and regulations.
2. An Internal control system has its inherent limitation. No matter how perfect the design is, the internal control system can only provide reasonable assurances of achieving the aforementioned objectives. The effectiveness of the internal control system is also subject to changes in the environment and circumstances. The Company's internal control system contains self-monitoring mechanisms, and the Company will take corrective actions whenever a deficiency is identified.
3. The Company assesses the effectiveness in the design and execution of the Company's internal control system in accordance with the Criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as "the Criteria"). The judgment items for internal control employed by the Criteria contains five components, based on the process of management control: (1) Control Environment (2) Risk assessment (3) Control Activities (4) Information and Communication and (5) Monitoring. Each component further contains certain items, which could be referred to the Criteria for details.
4. The Company has adopted the aforementioned judgment items to evaluate the effectiveness of the design and execution of its internal control system.
5. Based on the aforementioned audit findings, the Company believes that the effectiveness of the design and execution of its internal control system (including subsidiaries), during the year 2021, provides reasonable assurance of achieving the goals of efficiency and effectiveness of operations, the reliability of financial reports and the compliance with applicable laws and regulations.
6. This statement is an integral part of the Company's annual report for the year 2021 and prospects, and will be made the public. Any misstatement, concealment, or other illegality in the content would be subject to legal liabilities of Article 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This statement of has been approved by the Board on February 25, 2022, which eight directors attending agreed with the content of the Statement.

Novatek Microelectronics Corp.

Chairman: Tai-Shung, Ho

President: Steve Wang

b. The Company was not required to commission an independent auditor to audit its internal control system.

10. Description of violations/infringement of regulations and the company's response:

None.

11. Major resolutions of the shareholders' meeting and the board meetings

Date	Resolution
Board meeting of Feb. 25, 2021	<ol style="list-style-type: none"> 1. Approving 2020 business report and financial statements. 2. Approving the announcement of no lending funds to other parties in the fourth quarter of 2020. 3. Approving 2021 business plan and capital expenditure budget plan.
Board meeting of Mar. 17, 2021	<ol style="list-style-type: none"> 1. Approving the election of eight Directors for the 9th Board of Directors (including three independent Directors) 2. Approving the nomination of the Director candidates for the 9th Board of Directors 3. Approving the lifting of the non-competition restriction for the new Directors of the 9th Board of Directors 4. Acceptance of the date, location and agenda for 2021 shareholders' meeting 5. Approving join the incorporation of "TGVest Fund II"
Board meeting of Apr. 26, 2021	<ol style="list-style-type: none"> 1. Approving the distribution of 2020 profits 2. Approving the review of the nomination of the Director candidates for the 9th Board of Directors 3. Approving the capital increase in subsidiary Novatek International (BVI) Ltd. 4. Approving the establishment of Novatek Beijing subsidiary 5. Approving the announcement of no lending funds to other parties in the first quarter of 2021
Board meeting of June 16, 2021	Re-set the date and place of the 2021 Shareholders' Meeting
Shareholders' meeting of July 20, 2021	<ol style="list-style-type: none"> 1. Approving 2020 business report and financial statements 2. Approving the distribution of 2020 profits 3. Election of eight Directors for the 9th Board of Directors (including three independent Directors) 4. Lifting of the non-competition restriction for the new Directors of the 9th Board of Directors
Board meeting of July. 30, 2021	<ol style="list-style-type: none"> 1. Elect the chairman of the Company 2. Elect the vice chairman of the Company 3. Appointed member of the Company's Remuneration Committee 4. Approving the capital increase in subsidiary Cheertek International Ltd. 5. Approving the announcement of no lending funds to other parties in the second quarter of 2021
Board meeting of Oct. 29, 2021	<ol style="list-style-type: none"> 1. Adjust the remuneration structure of the Company's employees 2. Approving 2022 "Internal Audit Plan" 3. Approving the capital increase in subsidiary Novatek International (BVI) Ltd. 4. Approving the announcement of no lending funds to other parties in the third quarter of 2021
Board meeting of Feb. 25, 2022	<ol style="list-style-type: none"> 1. Approving 2021 business report and financial statements. 2. Approving the announcement of no lending funds to other parties in the fourth quarter of 2021 3. Approve the establishment of the "Risk Management Committee" 4. Approving 2022 business plan and capital expenditure budget plan
Board meeting of Mar. 18, 2022	<ol style="list-style-type: none"> 1. Approving the capital increase in subsidiary Novatek International (BVI) Ltd. 2. Approving the amendment to "Procedures for Acquisition or Disposal of Assets" 3. Approving the amendment to "Principles of Corporate Governance" 4. Approving the amendment to "Corporate Social Responsibility Best Practice Principles" 5. Acceptance of the date, location and agenda for 2022 shareholders'

Date	Resolution
	meeting
Board meeting of Apr. 28, 2022	1. Approving 2022 Q2 consolidated financial statements 2. Approving the distribution of 2021 profits 3. Approving the capital increase in subsidiary Cheertek International Ltd. 4. Approving the announcement of no lending funds to other parties in the first quarter of 2022

Implementation status of the major resolutions approved by 2021 shareholders' meeting:

1. Approving 2020 business report and financial statements.

2. Approving the distribution of 2020 profits.

Implementation status: After passing the 2020 earnings distribution proposal by the Company's shareholders meeting, August 23, 2021 was set as the ex-dividend date, and all cash dividends were distributed on September 17, 2021.

3. Election of eight Directors for the 9th Board of Directors (including three independent Directors)

Elected list of Directors: Tai-Shung, Ho, Steve Wang, Max Wu, J.H. Chang, UMC

Elected list of Independent Directors: Jack Tsai, Jack Liu, TingTing, Hwang

Implementation status: The change registration for the ninth election of directors has been applied to the Hsinchu Science Park Bureau, Ministry of Science and Technology in accordance with regulations, and a letter of approval has been obtained on August 3, 2021.

4. Lifting of the non-competition restriction for the new Directors of the 9th Board of Directors.

12. Directors' or supervisors' objections against the important resolution of board meetings up to date of publication:

None.

13. Information of resignation or dismissal of the persons related to the financial reports up to date of publication:

None.

E. Disclosure of Audit Fees

Unit: NT\$K

CPA Firm	Name of CPA		Period	Audit Fee	Non-Audit Fee	Total	Remarks
Ernst & Young	Hans Chen	Eric Kuo	2021	5,530	230	5,760	Note

Note: The non-audit fee service is the 2021 transfer pricing report preparation review service.

- 1. If there is any change in the appointed independent auditors with the company's annual auditing expenses decreased simultaneously, information regarding the amount, percentage and reasons for the decrease in auditing expenses shall be disclosed:** Not Applicable.
- 2. Any auditing expenses decreased by 10% in comparison to the previous year:** None.

F. Changes in Independent Auditors:

Hans Chen and Eric Kuo from Ernst & Young were the Company's appointed independent auditors. As requested by Ernst & Young for its internal job rotation purpose, Hans Chen and Angel Chiu became the Company's independent auditors since the first quarter of 2022.

G. Novatek's Chairman, President, CFO, or Director of accounting division working in the accounting firm of the appointed independent auditors or the related parties within the past year:

Not Applicable.

H. Changes in shareholding of Directors, Officers and major shareholders holding more than 10% shares for the preceding year to the date of the annual report printed.

1. Changes in shareholding of Directors, managers and major shareholders

Unit: Shares

Title	Name	2021		As of April 10, 2022	
		Shares increased (decreased)	Pledge shares increased (decreased)	Shares increased (decreased)	Pledge shares increased (decreased)
Chairman	Tai-Shung ,Ho	-	-	-	-
Vice chairman and President	Steve Wang	(640,000)	-	-	-
Institutional Director	UMC	-	-	-	-
Director	Max Wu	-	-	-	-
Director	J.H. Chang	-	-	-	-
Independent Director (Note 1)	Chen-en, Ko	-	-	-	-
Independent Director (Note 1)	Max Fang	-	-	-	-
Independent Director	Jack Tsai	-	-	-	-
Independent Director (Note 2)	Jack Liu	-	-	-	-
Independent Director (Note 2)	TingTing Hwang	-	-	-	-
Vice President	Tommy Chen	-	-	-	-
Vice President	Jeff Hsu	-	-	-	-
Vice President	J.D. Lai	-	-	-	-
Vice President	David Chen	-	-	-	-
Vice President	Jang-San, Chen	-	-	-	-
Vice President	Nagayasu	-	-	-	-
Vice President	Jason Huang	-	-	-	-
Assistant Vice President	Edward Tsai	-	-	-	-
Assistant Vice President	Jimmy Su	-	-	-	-
Assistant Vice President	Jason Hsieh	-	-	-	-
Assistant Vice President (Note 3)	Michael Cheng	-	-	-	-
Assistant Vice President (Note 3)	Daniel Ping	-	-	-	-
Finance Director	Sheng-Cheng, Chou	-	-	-	-

Note 1: With the term of office ended at the shareholders' meeting on July 20, 2021, the Shares of Chen-en, Ko and Max Fang were calculated to July 20, 2021.

Note 2: Jack Liu and TingTing Hwang were newly elected at the shareholders' meeting on July 20, 2021. The Shares were calculated from July 20, 2021.

Note 3: The shares of Michael Cheng and Daniel Ping were calculated from the on-board day, Apr. 1, 2021.

2. Information on stock transfer: None.

3. Information on pledge of share: None.

I. The relationship between any of the company's top ten shareholders:

April 10, 2022; Unit: shares

Top ten shareholders	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Top ten Shareholders Who are Related	
	Share	%	Share	%	Share	%	Share	Relationship
Fubon Life Insurance Co., Ltd	22,447,000	3.69						
Chairman: Richard M. Tsai	-	-	-	-	-	-	-	-
United Microelectronics Corp.	16,444,587	2.70	-	-	-	-	-	-
Chairman: Stan Hung	-	-	-	-	-	-	-	-
Government of Singapore	9,968,750	1.64	-	-	-	-	-	-
Tai-Shung ,Ho	8,515,133	1.40						
Cathay Life Insurance Co., Ltd	8,002,000	1.32						
Chairman: Tiao-Kuei Huang	-	-						
Yuanta/P-shares Taiwan Dividend Plus ETF	7,421,101	1.22	-	-	-	-	-	-
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	7,344,121	1.21	-	-	-	-	-	-
New Labor Pension Fund	6,901,000	1.13	-	-	-	-	-	-
Tommy Chen	6,195,069	1.02						
Vanguard Emerging Markets Stock Index Fund	5,800,560	0.95						

J. Total shareholding of long-term investments held by the company and Directors, Officers and Affiliates:

December 31, 2021; Unit: K shares, %

Investment	Novatek Investment		Held by the Company's directors, officers, or directly and indirectly controlled companies		Total	
	Shares	%	Shares	%	Shares	%
Novatek Japan Kabushiki-Ka isha	400	100.00	-	-	400	100.00
NTK International Limited	5,000,003	100.00	-	-	5,000,003	100.00
Novatek Investment Corp., Ltd.	58,000,000	100.00	-	-	58,000,000	100.00
Novatek International (BVI) Ltd.	52,000,000	100.00	-	-	52,000,000	100.00
Cheertek International Inc.	14,000,000	100.00	-	-	14,000,000	100.00

Note: The aforementioned are long-term investments accounted for using the equity method.

IV. Capital Raise

A. Capital and Shares

1. Source of Capital

Year & Month	Issuing Price	Authorized		Paid-in		Remarks		
		Shares (K)	Amount (\$K)	Shares (K)	Amount (\$K)	Source of Equity	Capital increase by assets other than cash	Other
03/2013	10	750,000	7,500,000	605,885	6,058,855	Exercise of stock options	-	Note 1
05/2013	10	750,000	7,500,000	606,632	6,066,319	Exercise of stock options	-	Note 2
08/2013	10	750,000	7,500,000	607,096	6,070,961	Exercise of stock options	-	Note 3
12/2013	10	750,000	7,500,000	608,160	6,081,597	Exercise of stock options	-	Note 4
03/2014	10	750,000	7,500,000	608,511	6,085,115	Exercise of stock options	-	Note 5

Note 1: The capitalization was approved by the Hsinchu Science Park Administration on Mar. 28, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020009111.

Note 2: The capitalization was approved by the Hsinchu Science Park Administration on May 8, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020013231.

Note 3: The capitalization was approved by the Hsinchu Science Park Administration on Aug. 8, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020023615.

Note 4: The capitalization was approved by the Hsinchu Science Park Administration on Nov. 12, 2013 with an approval letter of Yuan-Shang-Tzu No. 1020034423.

Note 5: The capitalization was approved by the Hsinchu Science Park Administration on Mar. 10, 2014 with an approval letter of Yuan-Shang-Tzu No. 1030006784.

April 10, 2022; Unit: Shares

Type of share	Authorized Capital			Remarks
	Outstanding Shares	Un-issued Shares	Total	
Common stock	608,511,469	141,488,531	750,000,000	-

Shelf Registration: Not Applicable.

2. Structure of Shareholder

April 10, 2022; Unit: Shares, %

Type	Government institution	Financial institution	Institutional investors	Individual investors	Foreign institution & investors	Total
Number of Shareholders	5	49	631	98,892	1,392	100,969
Shareholding	11,854,461	36,578,620	79,204,026	177,866,707	303,007,655	608,511,469
Shareholding Percentage	1.95	6.01	13.02	29.23	49.79	100.00

3. Distribution of Shareholding

April 10, 2022

Category	Number of Shareholders	Shareholding	Shareholding Percentage
1 to 999	53,709	6,637,937	1.09%
1,000 to 5,000	41,498	71,577,443	11.76%
5,001 to 10,000	2,819	21,221,451	3.49%
10,001 to 15,000	805	10,138,348	1.67%
15,001 to 20,000	475	8,670,045	1.43%
20,001 to 30,000	415	10,473,834	1.72%
30,001 to 40,000	218	7,738,528	1.27%
40,001 to 50,000	124	5,725,268	0.94%
50,001 to 100,000	329	23,350,662	3.84%
100,001 to 200,000	213	30,582,526	5.03%
200,001 to 400,000	133	37,196,574	6.11%
400,001 to 600,000	59	28,184,688	4.63%
600,001 to 800,000	38	26,420,041	4.34%
800,001 to 1,000,000	28	25,564,827	4.20%
1,000,001 and above	106	295,029,297	48.48%
Total	100,969	608,511,469	100.00%

Note: Novatek has not issued preferred stocks.

4. List of Major Shareholders

April 10, 2022; Unit: Shares

Shareholder	Shareholding	Shares	Percentage of Shareholding
Fubon Life Insurance Co., Ltd		22,447,000	3.69%
United Microelectronics Corp.		16,444,587	2.70%
Government of Singapore		9,968,750	1.64%
Tai-Shung, Ho		8,515,133	1.40%
Cathay Life Insurance Co., Ltd		8,002,000	1.32%
Yuanta/P-shares Taiwan Dividend Plus ETF		7,421,101	1.22%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds		7,344,121	1.21%
New Labor Pension Fund		6,901,000	1.13%
Tommy Chen		6,195,069	1.02%
Vanguard Emerging Markets Stock Index Fund		5,800,560	0.95%

5. Market price, net worth, earning, and dividends per common share and related information over the last two years

Item		Year	2020	2021	April 30, 2022 (Note 7)
Market price per share	Highest		375.00	656.00	546.00
	Lowest		143.00	355.00	350.50
	Average		243.56	485.11	450.55
Net worth per share (Note 1)	Before distribution		65.64	115.78	132.96
	After distribution		50.04	-	-
Earnings per share	Weighted average shares		608,511,469	608,511,469	608,511,469
	Earnings per share (Note 2)		19.42	63.87	18.30
Dividends per share	Cash dividends (Note 3)		10.50	15.60	-
	Stock dividends	From retained earnings	-	-	-
		From capital reserve	-	-	-
	Accumulated unappropriated dividends		-	-	-
Return on investment	Price/earnings ratio (Note 4)		12.54	7.60	-
	Price/dividend ratio (Note 5)		23.20	31.10	-
	Cash dividends yield (Note 6)		4.31%	3.22%	-

Note 1: The calculation was based on outstanding shares for the end of the year and the distribution approved by shareholders' meeting in 2021.

Note 2: None of retroactive adjustment needed.

Note 3: Distribution of profit generated from the preceding year.

Note 4: Price / Earnings Ratio = Average Market Price / Earnings Per Share.

Note 5: Price / Dividend Ratio = Average Market Price / Cash Dividends Per Share.

Note 6: Cash Dividend Yield = Cash Dividends Per share / Average Market Price.

Note 7: Net worth per share and Earnings per share were 2022Q1CPA reviewed data.

6. Dividend policy and status of execution

a. Dividend policy

In accordance with the Articles of Incorporation, the Board of Directors is entitled to propose the profit distribution plan to get approval of shareholders' meeting depending on capital, financial structure, operating status and profit consideration. The dividend is usually distributed by way of both cash dividend and stock dividend to achieve a balance of dividend policy. With no other special circumstances, the total dividends are distributed not less than 50% of the current year's after-tax earnings while cash dividends are distributed not less than 50% of total dividends.

The Company's dividend policy regulated in the Articles of Incorporation is as follows:

The current year's earning, if any, shall be distributed in the following order:

- (1) Payment of taxes and duties;
- (2) Redemption of loss for previous years;
- (3) 10% legal reserve; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- (4) Appropriation or reversal for special surplus reserves in accordance with law;
- (5) The remaining balance used for shareholder bonuses which are distributed after the approval of Shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting. Dividends distributed to shareholders, if any, could be paid in the form of cash or share dividends. At least 50% of the dividends must be paid in the form of cash.

According to the competent authority, for the debit to Shareholders' Equity including long-term stock investment unrealized loss in valuation and cumulative conversion adjustment, an equivalent amount of special surplus reserves should be appropriated within the legal threshold. Once the debit to Shareholders' Equity is reversed, an amount equivalent to the reverse is used to make up loss or distribute earnings.

b. Proposal for stock dividend allocation at shareholders' meeting

Considering share capital, operation status, financial structure, and future annual profitability, in this shareholders' meeting the Company planned to allot NTD 31,338,340,654 and cash dividend of NTD 51.5 per share. It will be carried out on a base day determined by the Chairman after the resolution by the shareholders' meeting.

c. Expected material changes of dividend policy

With no other special circumstances, the Company's dividend policy is regulated as above. None of material exchanges is expected.

7. Impact to business performance and EPS resulting from stock dividend distribution:

None.

8. Employee compensation and Remuneration to Directors

a. Profit distribution set aside as employee compensation and remuneration to directors

The distribution policy of employee compensation and directors' remuneration regulated in the Company's Articles of Incorporation is as follows:

Article 23-1: No more than 0.4% of profit of the current year shall be distributed as remuneration to directors and paid in cash.

Article 23-2: No more than 0.1% of profit of the current year shall be distributed as employee's compensation after deducting and setting aside an amount equal to the cumulative losses (if any). The compensation to employees may be made in the form of shares or in cash.

b. Accounting for Employee Compensation and Remuneration to Directors

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2021 to be NT\$486,165,248 and NT\$12,000,000, respectively, recognized as salary expenses in the current period. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year. If the board of directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of resolution.

According to the Article 235-1 of the Company Act, the profit of current year refers to before-tax profit before deducting distributed amount of employee compensation.

No differences exist between the recognized amount and the actual cash paid distribution of the employee bonuses and remuneration to directors approved by the Board of directors on Feb. 25, 2022.

c. Employee compensation and Remuneration to Directors resolved by the Board of Directors

- (1) Total NT\$486,165,248 for employee compensation paid in cash; NT\$12,000,000 for directors' remuneration paid in cash.
- (2) None paid in stock.

d. 2020 Profit distribution set aside as Employee Compensation and Remuneration to Directors

2020 profit distribution has been resolved by the Board of directors on Feb. 25, 2021. Actual allocation was NT\$147,040,793 for employee compensation and NT\$12,000,000 for directors' remuneration, and has been fully disbursed in 2020. No differences exist between the recognized amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended December 31, 2020.

9. Status of treasury stocks: None.

B. Status of Corporate Bonds: None.

C. Status of Preferred Stocks: None.

D. Status of GDR/ADR: None.

E. Status of Employee Stock Option Plan (ESOP): None.

F. Status of Employee Restricted Stock: None.

G. Status of Mergers or Acquisitions, or as assignee of new shares issued by other companies:

1. Status of completed mergers or acquisitions: None.

2. Status of ongoing mergers or acquisitions: None.

H. Status of Implementation of Fund Utilization Plan

1. Content of plan

Unaccomplished solicitation of funds through stock offering or private placement of stock or plans accomplished in the last three years but yielding no desired results: None.

2. Status of implementation: Not Applicable.

V. Operational Highlights

A. Business Activities

1. Business Scope

a. Major activities

— Novatek

- (1) Electronic parts manufacturing
- (2) Information software services
- (3) International trade
 - a. Research, development, design, manufacturing and sales of the following products:
 1. Speech-control ICs & system solution
 2. Communication control ICs & system solution
 3. Embedded microprocessors & system solution
 4. Digital signal processors & solution
 5. PC peripheral ICs & solution
 6. LCD control Driver ICs & solution
 7. CMOS Image Sensor and Image Signal Processor
 - b. Development, testing, maintenance and technical support of related application software and hardware and its solutions to aforementioned products.
 - c. Import and export of aforementioned products.

— Affiliated Companies

- a. Design, testing, sales and consulting of semiconductor application software
- b. Investment activities

b. Sales breakdown

Category	Display Driver IC	SoC	Other
Revenue Mix (%)	67.44%	32.22%	0.34%

c. Major products and services

Category	Description
Display Driver IC	<ol style="list-style-type: none"> a. Large size LCD panel and AMOLED panel driver ICs b. Mobile LCD TDDI and mobile AMOLED driver ICs c. Automobile driver ICs d. Wearable driver ICs
SoC	<ol style="list-style-type: none"> a. LCD panel timing controller b. Digital TV controller c. LCD monitor controller d. MEMC controller e. CMOS image sensor for Dash cam and Rear-view f. Surveillance controller g. CMOS image sensor for PC camera h. Power Management Controller

d. New product development plans

- (1) Mini LED driver ICs
- (2) 8K TV controller
- (3) Automobile TDDI
- (4) IVS Intelligent video single chips
- (5) LCD panel Under-Display Fingerprint
- (6) LCD Under-Display Fingerprint/ Touch integrated Driver ICs (FTDI)
- (7) Mobile AMOLED TDDI
- (8) Wearable AMOLED driver ICs
- (9) AMOLED under-Display Fingerprint

2. Industry overview

a. Industry trends

According to the November 2021 report of the World Semiconductor Trade Statistics (WSTS), the global semiconductor market in 2021 was estimated to reach US\$553 billion, with an annual growth rate of 25.6%. In terms of products, except for Opto (+7%), all others grew by double digits, especially the growth of Memory (+34.6%), Analog (+30.9%) and Logic (+27.3%). As for the growth by region, Asia Pacific had the highest growth (+26.7%), followed by Europe (+25.6%) and then the Americas (+24.6%). It is estimated that the global semiconductor annual growth rate in 2022 is 8.8%, reaching US\$ 601 billion, of which Sensor and Logic have the higher growth.

In 2021, under the continuous impact of the COVID-19 pandemic, working from home and online learning have become a global trend, making PC shipments continue to show double-digit growth. The shipments of smartphone rebounded slightly due to the increase in 5G penetration and the low base period in 2020. The automotive industry also showed a recovery under the gradual easing of the supply chain. With the price of TV panel reaching its limit and the slowing down of TV demand in the second half of the year, the shipments of TV in 2021 declined slightly. In 2022, as the pandemic gradually eases, global smartphone shipments will continue to rebound, driven by the rising demand of 5G and the continuous relief in the supply chain of the automotive industry. With the increasing spending of enterprises to compensate for the slowdown in the consumer market, the total shipments of PC will be maintained. The shipments of TV are expected to be stabilized when the price of TV panel falls and sports events arrive. However, the impact of trade disputes and inventory digestion between regions is still worthy of continuous attention.

According to the research reports issued by OMDIA and Gartner, people can be prudently optimistic about the global semiconductor market in 2022. In the Investor Conference held in January 2022, TSMC estimated that the annual growth rate of global semiconductor market (excluding memory) in 2022 is 8% (based on US dollars), while the growth rate of the total value of foundry market is 20%. In the Investor Conference held in January 2022,

UMC is also optimistic about the growth of the global semiconductor and foundry market in 2022.

Taiwan is one of major countries in the global semiconductor industry. According to the statistics from the Taiwan Semiconductor Industry Association (TSIA) and the Industrial Technology Research Institute (ITRI), Taiwan's overall semiconductor output value was estimated to grow by 24.7% in 2021, exceeding NT\$ 4.0 trillion, of which IC design grew by 40.7%, while the growth of foundry as well as packaging and testing was around 20%. It is estimated that Taiwan's overall semiconductor output value will continue to grow by 12.5% in 2022, reaching NT\$ 4.5 trillion.

Observing the development trend of the semiconductor industry in 2022, two major directions can be noted under the current geopolitical situation. (1) In the presence of US sanctions and equipment control, how does China continue to develop its local semiconductor industry supply chain. (2) Regions around the world regard semiconductor manufacturing as a strategic advantage; for this reason, TSMC has launched its global plan, while Intel and Samsung will expand by building new fabs in the United States. In 2021, China's strategic plan for the local manufacturing industries, such as IC design, foundry, IC packaging and testing, etc., was more comprehensive than in the past. Furthermore, it is also necessary to observe the movement of Huawei, HiSilicon, and even SMIC after being sanctioned by the United States. In terms of the memory industry, China has started mass-producing NAND; however, the schedule for producing DRAM has been delayed. With the support of government funds, enterprises in China continue to reach the world through collaboration such as M&A (mergers and acquisitions), and equity investment. However, under the protectionism of the US government, M&A in the United States have been halted.

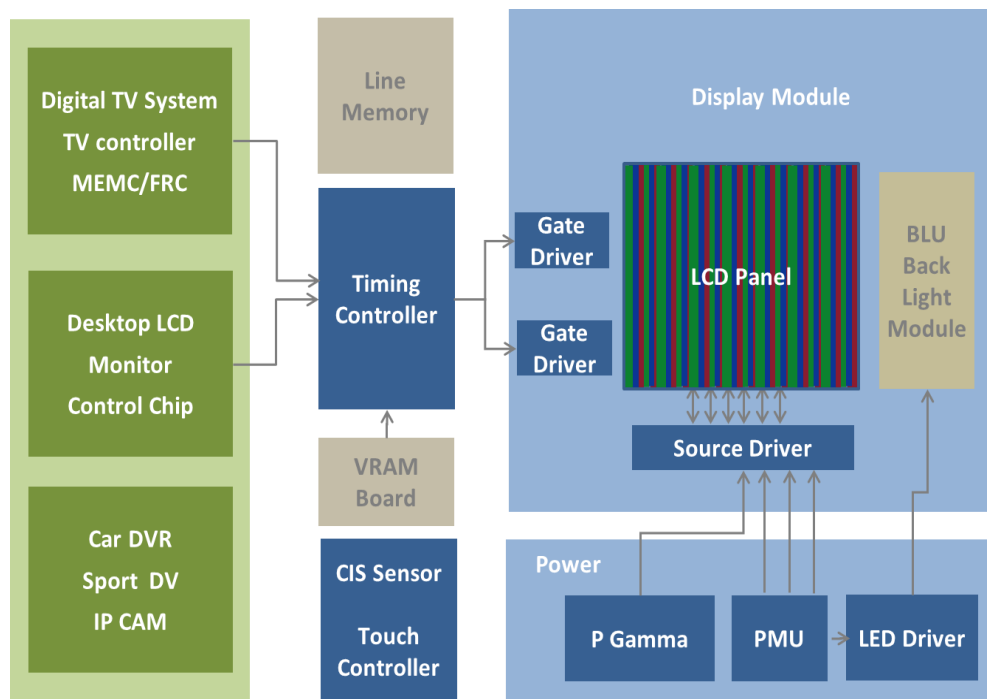
As the global semiconductor market becomes more and more mature, no matter it is to deploy for the next generation application or to respond to the industry trend as reflected in the motto "Winners take all", the main events of global semiconductor industry in 2022 shall still be of acquisition and merge. For Taiwanese companies to maintain their leadership in the global industry when facing the tide of acquisition and merge, Taiwan's Institute for Information Industry suggested that the key is to focus on how to select an appropriate partner, to adopt flexible competing strategies, and to deploy for emerging applications and markets.

b. Infrastructure of the semiconductor industry

Novatek, as an IC fabless, is responsible of circuit design and layout of integrated circuit. After the circuit design has been completed, it is released to foundry for manufacturing of the wafer, and then sent to backend service factory for packaging and testing. The affiliated companies of the Group, Novatek's wholly-owned subsidiaries are responsible for development, testing, maintenance, technical support and consulting of semiconductor application software.

The Group focuses on display technologies and related applications. There are two major product lines: display driver IC for TFT LCD displays including source driver ICs, power management ICs, timing controller ICs, TDDI ICs, and System on Chips (SoC), which includes digital TV controllers, monitor controllers and digital image controllers.

Product Applications:



c. Product Trends

The Group's product line can be categorized as Display Driver ICs and System on Chips (SoC).

The new product development of display driver ICs needs to cope with the panel technologies, as well as to meet various requirements of screen sizes, resolutions and picture quality at different for diverse applications. Large screen resolution has been continuously increasing in recent years. In 2021, the penetration rate of 4K (2160 x 3840) Ultra High Definition (UHD) TV has reached over 60%, and brands have introduced 8K TV in succession. With higher demand for increased picture quality in large screen TVs, the demand of display driver IC, a key component for display quality, has also increased. In terms of design, more efforts are paid to enhancement of higher driving capability with high-speed transmission interfaces, temperature reduction technologies, more IP & chip integration, lower power consumption designs, premium display quality and better picture quality. More attention is also dedicated to reducing the numbers of required parts and materials on the panel side to further help our clients secure overall quality, while at the same time reducing overall costs. The total number of driver ICs in UHD TV panels could be several times more than those in Full HD panels. The Group strives to assist clients when considering system integration and costs to enhance its anti-ESD performance and achieve

lower EMI requirements, as well as increasing the yield of mass production and overall reliability. These are all the core of future development in product design and related technologies. In addition, the application of OLED technology to mobile phone panel provides the advantages of more vivid colors, lighter and thinner display. Samsung of Korea has been mass-producing OLED panels for a long time, while LG of Korea and BOE of China have started their mass production of OLED panels in 2018. In 2019, both companies continued to improve their yields and have received orders from top mobile phone companies. Moreover, Visionox, Tianma, and TCL of China also started the mass production of OLED panel. Due to limited funds, Japanese companies are focusing on the printing technology, while Taiwanese companies are optimistic about the application of Mini and Micro LEDs in backlight panels and large-size outdoor displays.

The technologies behind System on Chip (SoC) products is relatively more sophisticated, and require longer R&D cycles, more R&D investment and greater R&D manpower. In recent years, the industry has continued to consolidate, with large players solidifying their positions and enjoying ever more obvious competitive advantages. The Group has invested in the development of SoC products for a long time now, and has secured comprehensive R&D resources, in-house IPs and system development experience and expertise. SoC products will continue to develop towards high price competitiveness, high added value, and high integration. With end product functions trending towards higher end, including applications for UHD TVs, desktop monitors, smart TV systems, large-sized outdoor displays, all of these in turn drive demand for high-end SoC. As for the continuing trend in SoC towards higher integration, we will continue to apply advanced node of process for wafer manufacturing, create more powerful functions, deploy related IPs, establish self-owned IPs and comprehensive SoC design databases, and establish internal software & hardware platform. We will also continue strengthening product design and integration ability, upgrade our mass production experience and quality, and increase scale of economy and cost control. These are the Group's core focus for SoC-related technologies and long-term market development.

d. Competition

According to the latest report on the global competitive landscape published from the world-renowned OMDIA, 1-3Q 2021 Display Driver ICs market tracker, the top ten display driver suppliers worldwide accounted for 92.2% (2020 Q1-Q3: 91.0%) of market share, with the top suppliers always maintaining their positions. At the end of 2019, Synaptics announced plans to sell its LCD TDDI mobile phone team in Asia to a Chinese private equity firm for US\$ 120 million, and Will Semiconductor eventually took over. In July 2020, MediaTek announced its plan to sell Ilitek, which was merged in 2015, to private equity funds for NT\$ 4.08 billion. The entire landscape of the global display driver industry was once again reconfigured. With the fast growth of new touch screen technologies, there were new rules

to the game, and each company had to draw up new technological roadmap for the new business.

The business of display drivers is found in large volume with a wide range of diverse products, while featuring relatively mature technologies. As for the IC fabless with their comparatively smaller scale of economy, the threshold for profit is gradually getting higher and higher. However, with the comprehensive support of Chinese government policies promoting self-sufficiency in the Chinese panel industry, a number of new IC companies have sprung up in the country to actively invest in the development of display drivers. The Chinese government has announced aggressive policies to support its domestic IC fabless industry, and has invested a huge amount of funds to supporting related industries. Combined with the continual increase of local chip purchasing by China's panel factories, as well as the support from Chinese TV and mobile phone name brands, the competition posed by Chinese display drivers should not be overlooked. According to Taiwan's semiconductor industry supply chain manufacturers, Chinese panel driver chip makers have been gradually penetrating the markets of smart phones and large-sized LCD panel.

Facing ever-increasing competition, chip suppliers must continue to expand their product lines to sustain stable long-term revenue growth. At the same time, this can also minimize seasonal fluctuations in revenue that results from single product line or selected few applications. In addition to broadening customer basis and expanding product line and reducing the risk of excessive focusing on limited few clients, it is even more important for chip suppliers to be able to secure wafer supply and to optimize the management of the supply chain, so as to further reduce operating expenses. These internal and external challenges will again reinforce the competitive ability of IC fabless company.

Compared to display drivers, competition in the field of SoC products is more rigorous. This is mainly due to the fact that SoC products are more complex, with longer R&D cycles, demand intensive investment of R&D personnel, utilize costlier advanced process manufacturing techniques, and require higher R&D investments. As a result, the factors of technology, personnel and funding have created a higher entry barrier and a high threshold of turning a profit. Following the successful completion of the R&D stage, and a smooth initial mass production stage, variables and difficulties actually begin to increase due to system integration and platforms targeting for high level of product differentiation and various models. This in turn lengthens the time from chip qualification at the client and phase into mass production. Therefore, the R&D of SoC products truly examines the long-term competitive ability of chip suppliers; for smaller IC design houses, operating funds, economic scale, resources and manpower are all serious challenges.

3. Research and Development

a. Summary of R&D expenses for 2020, 2021 and Q1 2022

Unit: NT\$K

Item / Year	2020 Consolidated	2021 Consolidated	Q1 2022 Consolidated
R&D expenses (A)	10,994,303	16,600,815	4,447,017
Net sales (B)	79,955,520	135,365,510	36,511,685
(A) / (B)	13.75%	12.26%	12.18%

b. Successful R&D technologies and products

1	Introduced COF type mini LED NB backlight control IC.
2	Introduced 10mW high integrated 60 scan and 69 channel LED PID common cathode driver IC.
3	Introduced automobile 1/2-chip cascade embedded OSD TDDI product for in-cell touch automotive display solution.
4	Introduced pOLED COF driver for true black and high contrast ratio automotive curved OLED display.
5	Introduced automobile 1/2/3-chip cascade TDDI product for large-size in-cell touch automotive display solution.
6	Introduced VR mini LED backlight driver IC.
7	Introduced OLED Mobile LTPO IC.
8	Mass production 5120 x 1440 240Hz with 2000 zones local dimming high end gaming monitor controller.
9	Introduced monitor controller with TTS (Text to Speech) function.
10	Introduced mobile ASIC solution. Support MEMC for small object issue from bullet screen, AISR for enhancing picture quality, 3DNR for adaptive night vision. To provide best vision experience with lower power consumption for Mobile device.
11	Introduced Novatek's new generation of low cost UHD Smart TV SoC solution. Support AV1 UHD decoder, HDMI 2.1 functionality. Fulfill TV system requirement including Android TV, Netflix, YouTube, Amazon PV, etc. To provide cost competitive product for TV makers.
12	Mass production AMOLED DDIC which carries out of camera-under-display technology and realized full-screen display in smartphones.
13	Introduced LTPS LCD DDIC features local dimming and blinking-backlight technology. Increase LCD's contrast ratio and reduce motion blur for AR/VR applications.
14	Launched AMOLED TDDI for smartphones which integrates display driver IC and touch controller in a single chip.
15	Launched AMOLED DDIC fully supports LTPO technology and dynamic frame rate, which can adaptively lower the refresh rate based on display content to reduce power consumption.
16	Introduced HD TDDI with a fan-type bump design, which provide entry-level smartphones an extended active area and 120Hz refresh rate.
17	Mass production Novatek's new generation 8 bits PHI 1446ch low power COG NB source driver IC.
18	Introduced Novatek's new generation 8 bits CSPI 966ch COF source driver IC with output data delay control for TV market.

19	Introduced Novatek's new generation 6 bits PHI 1446ch COF source driver IC for NB market.
20	Introduced Novatek's new 8 bits CEDS 966ch 3.52G COF TV source driver IC supporting 8K4K, 1D1G panel.
21	Ultra low power and low cost solution for FHD60/120/144Hz & QHD60Hz eDP1.4 solution, highly compatible to all GPU/GFX and brand power saving features for power saving, providing customer best solution for mid-end NB products.
22	Next generation automotive TCON solution, embedded with HDCP decryption, in-cell touch & local dimming feature, driving the market for higher level large size automotive display.
23	Introduced a professional surveillance SoC equipped with a self-developed deep learning accelerator (DLA), which is targeted for multi-channel DVR/NVR/HVR applications. As an edge AI platform, various general-purpose detection networks are supported, such as MobileNET/SSD/YOLO V3, etc. Builds in ARM Cortex A53 quad-core CPU, H.265/H.264 video encoding/decoding engine, video/graphic processing engine, 4K UHD display, RGMII ethernet, USB3.0 and USB2.0 ports, PCIe Gen3, SATA3.0 ports. By these features, it can provide customers high end solution with high-video-quality and high-performance, which is suitable for advanced applications including smart surveillance and security.
24	Novatek launched a highly-integrated SoC with high image quality, low bitrate, low power consumption, targets on 5 Mega pixels Edge-Computing IP camera application. It supports a single HDR sensor input and a deep learning hardware accelerator (DLA) with a computing power of 0.7 Tops. The integration of multiple hardware technologies enables deep learning to be implemented in various video processing applications. Including smart surveillance of the security industry, Intelligent analysis of driving images and safety analysis of home care.

4. Business plan

a. Short-term development plan

(1) Sales and marketing strategy

- i. To leverage its solid market resources and existing customer base to enlarge and broaden its customer base, especially in Japan and Korea market.
- ii. Continuous efforts to assure the long-term partnership with major international panel manufactures and to secure the leadership of global LCD driver IC supply.
- iii. Commitment to service and support to maximize customers' long-term profitability.

(2) Manufacturing strategy

- i. To maintain a tight, long-term partnership with suppliers to secure long-term support and stabilization of capacity.
- ii. To continue developing new domestic and foreign wafer factories and contracts to increase wafer supply sources and provide clients with more choices in production location.
- iii. Establish information systems connected to downstream packaging and testing plants, in order to better control production progress and volume.
- iv. To apply advanced fabrication technology & processes, increasing the allotment of

wafers larger than 12” size and advance nodes.

(3) Product development

- i. To continue developing market potential for flat-panel display driver, video controller, A/V controller and PC peripheral controller ICs with other leading brands in the industry.
- ii. To maintain the development of balanced product lines in order to lower the risk of downward trends of individual product lines affecting operations or net income.

(4) Operating strategy

- i. To maintain high market share by actively expanding product lines and leveraging technological, service and cost advantages.
- ii. Actively adopt advanced processes to develop new product opportunities and develop advanced technological products.
- iii. Actively establish overseas locations and market channels.

(5) Financial strategy

- i. Adequately lever a variety of capital market tools to obtain low-cost funds for the operational development of the Group.
- ii. Carefully use funds to lower currency exchange risk and create reasonable financial profit.

b. Long-term development plan

(1) Sales and marketing strategy

- i. Establish complete sales locations and strengthening analysis of market changes (including consumer, production and product trends) in conjunction with international development strategies in order improve brand recognition and market share.
- ii. Actively develop professional sales talent to improve international marketing ability and obtain marketing cooperation with large global manufacturers.
- iii. Continue strengthening the development of marketing specialists with globally-known manufacturers as our main target customers. Establish global networks and sales points through the establishment of subsidiaries in order to become a global brand.

(2) Manufacturing strategy

- i. Provide customers with fast, accurate and complete production environments through close, stable cooperation with outsourced partners.
- ii. Continue to utilize advanced manufacturing techniques for wafers and backend packaging in order to lower costs and establish material supply advantages.
- iii. Continue our excellent cooperative relationships with new sub-con wafer manufacturers and create plans to explore feasibility for future investment or cooperation. This will expand production base and lower negative effects from the seasonal highs and lows.
- iv. Make testing equipment well-planned for cost reduction and capacity expansion to enhance competitiveness.

(3) Product strategy

- i. Pursue leadership in technology by continuing to invest in the R&D of next-generation products.
- ii. Develop gradation in current product lines, giving each line the ability to maintain the top position in its field.
- iii. Increase the scale of IC components, increase the development ratio of mixed-signal ICs, and realize system-on-a-chip, in order to continue increasing product competitiveness and permanently maintain innovative ability, and thus maintain a high level of growth for the Group.

(4) Operating strategy

Coordination and interaction among the marketing, production and product strategies will greatly increase overall operational efficiency, while at the same time quickly expanding operating scale. This will transform the Company into an IC design provider well-known both within Taiwan and around the world.

(5) Financial strategy

- i. Adequately leverage a variety of capital market tools to obtain low-cost funds for the operational development of the Company.
- ii. Create financial information value.

B. Industry Overview

1. Market Analysis

a. Sales by region of major products and services

Unit: NT\$K

Region \ Year	2020		2021	
	Amount	%	Amount	%
Taiwan	33,015,712	41.29	48,535,725	35.86
Asia/Pacific	46,160,370	57.73	86,357,980	63.80
Others	1,005,393	1.26	588,170	0.43
Sales returns and discounts	(225,955)	(0.28)	(116,365)	(0.09)
Net sales	79,955,520	100.00	135,365,510	100.00

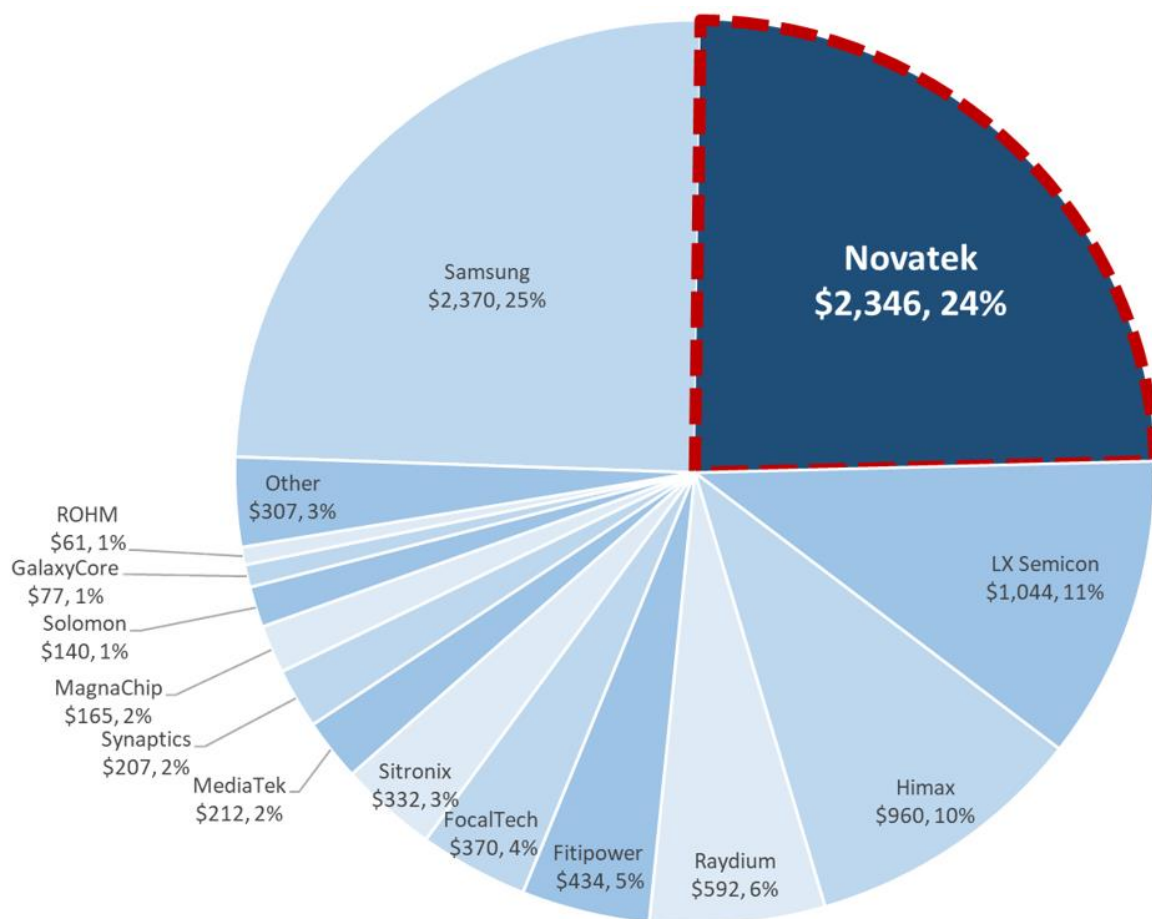
b. Competition and market share

The Group's display driver product line accounted for approximately 68% of the Group's consolidated revenue in 2021.

According to the 1-3Q 2021 Display Driver IC Market Tracker from the internationally renowned research institute OMDIA, the revenue from the Group's complete series of display drivers in 1-3Q 2021 totaled US\$2.35 billion (annual growth of 80%), which accounted for 24.4% (1-3Q 2020: 22.2%) of the global market, ranking as the second-largest panel driver IC supplier in the world, just behind Samsung. The Group's main competitors are those display driver IC design houses invested by panel manufacturers, panel manufacturers with in-house design departments, and the independent IC fabless. Therefore,

competitors include Samsung, LX Smei, and MagnaChip of Korea; Raydium, Himax, Focaltech, Mediatek, and Sitronix of Taiwan; ChipOne and Will Semi of China.

Dollar and market shares, 1-3Q 2021



The Group's SoC product line focuses on digital image and video processing technologies and applications for digital TVs, monitors, automotive video cameras, IP Cam and sports DV. Of these, the Group is among the top three suppliers of digital TV controllers, Timing controllers and desktop monitor controller-scaler worldwide, enjoying stable revenue and establishing close, long-term cooperative relationships with clients. Our timing controllers (TCON) are generally developed in line with the development of new products from major global panel manufacturers. The Group is a major supplier worldwide in terms of related technologies, mass production scale and revenue, and has established long-term partnerships with major panel manufacturers around the world, resulting in stable revenue and market share.

After the cooperation between digital TV controller chip and international first-tier TV brand manufacturer successfully led to mass production in 2014, the volume of new products for existing customers continues to enter the market, and relevant technology and commercialization capabilities have been certified by international first-tier TV brand manufacturer. In 2021, the revenue of SoC products has increased by over 60%, reaching nearly NT\$ 44 billion, continuing to hit a record high, and accounting for 32% of the Group's

total consolidated revenue in 2021. Among them, image control IC, power management IC and timing control IC have all grown by more than 80%.

According to OMDIA, the Group's revenue of 2021 was ranked in top 6 of global IC fabless company survey and top 2 in Taiwan survey. The Group possesses outstanding R&D talents, self-owned technologies and complete supply chain management ability and achieved decent global market share in the fields of LCD monitor drivers, desktop monitor controllers, timing controllers and TV controllers, recognized as top tier suppliers. Facing the fast changes and fierce competition within this industry, the Group will continue to focus on its display-centered technologies, increase core competitive abilities, and provide clients with comprehensive total solutions.

Global Top 15 Fabless Chip Company ranked by 2021 Revenue

Revenue in Millions USD

2021 Ranking	Company	2021 Revenue(\$)	2020 Revenue(\$)	YoY
1	Qualcomm	29,333	19,407	51.1%
2	Broadcom Limited	21,041	18,040	16.6%
3	<u>nVidia</u>	20,566	13,035	57.8%
4	<u>MediaTek</u>	17,464	11,142	56.7%
5	Advanced Micro Devices (AMD)	16,154	9,635	67.7%
6	<u>Novatek</u>	4,849	2,729	77.7%
7	Marvell Technology Group	4,468	2,944	51.8%
8	<u>Realtek</u> Semiconductor	3,790	2,694	40.7%
9	Xilinx	3,677	3,053	20.4%
10	<u>Omnivision</u>	2,944	2,266	29.9%
11	<u>Unisoc</u>	1,814	951	90.7%
12	<u>LX Semicon</u>	1,652	993	66.4%
13	Cirrus Logic	1,584	1,355	16.9%
14	<u>Himax</u> Technologies Inc.	1,488	888	67.6%
15	<u>HiSilicon</u> Technologies	1,448	8,360	-82.7%

c. Market Supply/Demand and Growth in the Future:

The Group focuses on the R&D of display driver and SoC technologies, which is aligned with the global display and CE supply and demand, as well as general economic cycles. The rise and fall of global end-user demand of consumer electronics products drives the growth of our operations. Companies in the technology industry and research institutes all expect a continuous growth of electronics products owing to applications such as artificial intelligence (AI), smart homes (such as voice assistants), self-driving, smart cities, virtual reality (VR) and augmented reality (AR), health sensors, robots, 5G, and advanced display technology. Within the global consumer electronics end-user demand, as well as within the global LCD industry, the various applications, new technologies and competition may all rise and fall independently, yet all influence the growth of output and revenue of the Group different product lines. The impact of respective product lines is stated as follows:

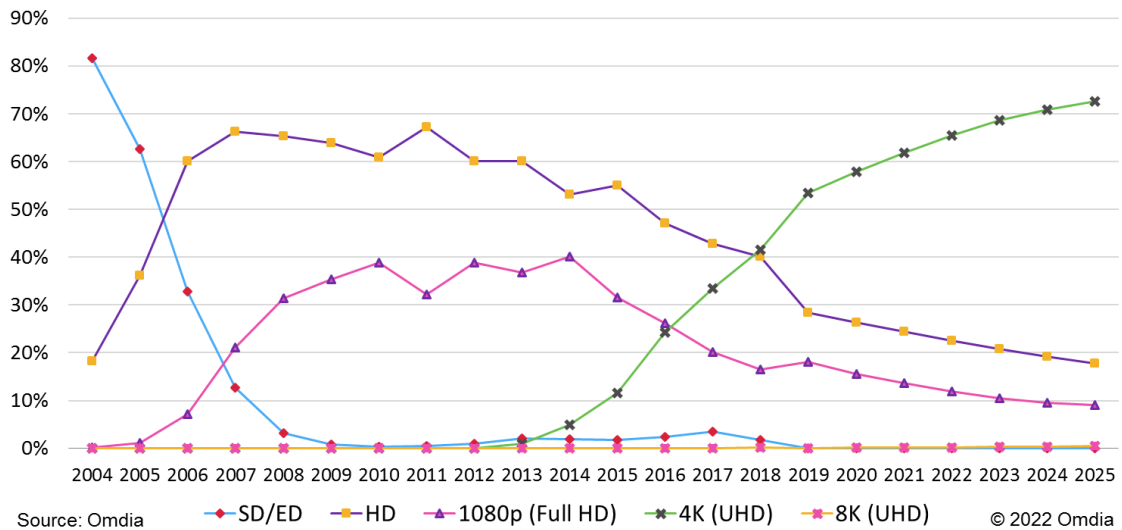
- (1) There has been moderate decline of shipment of LCD TV with increased brand

centralization. The OMDIA report pointed out that global shipments of LCD flat-panel TV in 2021 were estimated to be 210 million units, with a decline of approximately 5% compared with 2020. It is mainly due to the impact of the sharp increase in panel prices and the decline in buying interest. OMDIA expects shipments to grow slightly in 2022 due to relatively affordable TV prices and increasing sports events.

Ranking 2021	Brand	2021		2020		YoY
		thousand units	Unit share	thousand units	Unit share	Unit growth
1	Samsung	42,233	19.8%	49,277	21.9%	-14.3%
2	LGE	27,332	12.8%	26,022	11.5%	5.0%
3	TCL	24,575	11.5%	24,224	10.7%	1.4%
4	Hisense	21,137	9.9%	20,003	8.9%	5.7%
5	Xiaomi	12,952	6.1%	12,546	5.6%	3.2%
6	Sony	8,737	4.1%	8,758	3.9%	-0.2%
7	Skyworth	6,740	3.2%	8,711	3.9%	-22.6%
8	Vizio	6,695	3.1%	7,463	3.3%	-10.3%
9	TPV	6,151	2.9%	7,741	3.4%	-20.5%
10	Sharp	5,206	2.4%	5,824	2.6%	-10.6%
11	Haier	4,360	2.0%	5,347	2.4%	-18.5%
12	Panasonic	3,430	1.6%	3,982	1.8%	-13.9%
13	Changhong	3,359	1.6%	3,442	1.5%	-2.4%
14	Konka	2,934	1.4%	3,612	1.6%	-18.8%
15	Funai	1,760	0.8%	2,302	1.0%	-23.5%
	Others	35,936	16.8%	36,216	16.1%	-0.8%
Total		213,537	100.0%	225,470	100.0%	-5.3%

- (2) In 2021, the penetration rate of ultra-high-definition TV continues to grow: Replacements are moving toward larger sized televisions, which opens up production capacity for new generation large-size panels and accelerates the demand for ultra-high definition (UHD; Ultra High Definition; 4K2K) television. According to the OMDIA report, annual shipment for UHD 4K TV has increased by approximately 10% in 2021, exceeding 130 million units and accounting for about 60% of annual sales. OMDIA estimated that in 2022 the shipment growth of 4K TV will be around 10% while challenging the total shipment of 140 million units, which can account for over 60% of total annual sales revenue. Under the active promotion of both TV brand and panel industries, UHD 4K TV prices are expected to gradually lower and more friendly. As the price goes down and there is more and more high-quality content sources become available, UHD 4K TV penetration can be expected to grow for next few years. Supported by the 7-year-cycle replacement demand, LCD flat-screen TV market has steadily grown for recent years. The average size of LCD flat-screen TVs shipped in 2021 increased by 1.3 inches to 47.3 inches, and the size is expected increase to 48.7 inches in 2023.

Global TV unit share forecast by resolution format - latest 3Q21 forecast



The Group has been engaged in the large-size TV panel business for many years, and is currently the largest supplier of display drivers for large displays in the world. We look forward to benefitting from the trends of increasing TV sizes and increasing resolution. The total numbers of display driver needed per TV panel will grow multiple times due to increasing resolutions, with revenue expected to follow.

The Group's TV SoC has already successfully been accepted and certified by international top-tier TV name brands, and has smoothly ramped up for big volume mass production. With the global demand for TV replacement with migration year by year, as well as new applications for high-end smart TVs and UHD-4K TVs, the Group has successively developed numerous new high-end products, and actively expanded its current customers to secure its future growth. The future growth can be expected. In 2021 the latest 8K products have been launched for several leading brands.

- (3) The slowdown in smartphone growth: According to IDC's research report, the world continues to be affected by the pandemic. However, under the low base in 2020 (shipment dropped by 7%), global smartphone shipments rebounded slightly by 6% in 2021, reaching 1.35 billion units, of which China shipments rebounded by 1% in 2021 (a decline of 11% in 2020). The slowdown in global smartphone growth is mainly due to the saturation of the smartphone market in mature markets, limited innovation, and high unit prices, as well as the continued impact of the pandemic in emerging countries.

The market predicts that mobile phone shipments in 2022 can resume its growth momentum due to the reduced impact of the COVID-19 epidemic and the increase in 5G penetration. The growth momentum of global smart phones will rely on the growths of demands in emerging markets including South Asia, South America, and East Europe. The basic cell phone replacement demands in emerging markets will support the growth of global entry-level smart phones, while the 5G upgrade will boost the growth of high-end smart phones. Cell phones brands and panel makers have aggressively promoted the

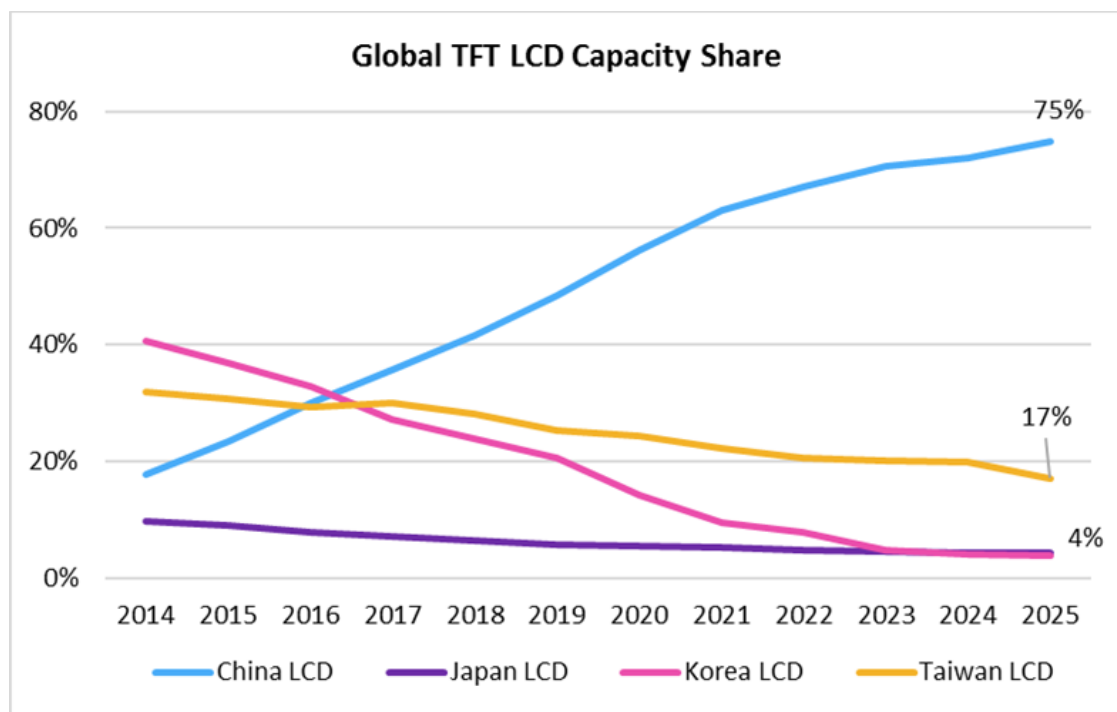
hardware upgrade and AI of smart phones so that the development of cell phone screen is heading towards high screen ratio, large size, and high resolution, thus driving the demand for high-end smart phone panel driver chips with high efficiency and low power consumption.

In terms of brand market share in 2021, Samsung still maintained its No. 1 position in the world. Benefiting from the iPhone 13 series products launched at the end of the year, Apple continues to hold its No. 2 position. Among the Chinese brands, Xiaomi officially surpassed Huawei to rank third, while OPPO and Vivo swapped their positions again to rank fourth and fifth, respectively. As for Huawei, it has fallen sharply due to the impact of US sanctions. Honor, a brand split from Huawei, has established itself among the top five brands in China; however, its overseas market is still being developed.

The Group is a technology leader in the high-end display driver for small- and medium-sized smart phone displays. In recent years we have focused on the development of new high-end smartphone technologies and products by delivering high ASP and high margins product solution for many top-tier smartphone brands to avoid the price competitive entry-level products segment. We are also able to take the lead with our technology advancement from our competitors. The expected growth momentum in 2021 comes from the continuous growth of touch and display driver integration (TDDI) ICs in the first half of the year, and OLED products in the second half. Fingerprint sensor ICs started to contribute revenue in the second half of 2021, and OLED TDDI is expected to start mass production in 2022.

- (4) Increasing production capacity of China's panel makers: The production capacity of large-sized panel in China continues to grow. After passing Taiwan by the end of 2016 and passing Korea by the end of 2017, the market share of production capacity in 2021 reached nearly 65%, partially due to the closure of factories in Korea in 2018 and 2019. In addition to being benefitted from the strong domestic demands and the policy incentives for enhancing the self-sufficiency of TV supply chain in China, the increasing influence of Chinese TV brands in terms of export sales shipment has also driven the demands for panel components, LCD driver chips, and TV system control chips.

The Group has worked and cooperated with Chinese panel suppliers for years and has established a good model of cooperation and long-term partnership with them, and also have fully grasped the product and technology roadmaps of our clients and of end users. In response to the capacity and business expansion of China panel suppliers, we will launch our new product deployment and operational activities accordingly.



- (5) The development of diverse display technologies will become a new driving force behind future growth: The development and maturation of diversified display technologies drive prices to be more affordable for consumers, and allow display related applications to become more popular and accepted. The development of better display technologies and new materials will trigger even more new applications. In the Consumer Electronics Show (CES) in early 2022, besides driverless automobiles, artificial intelligence (AI), robots, virtual reality (VR), augmented reality (AR), smart cities, there are more newly innovative technological products, such as High Tech Retailing, Sports Tech, and Digital Money, so it is considered a future star in the industry. The diverse applications of display technologies in the above innovative products, including wearable smart devices; smart mobile devices; Internet-enable automobile dashboards; large-format outdoor display panels that adapt to different lights, environments and weather; and high PPI high-resolution displays for medical applications, are injecting new vigor in the growth of display supply chains. The Group will continue developing related technologies, with a foundation in our core display technologies, in order to develop long-term R&D goals and technology roadmap.

d. Competitive edge

The Group's employs are over 3000 personnel worldwide. Our solid R&D teams have been developing audio/video and LCD display technologies for a very long time, deploying complete technologies, IPs and diverse products. We are one of the few companies in the world that can simultaneously provide specialized and comprehensive IC design solutions, from system-end to LCD display modules. We enjoy outstanding R&D and engineering talent that provides professional and experienced assistance to clients for each step of the process, from establishing IC specifications, IC development

and client-end system verification, through to mass production. Combined with our excellent supply chain management and advantageous scale of economy that boosts cost competitiveness, we are able to continue expanding our client sources and establish long-term cooperative relationships with everyone from panel factories and systems manufacturers to top-tier global consumer electronic brands. In facing the fast changes and numerous external competition and challenges in this field, the Group will continue to use our core competitive abilities to acquire professional talent from all areas and increase investment into new technologies and products, in order to maintain our competitive advantages and leadership position in comprehensive display technology solutions.

e. Advantages and disadvantages for long-term development, and response strategies

(1) Advantages

LCD panel display technologies are improving year after year. Add in the fact that all panel manufacturers are striving to optimize their processes and utilization at a better yield, TFT LCDs have already become mainstream in display screen applications, which also further drives the diversification of user-end products. The diverse applications of large-size panels continue to develop towards larger and larger sizes and higher resolutions, while small- and medium-size panels continue to move up to higher resolutions, higher PPI for diverse sizes and applications aiming high level of product differentiation. Compared to our peers in the industry, the Group has established a full line up of product lines for different display technologies of all sizes and applications. In the future, we can expect to continue benefitting from the long-term business opportunities fueled by the diversification of LCD display panel applications, the more universal adoption of high-end panel technologies, and the continued growth of market demand.

(2) Disadvantages and response strategies

The global economy in 2022 still faces numerous uncertainties and variables. Political instability around the world affects economic stability and outlook, with politics and the economy being the two major factors affecting the global consumer electronics industry. Whether the impact of the COVID-19 pandemic will gradually subside after implementing the vaccination remains to be seen; besides, the degree of impact of sanction imposed on Huawei by US also remains to be seen. In addition, high-tech industries face constant fast changes, with the global semiconductor and panel manufacturing industries experiencing a weeding out of the weak in recent years, with more consolidations and mergers. Both the competitive landscape and the players in the panel industry have experienced transformation and structural changes which resulting R&D talents fluidity. Meanwhile, Chinese panel manufacturers are empowering and rising resulting for its huge and surging domestic market demand. Global market share among global panel manufacturers are seeing huge changes. Every company needs to

reinforce its adaptability, experience, competitiveness and strength, including operations & executions, product planning, capacity and financial resources to deal with these external challenges. The Group will carefully pay attention to changes in the overall environment to quickly adjust business strategies, while continuing to acquire good management and R&D talents, in order to continue strengthening the fiscal situation and financial health, and to sustain the goal of stable and long term development and profit.

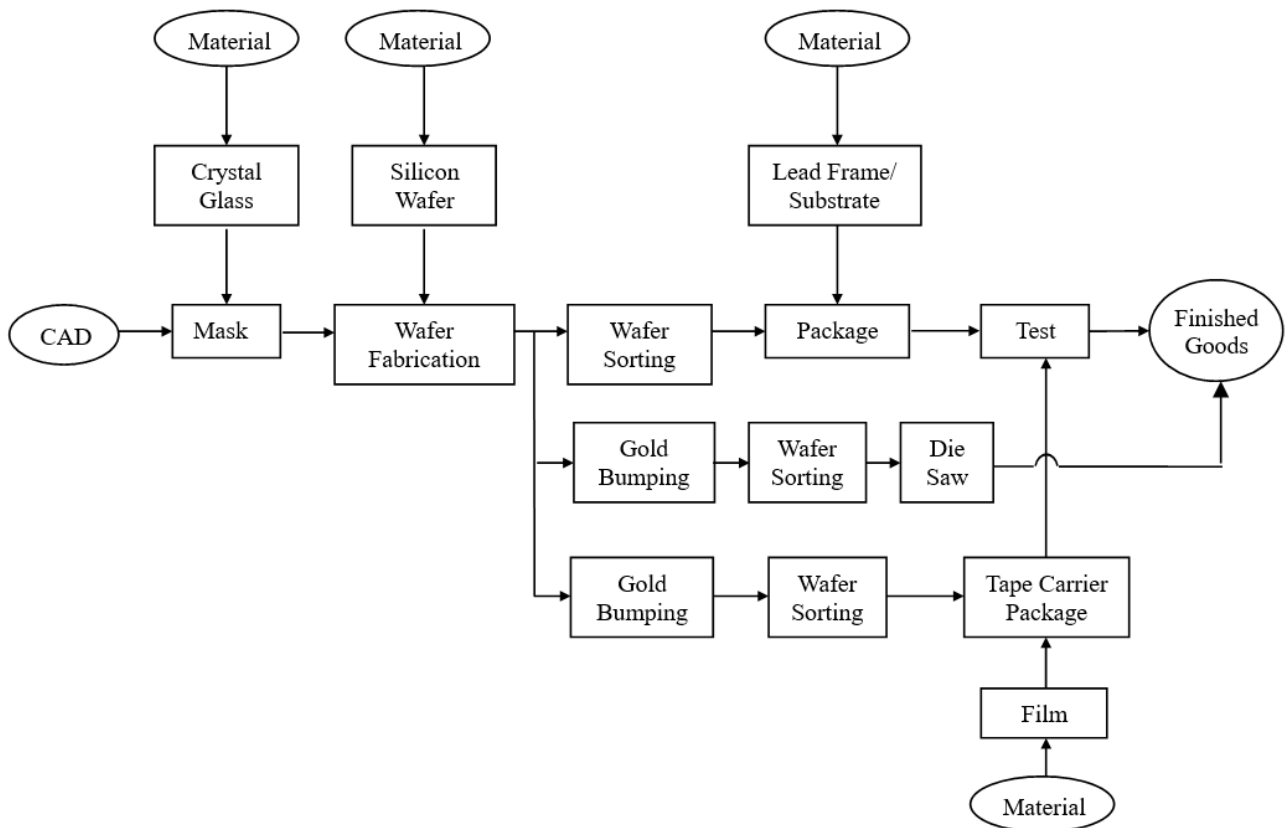
2. Applications and manufacturing process of major products

a. Application of major products

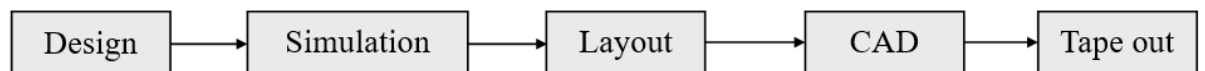
Product	Major application		
Display driver IC	Large-sized driver IC	Driving large-sized displays	TVs, notebook computers, desktop monitors
	Medium-sized driver IC	Driving medium-sized displays	Cameras, tablet PCs, automotive displays
	Small-sized driver IC	Driving small-sized displays	Smart phones, wearable products
SoC	Timing controllers	Signal processing	TVs, notebook computers, desktop monitors
	LCD monitor controllers	Controlling monitor system and signal processing	Desktop monitors
	TV controllers	Controlling TV system and signal processing	Digital TVs, smart TVs
	Power management controllers	Manage power supply for the main system	TV, Notebook, Monitor, Smart phone, wearable products.
	Digital image controllers	Digital image system control and signal processing	Mobile phone, tablet PC, camera modules, Dashcam recording, IP CAM, car backup camera modules, automotive safety assistance systems
	CMOS image sensors	Image sensor and signal processing	Multimedia and mobile phone camera modules

b. Manufacturing process of major products

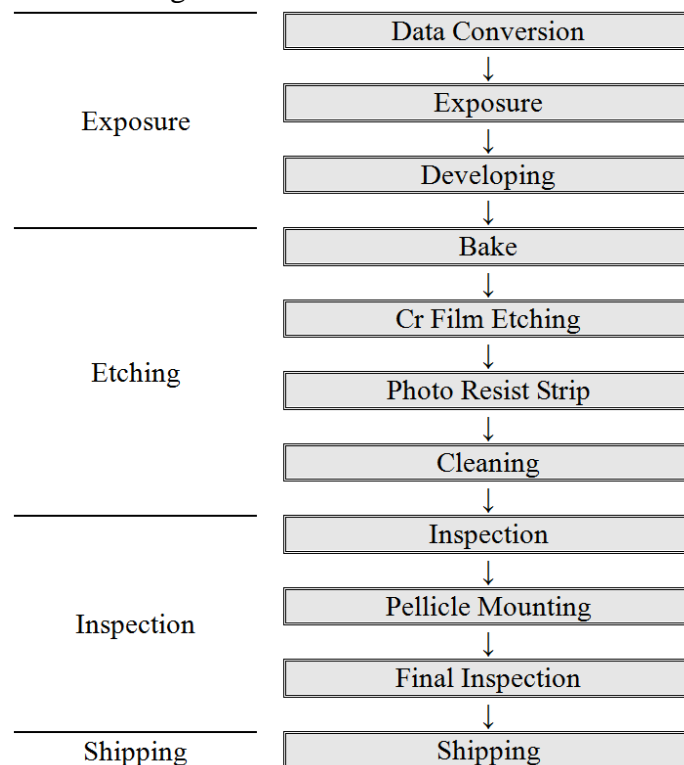
(1) Product Manufacturing Process



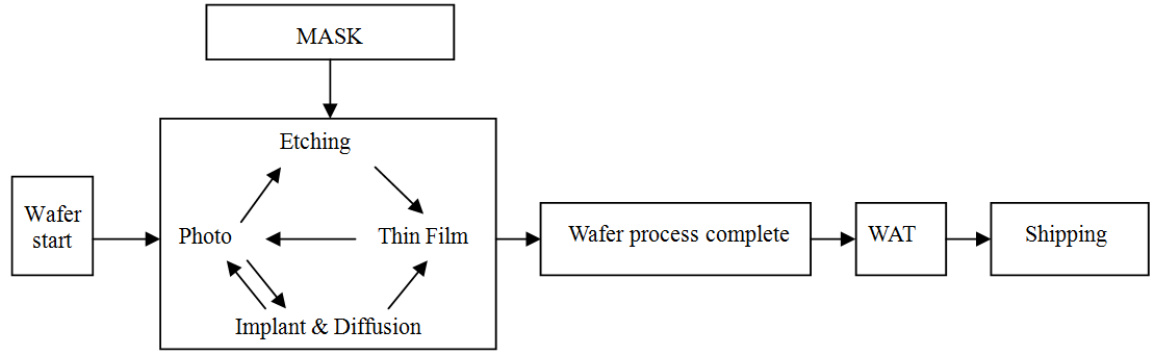
(2) Circuit Design Flow



(3) Mask Tooling Process



(4) Wafer Fabrication Flow

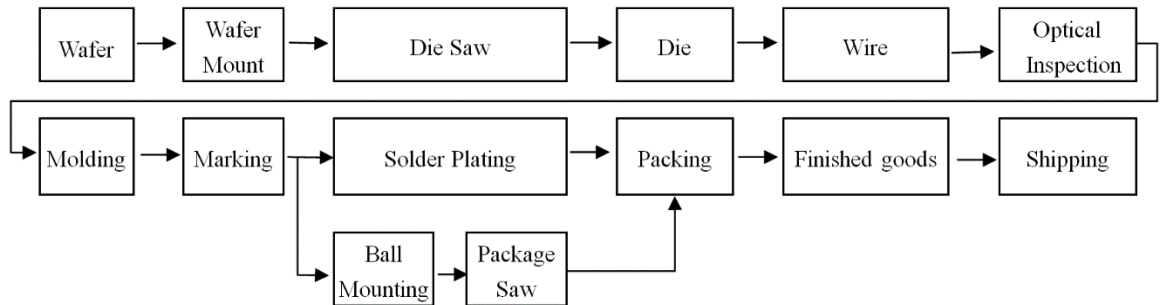


(5) Wafer Testing

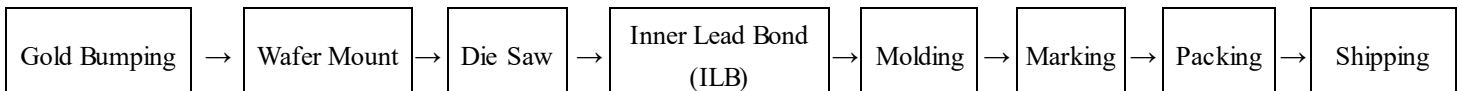
The electrical testing is carried out by testing house with the purpose to qualify the good dice and ink dice.

(6) Package

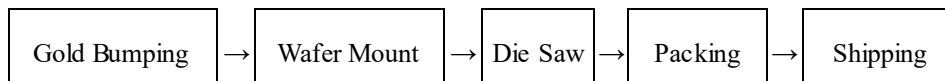
i. Wire bond Type Package:



ii. Tape Carrier Package



iii. Chip on Glass (COG) Package



3. Major supplies of materials

Wafers are our primary product materials and come mainly from United Microelectronics Corporation (UMC) and other foundry suppliers. Those suppliers maintain quite a high level in quality and process, well satisfactory to the Group in availability and punctuality.

4. Name of the major suppliers/customers over the last two years

a. Major suppliers

Unit: NT\$K

Item	2020				2021				2022 Q1			
	Name	Amount	% of Total Purchases	Relationship	Name	Amount	% of Total Purchases	Relationship	Name	Amount	% of Total Purchases	Relationship
1	UMC	11,731,985	35.63	Director of Novatek	UMC	15,625,168	32.31	Director of Novatek	UMC	4,296,127	30.00	Director of Novatek
2	A	5,424,217	16.48	None	A	5,964,658	12.33	None	A	1,570,884	10.97	None
3	B	8,166,452	24.81	None	B	8,242,097	17.04	None	B	2,225,985	15.54	None
4	C	3,293,699	10.00	None	C	7,297,291	15.09	None	C	2,636,487	18.41	None
	Other	4,307,510	13.08	None	Other	11,236,771	23.23	None	Other	3,592,843	25.08	None
	Total	32,923,863	100.00		Total	48,365,985	100.00		Total	14,322,326	100.00	

b. Major customers over the last two years

Unit: NT\$K

Item	2020				2021				2022 Q1			
	Name	Amount	% of Total Sales	Relationship	Name	Amount	% of Total Sales	Relationship	Name	Amount	% of Total Sales	Relationship
1	Customer A	18,412,721	23.03	None	Customer A	31,308,332	23.13	None	Customer A	9,137,367	25.03	None
2	Customer B	12,165,652	15.21	None	Customer B	19,501,504	14.41	None	Customer B	4,498,809	12.32	None
	Other	49,603,102	62.04	None	Other	84,672,039	62.55	None	Other	22,914,279	62.76	None
	Sales Returns & Allowances	(225,955)	(0.28)		Sales Returns & Allowances	(116,365)	(0.09)		Sales Returns & Allowances	(38,770)	(0.11)	
	Net Sales	79,955,520	100.00		Net Sales	135,365,510	100.00		Net Sales	36,511,685	100.00	

5. Production volume and value over the last two years

Unit: K pcs, NT\$K

Product \ Year	2020			2021		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Display driver ICs	-	1,810,958	35,361,910	-	1,935,111	46,706,746
SoC	-	728,877	15,885,338	-	917,161	23,088,995
Total	-	2,539,835	51,247,248	-	2,852,272	69,795,741

Note: The Group outsourced manufacturing procedures with wafer foundry, packing and testing, so could not provide the data of "production capacity".

6. Sales volume and value over the last two years

Unit: K pcs, NT\$K

Product \ Year	2020				2021			
	Domestic		Export		Domestic		Export	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Display driver ICs	745,571	24,906,277	1,077,980	28,718,453	694,756	34,760,259	1,228,634	56,607,881
SoC	347,762	8,046,640	368,089	17,913,123	432,294	13,751,588	448,309	29,901,711
Others	-	62,795	-	534,187	-	23,878	-	436,558
Total revenue	1,093,333	33,015,712	1,446,069	47,165,763	1,127,050	48,535,725	1,676,943	86,946,150

C. Employees

Year		2020	2021	As of 2022/4/30
Number of employees	R&D	2,357	2,472	2,489
	Managerial, marketing & sales	314	326	331
	Engineering	192	231	242
	Total	2,863	3,029	3,062
Average age		37.17	36.35	37.16
Average years of service		6.64	6.82	6.98
Education	Doctoral & Master	76.07%	76.46%	76.22%
	University	23.68%	23.14%	23.32%
	High school	0.25%	0.40%	0.46%
	Below high school	-	-	-

D. Environmental Protection & Expenditures

The Group is a fabless chip design house and engaged with no production activity. The production, packaging and testing are outsourced to qualified subcontractors. There were no environmental penalties in the past years.

E. Labor-Management Relations

1. The Group's employee welfare program, training and development, and retirement policy, settlement between employees and employer

The success and long term development for a fabless IC design house highly corresponds with the long term commitment from a quality R&D workforce. The Group has spared no efforts on providing a friendly working environment, fostering a pleasant relationship between the employee and employer, so as to maximize the benefits for its employee, the Group as well as the shareholders as a whole.

a. Labor conditions

Novatek and its subsidiaries personnel systems and regulations are compliant with the provisions in Labor Standards Law, Labor Pension Act, and local regulations. Furthermore, we provide incentive programs and good compensation package to attract the industry professionals, as well as to retain our in-house talents.

b. Employee relationship

The Group commits its best to well attend their employees. The total caring and welfare package is designed for the employees' wealth and health, and a well balance between work and life, which includes periodical health check and in house mental health counseling service. The Group also introduces the massage service by hiring people with massage expertise and eye vision difficulties. The Company also supports funds for in-house social, recreational and sport clubs, art activities and subsidies for every business departments for their own recreational activities, all with the aim to enrich employees' lives with a better satisfaction. Festival bonus and coupons, birthday presents and coupons, subsidies for childbirth, illness, injury, weddings and funerals, and scholarships for children are provided

to show the Company's dedication and care for the employees.

c. Training & development

To achieve the goal of sustainable development, Novatek continues to pursue technological leadership and cultivate outstanding talents to strengthen the overall competitiveness. The Group pays its full attention on the employee training and development. A complete long term human resource development plan is designed and implemented for various purposes including general, management, and professional courses and programs, which will help to inspire employees to grow, to advance and to move forward with the Group, encourage employees to learn independently, promote internal/external experience exchanges and research collaboration, and build a learning organization that continues to grow.

(1) Education and Training System

Employee learning and development are essential for corporate growth. Novatek is committed to creating a continuous and diversified learning environment and has established the required education and training standards as well as systems. It has integrated internal and external physical/digital resources to provide employees with a comprehensive and diverse learning environment, allowing the employees to keep learning and strengthen their work skills.

Stage of learning	Type of training	Training objectives/content
Newcomer blend in	New employee orientation	Help new employees understand Novatek's corporate culture, core values, quality policies, work environment, business offered and processes involved, allowing them to have a successful start and quickly blend into the company as well as the team.
Continuous learning	Learning and growth	Help employees enhance their knowledge and skills required for their daily work, enabling them to develop diverse capabilities and improve work efficiency.
	Leadership management	Assist supervisors in different levels to enrich their leadership management related skills, motivate employees and lead the team to achieve the set goals.
	Innovative technology	Based on the development of the industry, continue to provide R&D related knowledge and advanced technology trends to help the R&D team stay innovative and increase technological competitiveness.
	Language skill	Provide employees with subsidies for language learning, encouraging them to improve their foreign language skills and apply them in the workplace to enhance international competitiveness.

(2) Talent Promotion and Development

Through well-planned training programs and performance evaluation processes, appropriate candidates for promotion or cadres will be identified. To enable outstanding

talents to have better career development within the company and take on more important responsibilities, Novatek conducts the "cadre training program" regularly, which consists of a series of challenging training courses focusing on the management and leadership thinking skills required for cadres, preparing them to move forward in their career development and achieve higher goals. Regarding the promotion system, Novatek has formulated the "Regulation for Job Level, Position and Title" and the "Regulation for Promotion". Based on the performance and the experience of the employees, the department head can submit the qualified promotion for approval by the President. In addition, for outstanding talents with excellent performance and management skills, management positions can be assigned depending on the needs of the company, allowing all employees to contribute their talents and strengths to the company.

d. Retirement system and implementation

Novatek and its domestic subsidiaries' retirement policy are in accordance with the provisions in Labor Standards Law and Labor Pension Act. Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts. Pension benefits for employees of the overseas subsidiaries are provided in accordance with the respective local regulations.

e. Working environment and protection of employee safety

We have implemented the ISO 14001 Environmental Management System, the ISO 45001 Occupational Safety and Health Management System and the TOSHMS Taiwan Occupational Safety and Health Management System, by which to ensure the practice of related environmental safety and health policies, of regular inspection for office operating environment, of plant disinfection to prevent mosquito vector, of inspection and reporting for public facility safety, of maintenance and reporting for fire safety equipment, of regular maintenance and testing for high and low voltage electrical equipment, of automatic inspection and maintenance of factory facilities and other workplace measures, and of other relevant work environment policies to ensure we can provide our staff a safety and health working environment. Besides, we periodically provide some environmental safety and health related course and health promotion activities to ensure the healthiness of our employees physically and mentally.

In 2021, fire safety training for employees, occupational safety and health training for new employees, occupational safety and health personnel on-the-job training, AEO emergency response education and training, on-the-job training for fire-fighting management personnel, and qualified first aid personnel on-the-job training.

A classification system for health management was established to sort and manage the health check-up reports of all employees, achieving the goal of early detection and early treatment, and reducing the occurrences of disease as well as the risk of the company. Due to the

COVID-19 epidemic in 2021, various management mechanisms (medical supply preparation, employee health monitoring and management, self-health declaration (monitoring) and management system, immediate grasp and announcement of disease control related information/footprint of confirmed cases), control measures, and the required environment as well as equipment disinfection operations have been completed to establish protection against the epidemic, protecting the health of the employees.

The Group will allow our employees to understand environmental safety and health regulations, policies, and the Company's environmental safety and health commitment, the environmental impacts and safety and health risks of various activities in the Company, and emergency response plans. This is how we can implement the objectives of environment, safety, and health while being in compliance with the environmental safety and health manual.

Administrative Division is in charge of the survey and analysis of various environmental safety and health training courses and formulation of training plans. All departments should arrange safety and health educational training according to the training plan via physical or online learning courses. The personnel of contractors will be requested to submit training data via the "Contractor Construction Safety and Health Management Procedures" in order to ensure personal safety and health within the Company.

Implementation of environmental safety and health related educational training in 2021:

Name of training	No. of session	No. of participants	Training date
Fire safety training and occupational safety and health training for new employees (including the on-site personnel of the contractor)	2	91 133	1/26 12/28
On-the-job training for fire-fighting management personnel	1	1	9/7
Occupational safety and health personnel on-the-job training	2	2	3/2 、 11/30
2021 Annual training for civil defense corps	1	4	10/14
Emergency response education and training for AEO (Authorized Economic Operator)	1	133	11/4
2021 Safety and health on-the-job training for first aid personnel	1	47	10/19
On-the-job training on emergency response, safety protection and ISO22301 introduction & promotion organized by the Hsinchu Science Park Bureau and the fire brigade of Fire Bureau, Hsinchu County Government	1	1	11/9

f. Negotiations settled between employees and management: None.

2. Losses incurred by labor disputes in recent years up to publication, and potential disputes and appropriate measures

a. **Losses incurred by labor disputes in recent years up to publication:** None.

b. **Potential disputes and appropriate measures:**

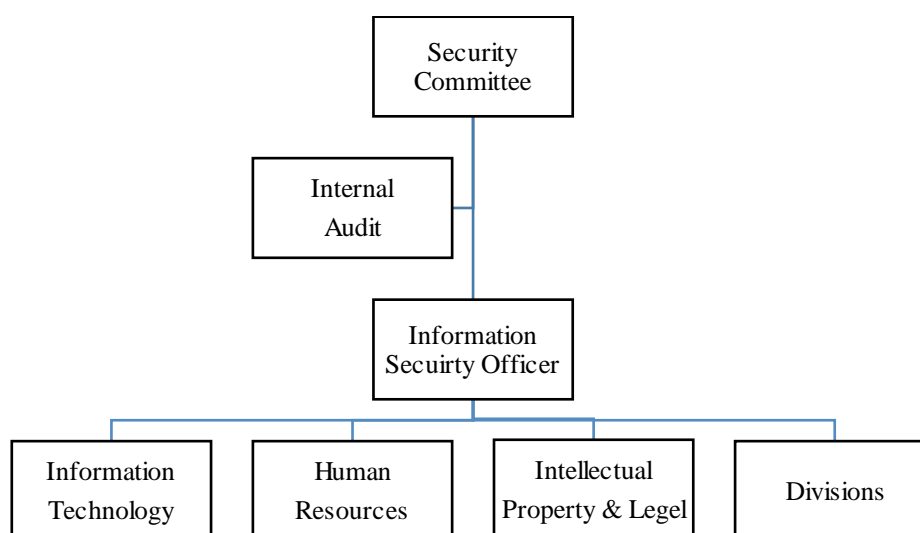
The Group strives to create a friendly and safe working environment, and to provide employees with favorable workplace conditions, well-established development program to retain the talent and experience. The Group assured of no such labor disputes in the past and is confident that there will be no labor dispute in the future.

F. Information Security Management

1. The Company's information security risk management structure, information security policy, specific management plans and resources invested in information security management

a. **Information security risk management structure**

The Company's Information Security Committee consists of the General Manager's Office, Internal Audit, Human Resources, Intellectual Property and Legal, Information Technology and other units of the Company. Depending on the needs of information security operations, essential members or inter-departmental meetings are convened to carry out information security tasks, and coordinate the implementation of information security management systems as well as the allocation of required resources.



b. **Information security policy**

(1) Information security management strategy and framework

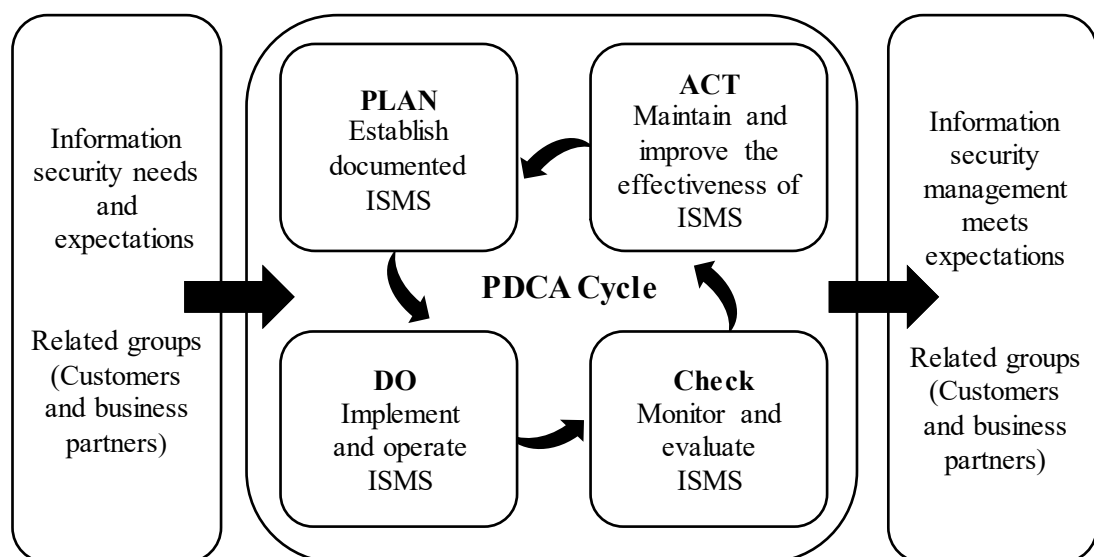
Information security can be divided into three levels: external hacker attacks, protection of confidential information, and information security awareness among employees. By adopting an in-depth defense concept, Novatek has constructed security protection measures from the outside in, avoiding external attacks such as those from malicious hackers, computer viruses, and ransomware, which would affect the stable operation of

the Company's operating system. Furthermore, to safeguard the Company's intellectual property, trade secrets, and internal information security, reasonable protection measures have been established based on confidentiality levels. Through education and training as well as regular announcements, the concept of information security DNA has been established for the employees of Novatek. In addition, Novatek holds an information security meeting every year and formulates information security plans to regularly assess the appropriateness and effectiveness of information security operations, organizing projects to continuously reinforce the protective measures and reduce security risks.

Novatek attaches great importance to information security and confidential information protection. Through the three aspects of information risk management, information security management, and information security audit as well as the spirit of PDCA, it continues to implement tasks to achieve the goal of information security protection.

Information risk management	<ul style="list-style-type: none"> • Information security policy and regulation formulation • Assess information security risks and establish control mechanisms • Investigate and identify information security incidents
Information security management	<ul style="list-style-type: none"> • Information security architecture planning and project implementation • Information security plan evaluation and introduction
Information security audit	<ul style="list-style-type: none"> • Formulate and implement information audit and handling procedures • Information security education promotion, regulatory compliance and case analysis • Introduction and management of information record audit equipment

(2) Information security risk management and continuous improvement framework



(3) Monitoring of information security effectiveness

In 2022, the ISO 27001 information security standard guidance project was implemented, which aims to obtain international information security certification in 2022. From then on, audit and improvement of information security operations will be conducted regularly by an independent third-party verification body to ensure the confidentiality, integrity, and availability of the information system, optimizing the existing information security management system.

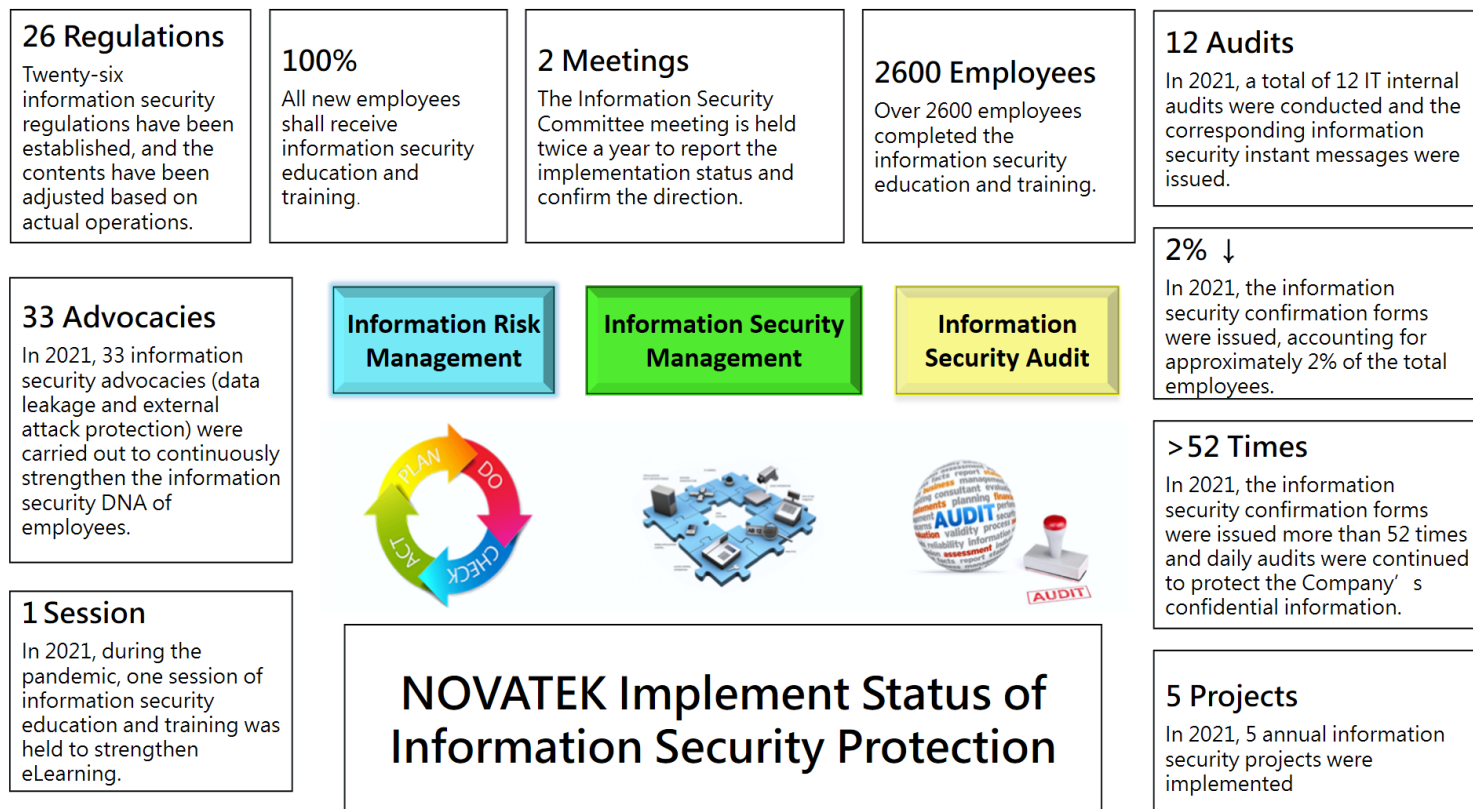
c. Specific management plans

Information security control item	Risk	Response measure	Effectiveness confirmation
Information security policy, education and training	Whether the information security policy is formulated, approved, published and communicated to all employees by the management to ensure its continued applicability and effectiveness.	After discussing with the Legal Department every year, submit the announcement approved by the General Manager's Office. Enhance employees' information security awareness through employee education and training, eLearning, and information security announcements.	Confirm the effectiveness of the information security policy and enhance the employees' awareness of information security.
Information classification and protection	Information should be classified according to unauthorized disclosure or legal requirements, value, importance, and sensitivity, and protection procedures should be implemented based on the classification.	The authority control mechanism is established based on the important information defined in the Confidential Information Management Regulations. Control USB write out, external email self-audit, file and directory authority convergence, etc., and implement audit mechanism in accordance with relevant management regulations.	Ensure appropriate protection measures for confidential information.
System and application access control	Whether to restrict access to information and application system functions according to the access control policy, and control the access to the system and applications by the secure login process.	According to the Account Management Regulations, system authority is provided after the approval. Audit the log-in records of important information systems.	Avoid improper access according to authorization principles and approval procedures.

Information security control item	Risk	Response measure	Effectiveness confirmation
Information record protection	Records should be protected in accordance with laws, regulations, contracts, and operational requirements to avoid loss, damage, forgery, and unauthorized access.	According to the Record Management Regulations, collect and protect necessary information records.	Ensure that the evidence power of records meets the requirements of regulations.
Network security management	Whether the network is properly managed and controlled to protect system and application information.	Set up a firewall to separate internal and external networks, control data flow for sensitive information areas, and regularly review firewall rules.	Avoid improper access and data leakage.
Prevent malicious code (computer virus protection)	Whether to establish malicious code detection, prevention and recovery control measures, and integrate them with appropriate user awareness.	Establish a complete malicious code protection mechanism from the gate to the terminal. Information security announcement to enhance employees' awareness of information security.	Strengthen network access and information service security.
Information security incident management	Whether to establish management responsibilities and corresponding procedures to ensure the response to information security incidents. By gaining information from analyzing and resolving security incidents, the possibility and impact of future occurrences can be reduced.	According to the Information Security Incident Management Procedures, establish handling procedures. Analyze information security incidents in the industry to reduce the possibility and impact of information security incidents.	Strengthen information security incident handling procedures to reduce the possibility of occurrence and the impact on operations.
Supply chain information security management	Whether to establish supply chain information security management practices to improve the information security of the overall industry chain.	Based on the outsourcing and vendor support environment usage specifications and taking into account the semiconductor Cyber Security Assessment Template, gradually introduce control management measures through the project implementation to improve supply chain information security.	Strengthen information security incident handling procedures to reduce the impact of supply chain information security incidents on operations.

d. Resources invested in information security management

Results of the information security promotion measures implemented in 2021



2. Losses, possible impacts suffered by the Company due to major information security incidents in the most recent year and up to the date of issuance of the annual report, possible impacts and countermeasures:

Novatek has formulated specific information security management plans internally to maintain information security. In the most recent year and up to the date of issuance of the annual report, there has been no major information security incident that has caused losses or affected operations and business reputation.

G. Important Contracts

Contract Type	Contractor	Term of agreement	Summary	Restriction
Land Lease	Hsinchu Science Park Administration	04/15/2008~12/31/2027	Build factory, laboratory or warehouse, loading and unloading, packaging and repair worksites	Restricted Use
License Agreement	Faraday Technology Corporation	06/30/2006~06/30/2021	IP authorization	Security regulations

VI. Financial Highlights

A. Condensed Balance Sheet and Comprehensive Income Statement

1. Condensed Balance Sheet

a. Condensed Balance Sheet - consolidated

Unit: NT\$K

Item \ Year		Consolidated financial data (Note 1)					
		2017	2018	2019	2020	2021	As of March 31, 2022
Current assets		\$34,454,129	\$41,030,998	\$38,002,356	\$44,950,572	\$100,114,690	\$110,894,994
Property, plant and equipment		1,962,932	2,611,394	3,838,703	6,577,261	6,906,038	7,136,309
Intangible assets		2,720,228	2,676,278	2,695,345	2,545,172	2,484,887	2,441,005
Other assets		1,738,009	1,750,953	2,338,830	4,027,684	11,087,419	10,752,217
Total assets		40,875,298	48,069,623	46,875,234	58,100,689	120,593,034	131,224,525
Current liabilities	Cum-dividend	11,840,797	16,964,632	12,814,489	17,462,656	35,909,179	35,623,267
	Ex-dividend	16,161,229	22,319,533	19,203,860	26,955,435	(Note 2)	(Note 2)
Non-current liabilities		464,520	787,482	982,425	694,830	14,232,532	14,693,461
Total liabilities	Cum-dividend	12,305,317	17,752,114	13,796,914	18,157,486	50,141,711	50,316,728
	Ex-dividend	16,625,749	23,107,015	20,186,285	27,650,265	(Note 2)	(Note 2)
Shareholders' equity attributable to shareholders of the parent		28,569,981	30,317,509	33,078,320	39,943,203	70,451,323	80,907,797
Capital stock		6,085,115	6,085,115	6,085,115	6,085,115	6,085,115	6,085,115
Additional paid-in capital	Cum-dividend	3,287,822	3,287,822	3,287,822	2,375,054	2,375,054	2,375,054
	Ex-dividend	3,287,822	3,287,822	2,375,054	2,375,054	(Note 2)	(Note 2)
Retained earnings	Cum-dividend	19,286,690	21,409,023	23,954,012	30,284,139	59,588,550	70,723,478
	Ex-dividend	14,966,258	16,054,122	18,477,409	20,791,360	(Note 2)	(Note 2)
Others		(89,646)	(464,451)	(248,629)	1,198,895	2,402,604	1,724,150
Non-controlling Interests		-	-	-	-	-	-
Total shareholders' equity	Cum-dividend	28,569,981	30,317,509	33,078,320	39,943,203	70,451,323	80,907,797
	Ex-dividend	24,249,549	24,962,608	26,688,949	30,450,424	(Note 2)	(Note 2)

Note 1: Consolidated financial data of 2017~ 2021 are audited, while Q1 2022 is reviewed by CPA.

Note 2: The distribution of 2021 retained earnings is not yet resolved.

b. Condensed Balance Sheet – Parent company only

Unit: NT\$K

Item \ Year		Parent company only financial data (Note 1)				
		2017	2018	2019	2020	2021
Current assets		\$33,902,561	\$40,553,379	\$37,260,771	\$44,137,579	\$99,175,718
Investments accounted for using the equity method		1,195,729	1,091,950	1,367,717	1,444,792	1,602,411
Property, plant and equipment		1,341,253	2,013,755	3,295,648	6,044,344	6,407,513
Intangible assets		2,713,898	2,671,567	2,692,279	2,542,806	2,483,507
Other assets		1,652,193	1,649,785	2,124,621	3,776,936	10,751,342
Total assets		40,805,634	47,980,436	46,741,036	57,946,457	120,420,491
Current liabilities	Cum-dividend	11,771,133	16,875,445	12,691,856	17,349,769	35,774,638
	Ex-dividend	16,091,565	22,230,346	19,081,227	26,842,548	(Note 2)
Non-current liabilities		464,520	787,482	970,860	653,485	14,194,530
Total liabilities	Cum-dividend	12,235,653	17,662,927	13,662,716	18,003,254	49,969,168
	Ex-dividend	16,556,085	23,017,828	20,052,087	27,496,033	(Note 2)
Capital stock		6,085,115	6,085,115	6,085,115	6,085,115	6,085,115
Additional paid-in capital	Cum-dividend	3,287,822	3,287,822	3,287,822	2,375,054	2,375,054
	Ex-dividend	3,287,822	3,287,822	2,375,054	2,375,054	(Note 2)
Retained earnings	Cum-dividend	19,286,690	21,409,023	23,954,012	30,284,139	59,588,550
	Ex-dividend	14,966,258	16,054,122	18,477,409	20,791,360	(Note 2)
Others		(89,646)	(464,451)	(248,629)	1,198,895	2,402,604
Total shareholders' equity	Cum-dividend	28,569,981	30,317,509	33,078,320	39,943,203	70,451,323
	Ex-dividend	24,249,549	24,962,608	26,688,949	30,450,424	(Note 2)

Note 1: Parent company only financial data of 2017 ~ 2021 are audited by CPA.

Note 2: The distribution of 2021 retained earnings is not yet resolved.

2. Condensed Comprehensive Income Statement

a. Condensed Comprehensive Income Statement - Consolidated

Unit: NT\$K

Item \ Year		Consolidated financial data (Note 1)					
		2017	2018	2019	2020	2021	As of March 31, 2022
Sales revenue		\$47,073,692	\$54,833,856	\$64,372,306	\$79,955,520	\$135,365,510	\$36,511,685
Gross profit		13,555,261	17,015,433	20,614,387	27,957,707	67,391,524	18,524,079
Operating Income		5,755,199	7,615,163	9,857,421	14,777,598	47,773,110	13,280,121
Non-operating income and expenses		181,500	290,436	(42,356)	(228,624)	341,847	485,379
Income before Income Tax		5,936,699	7,905,599	9,815,065	14,548,974	48,114,957	13,765,500
Net income from operations of continued segments		5,024,088	6,390,630	7,927,409	11,817,239	38,865,560	11,134,928
Net income		5,024,088	6,390,630	7,927,409	11,817,239	38,865,560	11,134,928
Other comprehensive income		(157,620)	(218,439)	188,303	1,437,015	1,135,339	(678,454)
Comprehensive income		4,866,468	6,172,191	8,115,712	13,254,254	40,000,899	10,456,474
Net income attributable to shareholders of the parent		5,024,088	6,390,630	7,927,409	11,817,239	38,865,560	11,134,928
Net income attributable to non-controlling interests		-	-	-	-	-	-
Comprehensive income attributable to shareholders of the parent		4,866,468	6,172,191	8,115,712	13,254,254	40,000,899	10,456,474
Comprehensive income attributable to non-controlling interests		-	-	-	-	-	-
Earnings per share (NT\$)	Before retroactive adjustment	8.26	10.50	13.03	19.42	63.87	18.30
	After retroactive adjustment	8.26	10.50	13.03	19.42	(Note 2)	(Note 2)

Note 1: Consolidated financial data of 2017~ 2021 are audited, while Q1 2022 is reviewed by CPA.

Note 2: The distribution of 2021 retained earnings is not yet resolved.

b. Condensed Comprehensive Income Statement - Parent company only

Unit: NT\$K

Item \ Year		Parent company only financial data (Note 1)				
		2017	2018	2019	2020	2021
Sales revenue		\$47,049,099	\$54,778,874	\$64,326,485	\$79,867,485	\$135,338,550
Gross profit		13,534,301	16,950,215	20,549,910	27,920,134	67,389,339
Operating Income		6,348,048	8,245,432	10,546,316	15,428,104	48,618,164
Non-operating income and expenses		(416,960)	(343,802)	(736,907)	(890,865)	(507,604)
Income before Income Tax		5,931,088	7,901,630	9,809,409	14,537,239	48,110,560
Net income from operations of continued segments		5,024,088	6,390,630	7,927,409	11,817,239	38,865,560
Net income		5,024,088	6,390,630	7,927,409	11,817,239	38,865,560
Other comprehensive income		(157,620)	(218,439)	188,303	1,437,015	1,135,339
Comprehensive income		4,866,468	6,172,191	8,115,712	13,254,254	40,000,899
Earnings per share (NT\$)	Before retroactive adjustment	8.26	10.50	13.03	19.42	63.87
	After retroactive adjustment	8.26	10.50	13.03	19.42	(Note 2)

Note 1: Parent company only financial data of 2017 ~ 2021 are audited by CPA.

Note 2: The distribution of 2021 retained earnings is not yet resolved.

3. Auditors and auditors' opinions

Year	Name of CPA	Opinion
2017	Lin Tu, Eric Kuo	Unqualified opinion
2018	Hans Chen, Eric Kuo	Unqualified opinion
2019	Hans Chen, Eric Kuo	Unqualified opinion
2020	Hans Chen, Eric Kuo	Unqualified opinion
2021	Hans Chen, Eric Kuo	Unqualified opinion

B. Financial Analysis over the Last Five Years

Item \ Year		2017	2017 consol.	2018	2018 consol.	2019	2019 consol.	2020	2020 consol.	2021	2021 consol.	As of March 31, 2022
Financial Structure	Liabilities to assets ratio	29.98	30.10	36.81	36.93	29.23	29.43	31.06	31.25	41.49	41.57	38.34
	Long-term capital to Property, plant and equipment ratio	2,164.72	1,479.13	1,544.62	1,191.12	1,033.15	887.29	671.64	617.85	1,321.04	1,226.22	1,339.64
Ability to Repay Debts	Current ratio	288.01	290.97	240.30	241.86	293.58	296.55	254.39	257.40	277.22	278.79	311.29
	Quick ratio	244.07	247.23	198.17	199.90	242.46	245.86	206.13	209.41	236.64	238.33	264.28
	Debts services coverage ratio	123.40	123.52	136.32	136.39	219.79	210.17	3,155.09	2,139.61	2,820.41	2,445.12	9,009.83
Utility	Account receivable turnover (times)	4.02	4.06	4.25	4.28	4.60	4.62	5.66	5.69	7.04	7.05	5.96
	A/C turnover in days (days)	90	89	85	85	79	79	64	64	51	51	61
	Inventory turnover (times)	5.63	5.63	5.19	5.19	5.44	5.44	5.90	5.90	5.08	5.08	4.01
	Account payable turnover (times)	4.93	4.93	4.54	4.53	4.88	4.88	5.96	5.96	5.08	5.09	4.62
	Days' sales in inventory	64	64	70	70	67	67	61	61	71	71	91
	Property, plant and equipment turnover (times)	35.09	23.74	32.65	23.97	24.23	19.96	17.10	15.35	21.73	20.07	20.80
	Total assets turnover (times)	1.14	1.14	1.23	1.23	1.35	1.35	1.52	1.52	1.51	1.51	1.15
Profitability	Ratio of return on total assets (%)	12.31	12.28	14.50	14.47	16.81	16.77	22.58	22.52	43.59	43.51	8.84
	Ratio of return on Shareholders' Equity (%)	17.77	17.77	21.70	21.70	25.00	25.00	32.36	32.36	70.41	70.41	14.71
	Ratio to paid-in capital on income before tax	97.46	97.56	129.85	129.91	161.20	161.29	238.89	239.09	790.62	790.69	226.21
	Net Income Margin (%)	10.68	10.67	11.67	11.65	12.33	12.32	14.80	14.78	28.72	28.71	30.5
	Earnings per share (NT\$)	8.26	8.26	10.50	10.50	13.03	13.03	19.42	19.42	63.87	63.87	18.30
Cash Flows	Cash flow ratio (%)	41.87	37.01	51.22	47.22	61.43	55.77	91.70	88.07	119.03	116.18	25.08
	Cash flow adequacy ratio (%)	104.19	105.56	103.57	104.24	102.53	103.51	105.65	106.91	151.09	154.64	174.12
	Cash re-investment ratio (%)	2.18	0.39	13.18	11.19	6.78	4.94	22.10	20.74	37.71	36.61	9.02
Leverage	Operating leverage	5.19	5.73	4.72	5.12	4.32	4.62	3.83	4.00	2.25	2.29	2.31
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Explanation for financial ratios that have fluctuated over 20% over the last two years:

1. Increase in liabilities to assets ratio: due to the increase of guarantee deposits.
2. Increase in long-term capital to property, plant and equipment ratio: due to the increase of total equity.
3. Increase in account receivable turnover (times): due to the increase of revenue and the adjustment of customer payment terms.
4. Decrease in A/C turnover in days (days): due to the increase of account receivable turnover (times).
5. Increase in property, plant and equipment turnover: due to the increase of revenue.
6. Increase in ratio of return on total assets: due to the increase of net income.
7. Increase in ratio of return on shareholders' equity: due to the increase of net income.
8. Increase in ratio to paid-in capital on income before tax: due to the increase of net income.
9. Increase in net income margin: due to annual revenue showing an increase of 69.3%, the gross margin rising 14.81 percent point, and net income showing an increase of 228.9%.
10. Increase in earnings per share: due to the increase of net income.
11. Increase in cash flow ratio: due to the increase of net income.
12. Increase in cash flow adequacy ratio: due to the revenue growth and the increase of net income.
13. Increase in cash re-investment ratio: due to the increase of net income.
14. Decrease in operating leverage: due to the increase of operating income, resulting from the rising gross margin and well-controlled operating expenses.

Note 1: The financial data of 2017~2021 are audited, while Q1 2022 is review by CPA.

Note 2: Financial analysis equations

1. Financial structure

- (1) Ratio of liabilities to assets = Total liabilities / Total assets
- (2) Ratio of long-term assets to Property, plant and equipment = (Net Shareholders' equity + Long-term liabilities) / Net fixed assets

2. Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – inventory – prepaid expense) / Current liabilities
- (3) Times interest earned ratio = Net income before income tax and interest expense / Interest expense

3. Operating ability

- (1) Account receivable turnover (times) = Net sales / Average accounts receivable and notes receivable (net)
- (2) Days sales in account receivable = 365 / Account receivable turnover (times)
- (3) Inventory turnover (times) = Cost of goods sold / Average inventory
- (4) Accounts payable turnover (times) = Purchase / Average accounts payable
- (5) Average days in sales = 365 / Inventory turnover (times)
- (6) Property, plant and equipment turnover (times) = Net sales / Average fixed assets (net)
- (7) Total assets turnover (times) = Net sales / Average assets

4. Profitability

- (1) Ratio of return on total assets = [net income + interest expense (1 - tax rate) / Average assets]
- (2) Ratio of return on Shareholders' Equity = Net income / Average Shareholders' Equity (net)
- (3) Profit ratio = Net income / Net sales
- (4) Earnings per share = (Net income – preferred stock dividend) / Weighted average stock issued

5. Cash flow

- (1) Cash flow ratio = Net cash flow from operating activity / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow from operating activities in five years / (Capital expenditure + inventory increase + cash dividend) in five years
- (3) Cash reinvestment ratio = (Net cash flow from operating activity – cash dividend) / (Gross fixed assets + Long-term investment + Other assets + Operating fund)

6. Leverage

- (1) Operation leverage = (Net operating income – operating cost and expense) / Operating income
- (2) Financial ratio = Operating income / (Operating income – Interest expense)

C. Audit Committee's Report

Audit Committee's Report of Novatek Microelectronics Corp.

We have examined the financial statements of 2021 prepared and submitted by the Board of Directors and audited by Ernst & Young, who consider the aforementioned reports and statements to present fairly the financial position, financial performance and cash flows of Novatek Microelectronics Corp. In our opinion, the financial statements are in conformance with relevant regulations and with an audit report issued in accordance with Securities and Exchange Act §14-4 and Company Law Article 219.

To Novatek Microelectronics Corp

Novatek Microelectronics Corp.

Independent Director: Jack Liu

Independent Director: Jack Tsai

Independent Director: Ting Ting Hwang

April 28, 2022

D. Financial Statements

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Financial Statements for the Years Ended December 31, 2021 and 2020 with Independent Auditors' Report

Independent Auditors' Report

The Board of Director and Shareholders
Novatek Microelectronics Corp.

Opinion

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

In our opinion, based on our audits and the reports of other auditors (please refer to the section “Other Matter — Making Reference to the Audits of Component Auditors” of our audit report) the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Novatek Microelectronics Corp. and its subsidiaries as of December 31, 2021 and 2020, and their consolidated financial performance and cash flows for the years ended December 31, 2021 and 2020, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC) as endorsed and issued into effective by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of Novatek Microelectronics Corp. and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Novatek Microelectronics Corp. and its subsidiaries are mainly engaged in manufacturing and sales of integrated circuit products, and recognized net sales of NT\$135,365,510 thousand for the year ended December 31, 2021. Since the trading terms of the sales orders varied with demand, the management's judgment is exercised to determine when the performance obligations were satisfied. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal controls within the sales cycle which are related to the timing of revenue recognition; performing test of details on selected samples and reviewing the significant terms of sales agreements and tracing to relevant documentation of transactions; performing confirmation procedures on key terms of sales agreements on samples; performing cut-off procedures on selected samples for a period before and after the reporting date, tracing to relevant documentation to verify the appropriateness of the timing of revenue recognition, and reviewing significant sales reversals in subsequent period.

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

Valuation for inventories

Novatek Microelectronics Corp. and its subsidiaries recognized net inventories of NT\$14,186,415 thousand as of December 31, 2021, and the amount was significant to consolidated financial statements. Novatek Microelectronics Corp. and its subsidiaries operate in an industry where technologies are upgrading rapidly and thereby their inventories become obsolete speedily. Novatek Microelectronics Corp. and its subsidiaries' policy of provision for inventory is based on those inventories aged over a certain period of time and identified as obsolete or damaged. The amount of inventories is material, the types of inventories vary and the estimation of net realizable value for individually obsolete or damaged inventories is subject to management's judgment. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) evaluating the appropriate accounting policies of slow-moving and obsolete inventories; selecting samples to evaluate and test the design and operating effectiveness of internal controls of the valuation of inventories by management; selecting samples to test the correctness of calculating inventory aging and recalculating the amount of inventory allowance; selecting samples to evaluate and test the net realizable value used by management; evaluating management's inventory count plan and selecting important inventory locations to observe physical inventory count for confirming inventory quantity and status.

We also assessed the adequacy of disclosures of inventories. Please refer to Notes 5 and 6 in notes to consolidated financial statements.

Other Matter — Making Reference to the Audits of Component Auditors

We did not audit the consolidated financial statements of certain subsidiaries, which statements reflect total assets of NT\$437,617 thousand and NT\$1,017,061 thousand, constituting 0.36% and 1.75% of consolidated total assets as of December 31, 2021 and 2020, respectively, and total operating revenues of NT\$2,185 thousand and NT\$37,573 thousand, constituting 0.002% and 0.05% of consolidated operating revenues for the years ended December 31, 2021 and 2020, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of Novatek Microelectronics Corp. and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Novatek Microelectronics Corp. and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of Novatek Microelectronics Corp. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Novatek Microelectronics Corp. and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Novatek Microelectronics Corp. and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2021 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other

We have audited and expressed an unqualified opinion including a paragraph of Other Matter on the separate financial statements of Novatek Microelectronics Corp. as of and for the years ended December 31, 2021 and 2020.

/s/Chen, Chih-Chung

/s/Kuo, Shao-Pin

Ernst & Young, Taiwan
February 25, 2022

Notice to Readers

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

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

As of December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2021		December 31, 2020		Liabilities and Equity	Notes	December 31, 2021		December 31, 2020	
Current assets						Current liabilities					
Cash and cash equivalents	4, 6(1)	\$ 60,129,207	49.86	\$ 22,875,307	39.37	Contract liabilities, current	6(16)	\$ 613,211	0.51	\$ 330,647	0.57
Trade receivables, net	4, 6(2), 6(17)	23,571,509	19.55	13,373,468	23.02	Trade payables		12,547,792	10.41	7,528,440	12.96
Other receivables	6(3)	341,286	0.28	320,047	0.55	Trade payables to related parties	7	4,428,291	3.67	2,195,847	3.78
Inventories, net	4, 6(4)	14,186,415	11.76	8,156,212	14.04	Other payables		10,146,944	8.41	5,348,267	9.20
Prepayments		343,722	0.29	225,538	0.39	Current income tax liabilities	4, 6(22)	7,985,304	6.62	1,870,383	3.22
Other financial assets, current	4, 6(10)	1,542,551	1.28	-	-	Lease liabilities, current	4, 6(18)	46,902	0.04	53,318	0.09
Total current assets		100,114,690	83.02	44,950,572	77.37	Other current liabilities	4, 6(12)	140,735	0.12	135,754	0.23
						Total current liabilities		35,909,179	29.78	17,462,656	30.05
						Non-current liabilities					
						Deferred income tax liabilities	4, 6(22)	320,306	0.26	313,239	0.54
						Lease liabilities, non-current	4, 6(18)	200,600	0.17	213,731	0.37
						Net defined benefit liabilities, non-current	4, 6(13), 6(19)	230,470	0.19	167,860	0.29
Non-current assets						Guarantee Deposits	6(14)	13,481,156	11.18	-	-
Financial assets measured at fair value through profit or loss, non-current	4, 6(5)	12,500	0.01	-	-	Total non-current liabilities		14,232,532	11.80	694,830	1.20
Financial assets measured at fair value through other comprehensive income, non-current	4, 6(6)	4,276,907	3.55	3,061,127	5.27						
Property, plant and equipment	4, 6(7)	6,906,038	5.73	6,577,261	11.32						
Right-of-use assets	4, 6(18)	240,953	0.20	262,052	0.45	Total liabilities		50,141,711	41.58	18,157,486	31.25
Intangible assets	4, 6(8), 6(9)	2,484,887	2.06	2,545,172	4.38						
Deferred income tax assets	4, 6(22)	666,838	0.55	546,741	0.94	Equity					
Other financial assets, non-current	4, 6(10), 7, 8	5,697,450	4.72	11,300	0.02	Share capital	6(15)				
Other assets, non-current	6(11)	192,771	0.16	146,464	0.25	Common stock		6,085,115	5.05	6,085,115	10.47
Total non-current assets		20,478,344	16.98	13,150,117	22.63	Capital surplus	6(15)	2,375,054	1.97	2,375,054	4.09
						Retained earnings	6(15)				
						Legal reserve		10,408,988	8.63	9,228,315	15.89
						Special reserve		-	-	248,629	0.43
						Undistributed earnings		49,179,562	40.78	20,807,195	35.81
						Other equity		2,402,604	1.99	1,198,895	2.06
						Total equity		70,451,323	58.42	39,943,203	68.75
Total assets		\$ 120,593,034	100.00	\$ 58,100,689	100.00	Total liabilities and equity		\$ 120,593,034	100.00	\$ 58,100,689	100.00

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For The Years Ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Description	Notes	For the years ended December 31,			
		2021		2020	
Operating revenues	4, 6(16)	\$ 135,365,510	100.00	\$ 79,955,520	100.00
Operating costs	6(4), 6(8), 6(13), 6(19), 7	(67,973,986)	(50.22)	(51,997,813)	(65.03)
Gross profit		<u>67,391,524</u>	<u>49.78</u>	<u>27,957,707</u>	<u>34.97</u>
Operating expenses	6(8), 6(13), 6(17), 6(18), 6(19), 7				
Selling expenses		(476,223)	(0.35)	(361,115)	(0.45)
Administrative expenses		(2,541,376)	(1.88)	(1,744,691)	(2.18)
Research and development expenses		(16,600,815)	(12.26)	(10,994,303)	(13.75)
Expected credit losses		-	-	(80,000)	(0.10)
Total operating expenses		<u>(19,618,414)</u>	<u>(14.49)</u>	<u>(13,180,109)</u>	<u>(16.48)</u>
Operating income		<u>47,773,110</u>	<u>35.29</u>	<u>14,777,598</u>	<u>18.49</u>
Non-operating income and expenses	6(20)				
Interest income		127,165	0.09	102,472	0.13
Other income		214,153	0.16	46,174	0.05
Other gains and losses	4	20,215	0.01	(370,467)	(0.46)
Financial costs		(19,686)	(0.01)	(6,803)	(0.01)
Total non-operating income and expenses		<u>341,847</u>	<u>0.25</u>	<u>(228,624)</u>	<u>(0.29)</u>
Income before income tax		48,114,957	35.54	14,548,974	18.20
Income tax expense	4, 6(22)	(9,249,397)	(6.83)	(2,731,735)	(3.42)
Net income		<u>38,865,560</u>	<u>28.71</u>	<u>11,817,239</u>	<u>14.78</u>
Other comprehensive income	6(21)				
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	6(13)	(68,370)	(0.05)	(10,509)	(0.01)
Unrealized gains from equity instruments investments measured at fair value through other comprehensive income		1,215,780	0.90	1,443,250	1.81
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		(12,071)	(0.01)	4,274	-
Other comprehensive income (net of income tax)		<u>1,135,339</u>	<u>0.84</u>	<u>1,437,015</u>	<u>1.80</u>
Total comprehensive income		<u>\$ 40,000,899</u>	<u>29.55</u>	<u>\$ 13,254,254</u>	<u>16.58</u>
Net income attributable to :					
Shareholders of the parent		\$ 38,865,560		\$ 11,817,239	
Non-controlling interests		-		-	
		<u>\$ 38,865,560</u>		<u>\$ 11,817,239</u>	
Comprehensive income attributable to :					
Shareholders of the parent		\$ 40,000,899		\$ 13,254,254	
Non-controlling interests		-		-	
		<u>\$ 40,000,899</u>		<u>\$ 13,254,254</u>	
Earnings per share	6(23)				
Basic earnings per share (in New Taiwan Dollars)		<u>\$ 63.87</u>		<u>\$ 19.42</u>	
Diluted earnings per share (in New Taiwan Dollars)		<u>\$ 63.77</u>		<u>\$ 19.40</u>	

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

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For The Years Ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

Description	Equity attributable to shareholders of the parent							Total	Total equity
	Common stock	Capital surplus	Retained earnings			Other adjustments			
			Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income		
Balance as of January 1, 2020	\$ 6,085,115	\$ 3,287,822	\$ 8,435,574	\$ 464,450	\$ 15,053,988	\$ (131,007)	\$ (117,622)	\$ 33,078,320	\$ 33,078,320
Appropriation and distribution of 2019 earnings:									
Legal reserve	-	-	792,741	-	(792,741)	-	-	-	-
Cash dividends	-	-	-	-	(5,476,603)	-	-	(5,476,603)	(5,476,603)
Reversal of Special reserve	-	-	-	(215,821)	215,821	-	-	-	-
Cash dividends distributed from capital surplus	-	(912,768)	-	-	-	-	-	(912,768)	(912,768)
Net income for the year ended December 31, 2020	-	-	-	-	11,817,239	-	-	11,817,239	11,817,239
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	(10,509)	4,274	1,443,250	1,437,015	1,437,015
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	11,806,730	4,274	1,443,250	13,254,254	13,254,254
Balance as of December 31, 2020	<u>\$ 6,085,115</u>	<u>\$ 2,375,054</u>	<u>\$ 9,228,315</u>	<u>\$ 248,629</u>	<u>\$ 20,807,195</u>	<u>\$ (126,733)</u>	<u>\$ 1,325,628</u>	<u>\$ 39,943,203</u>	<u>\$ 39,943,203</u>
Balance as of January 1, 2021	\$ 6,085,115	\$ 2,375,054	\$ 9,228,315	\$ 248,629	\$ 20,807,195	\$ (126,733)	\$ 1,325,628	\$ 39,943,203	\$ 39,943,203
Appropriation and distribution of 2020 earnings:									
Legal reserve	-	-	1,180,673	-	(1,180,673)	-	-	-	-
Cash dividends	-	-	-	-	(9,492,779)	-	-	(9,492,779)	(9,492,779)
Reversal of Special reserve	-	-	-	(248,629)	248,629	-	-	-	-
Net income for the year ended December 31, 2021	-	-	-	-	38,865,560	-	-	38,865,560	38,865,560
Other comprehensive income for the year ended December 31, 2021	-	-	-	-	(68,370)	(12,071)	1,215,780	1,135,339	1,135,339
Total comprehensive income for the year ended December 31, 2021	-	-	-	-	38,797,190	(12,071)	1,215,780	40,000,899	40,000,899
Balance as of December 31, 2021	<u>\$ 6,085,115</u>	<u>\$ 2,375,054</u>	<u>\$ 10,408,988</u>	<u>\$ -</u>	<u>\$ 49,179,562</u>	<u>\$ (138,804)</u>	<u>\$ 2,541,408</u>	<u>\$ 70,451,323</u>	<u>\$ 70,451,323</u>

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

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English Translation of Consolidated Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For The Years Ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

Description	For the years ended December 31,		Description	For the years ended December 31,	
	2021	2020		2021	2020
Cash flows from operating activities:			Cash flows from investing activities:		
Income before income tax	\$ 48,114,957	\$ 14,548,974	Acquisition of financial assets measured at fair value through other comprehensive income	-	(15,095)
Adjustments for:			Proceeds from capital return of financial assets measured at fair value through other comprehensive income	-	4,760
The profit or loss items:			Acquisition of financial assets measured at fair value through profit or loss	(12,500)	-
Depreciation	874,360	739,445	Acquisition of property, plant and equipment	(845,227)	(3,324,011)
Amortization	226,434	262,914	Increase in refundable deposits	(7,210,819)	(2,499)
Expected credit losses	-	80,000	Acquisition of intangible assets	(157,541)	(111,126)
Interest expense	19,686	6,803	Increase in prepayment for equipment	(381,684)	(201,981)
Interest income	(127,165)	(102,472)	Dividend received	193,958	-
Dividend income	(193,958)	-	Net cash used in investing activities	(8,413,813)	(3,649,952)
Losses on disposal or retirement of property, plant and equipment	236	417			
Unrealized (gains) losses from exchange foreign currency	(37,486)	7,353			
Others	(262)	-	Cash flows from financing activities:		
Changes in operating assets and liabilities :			Increase in guarantee deposits	13,518,642	-
Trade receivables	(10,198,041)	(112,489)	Decrease in guarantee deposits	-	(307,153)
Other receivables	(18,609)	(69,199)	Cash payment for the principal portion of the lease liabilities	(51,490)	(60,914)
Inventories	(6,030,203)	(1,893,641)	Cash dividends	(9,492,779)	(6,389,371)
Prepayments	(118,184)	7,666	Interest paid	(19,686)	(6,803)
Other financial assets	-	(4,800)	Net cash generated (used) in financing activities	3,954,687	(6,764,241)
Contract liabilities	282,564	289,385			
Trade payables	5,019,352	1,729,343			
Trade payables to related parties	2,232,444	292,656			
Other payables	4,798,677	1,450,711			
Other current liabilities	4,981	(17,292)			
Net defined benefit liabilities	(5,760)	(4,843)			
Cash generated from operating activities	44,844,023	17,210,931	Effect of exchange rate changes on cash and cash equivalents	(8,026)	(3,888)
Interest received	124,553	103,498	Net increase in cash and cash equivalents	37,253,900	4,961,511
Income tax paid	(3,247,524)	(1,934,837)	Cash and cash equivalents at the beginning of the year	22,875,307	17,913,796
Net cash generated by operating activities	41,721,052	15,379,592	Cash and cash equivalents at the end of the year	\$ 60,129,207	\$ 22,875,307

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

Chairman: T. S. Ho

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NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For The Years Ended December 31, 2021 and 2020

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

1. HISTORIES AND ORGANIZATION

Novatek Microelectronics Corporation ("the Company") was incorporated in Hsinchu Science-Based Industrial Park on May 28, 1997. The Company is mainly engaged in researching, developing, manufacturing and sales of integrated circuit chips speech, communication, computer peripheral, LCD driver IC system, embedded MCU, DSP and system. The Company's shares are traded in Taiwan Stock Exchange. The Company's registered office and the main business location is at 2F, No.13, Innovation Road I, Hsinchu Science Park, Hsinchu 300, Taiwan R.O.C.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended December 31, 2021 and 2020 were authorized for issue by the Board of Directors on February 25, 2022.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 3, IAS 16 and IAS 37	"Business Combination", "Property, Plant and Equipment" and "Provisions, Contingent Assets" (Amendment) and the Annual Improvements	January 1, 2022

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

- (3) Standards or interpretations issued, revised or amended by IASB but not yet recognized by FSC at the date of issuance of the Group's financial statements are listed below:

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 10 and IAS 28	"Consolidated financial statements" and "Investments in Associates and Joint Ventures" (Amendment)	To be determined by IASB
IFRS 17	"Insurance Contracts"	January 1, 2023
IAS 1	"Classification of Liabilities as Current or Non-current" (Amendment)	January 1, 2023
IAS 1	"Disclosure Initiative - Accounting Policies" (Amendment)	January 1, 2023
IAS 8	"Definition of accounting estimates" (Amendment)	January 1, 2023
IAS 12	"Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (Amendment)	January 1, 2023

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date of issuance of the Group's financial statements. The local effective dates are to be determined by FSC. All standards and interpretations have no material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2021 and 2020 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations"), the IFRSs, IASs, and interpretations as well as related guidance endorsed by the FSC with the effective dates.

- (2) Basis of preparation

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(3) Basis of consolidation

Principle of consolidation

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

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

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

- A. the contractual arrangement with the other vote holders of the investee
- B. rights arising from other contractual arrangements
- C. the Company's voting rights and potential voting rights

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

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

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

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

If the Company loses control of a subsidiary, it:

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- A. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
 B. derecognizes the carrying amount of any non-controlling interest;
 C. recognizes the fair value of the consideration received;
 D. recognizes the fair value of any investment retained;
 E. recognizes any surplus or deficit in profit or loss; and
 F. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Consolidated entities

Investor	Subsidiary	Main businesses	Percentage of ownership (%)	
			2021.12.31	2020.12.31
NVT	Novatek International (BVI) Ltd.	Investment	100%	100%
NVT	Novatek Investment Corporation Limited	Investment	100%	100%
NVT	Novatek Japan Kabushiki-Kaisha	Design and marketing of integrated circuits and semiconductor service	100%	100%
NVT	NTK International Limited	Manufacturing and marketing of integrated circuits and semiconductor devices	100%	100%
NVT	Cheertek International Inc.	Investment	100%	100%
Novatek International (BVI) Ltd.	Novatek (Shenzhen) Co., Ltd.	Design, development, test and consulting of semiconductor application software	100%	100%
Novatek International (BVI) Ltd.	Novatek International (SAMOA) Ltd.	Investment	100%	100%
Novatek International (BVI) Ltd.	Novatek (Beijing) Co., Ltd.	Design, development, test and consulting of semiconductor application software	100% (Note)	-
Novatek International (SAMOA) Ltd.	Novatek (Suzhou) Co., Ltd.	Sales and marketing of electronics international trading and service	100%	100%
Novatek International (SAMOA) Ltd.	Novatek (Xian) Co., Ltd.	Design, development, test and consulting of semiconductor application software	100%	100%
Cheertek International Inc.	Novatek (Shanghai) Co., Ltd.	Amendment, testing and consulting of semiconductor application software	100%	100%

Note: Novatek (Beijing) Co., Ltd. was incorporated on August 6, 2021.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(4) Foreign currency transactions

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

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

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

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

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

(5) Translation of financial statements in foreign currency

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(7) Cash and cash equivalents

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

(8) Financial instruments

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

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

A. Financial instruments: Recognition and Measurement

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

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

- (a) the Group's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

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

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

Financial assets measured at fair value through other comprehensive income

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

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
- I. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - II. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

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

Financial assets measured at fair value through profit or loss

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

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

B. Impairment of financial assets

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

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

C. Derecognition of financial assets

A financial asset is derecognized when:

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

D. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

E. Offsetting of financial instruments

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(9) Fair value measurement

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

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

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

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

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

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

(10) Inventories

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

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

Raw materials — Actual purchase cost measured using weighted-average method.

Finished goods and work in progress — Cost of direct materials and manufacturing overheads.

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(11) Property, plant and equipment

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

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

Buildings and facilities	6~51 years
Machinery and equipment	4~6 years
Moulding equipment	2 years
Other equipment	2~6 years

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

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

(12) Leases

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

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Notes to Consolidated Financial Statements (Continued)

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

- A. the right to obtain substantially all of the economic benefits from use of the identified asset; and
- B. the right to direct the use of the identified asset.

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

Group as a lessee

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

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

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

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

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Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

(13) Intangible assets

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

Research and development costs

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

- A. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- B. its intention to complete and its ability to use or sell the asset;
- C. how the asset will generate future economic benefits;
- D. the availability of resources to complete the asset;
- E. the ability to measure reliably the expenditure during development.

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

A summary of the policies applied to the Group's intangible assets is as follows:

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Notes to Consolidated Financial Statements (Continued)

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

	Expertise capitalized	Computer software	Other intangible assets
Useful lives	Finite (5~10 years)	Finite (3~10 years)	Finite (3 years)
Amortization method used	Amortized on a straight-line basis over the period of the patent	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired	Acquired	Acquired

(14) Impairment of non-financial assets

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

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

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

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Notes to Consolidated Financial Statements (Continued)

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

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

(15) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(16) Sales returns and allowances

The Group estimates sales returns and allowances based on past experience and other known factors in accordance with IFRS 15, which are recognized as deduction of operating revenue and provisions.

(17) Revenue recognition

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policy is explained as follows:

Sale of goods

The Group manufactures and sells goods. Sales are recognized when control of the goods is transferred to the customers and the goods are delivered to the customers. The main products of the Group are Display driver IC and SoC and revenue is recognized based on the consideration stated in the contract.

The credit period of the Group's sale of goods is from 60 to 150 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Group has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

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

Rendering of services

Revenue from the rendering of services primarily comes from non-recurring engineering, which is recognized based on the stage of completion of the contracts. Most of the contractual considerations of the Group are collected evenly throughout the contract periods. When the Group has performed the services to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arises.

(18) Post-employment benefits

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

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

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

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

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

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

(19) Income taxes

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

Current income tax

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

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

Deferred tax

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

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

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

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

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Notes to Consolidated Financial Statements (Continued)

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

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

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

(1) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 6.

(2) Valuation for inventories

Inventories are stated at lower of cost and net realizable value, so the Group exercises the judgments and estimates to determine the net realizable value of the inventories at the end of the reporting period. Due to the rapid changes of technology, the Group estimates the net realizable value of the inventories for obsolescence and unmarketable items based on the historical experience for the nature of inventories and the future value in use as well as the market price at the reporting date. Please refer to Note 6.

(3) Post-employment benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 for more details.

(4) Revenue recognition — sales returns and allowance

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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(5) Fair value of financial instruments

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

(6) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group entities' domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for disclosure on unrecognized deferred tax assets of the Group as of December 31, 2021.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2021	2020
Cash on hand	\$1,527	\$1,616
Checking and saving accounts	6,982,511	5,907,282
Fixed-term deposits	52,890,169	16,700,520
Cash equivalents Puttable notes — commercial paper	255,000	265,889
	<u>\$60,129,207</u>	<u>\$22,875,307</u>

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(2) Trade receivables

	As of December 31,	
	2021	2020
Trade receivables	\$24,299,307	\$14,101,266
Less: loss allowance	(727,798)	(727,798)
	<u>\$23,571,509</u>	<u>\$13,373,468</u>

Trade receivables were not pledged.

Trade receivables are generally on 60-150 day terms. Please refer to Note 6 (17) for more details on loss allowance of trade receivables for the years ended December 31, 2021 and 2020. Please refer to Note 12 for more details on credit risk management.

(3) Other receivables

	As of December 31,	
	2021	2020
Income tax refund receivable	\$336,783	\$318,156
Interest receivable	4,503	1,891
	<u>\$341,286</u>	<u>\$320,047</u>

(4) Inventories

	As of December 31,	
	2021	2020
Raw materials	\$1,316,319	\$803,127
Supplies	271,971	410,908
Work in progress	7,860,221	4,560,264
Finished goods	4,737,904	2,381,913
	<u>\$14,186,415</u>	<u>\$8,156,212</u>

Expenses and losses incurred on inventories for the years ended December 31, 2021 and 2020 are as follows:

	Years Ended December 31,	
	2021	2020
Cost of inventories sold	\$67,115,190	\$51,342,287
Allowance for inventory valuation and obsolescence loss	860,000	657,000
Revenue from sale of scraps	(1,204)	(1,474)
	<u>\$67,973,986</u>	<u>\$51,997,813</u>

Inventories were not pledged.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	As of December 31,	
	2021	2020
Financial assets at fair value through profit or loss, non-current:		
CDIB-Innolux Limited Partnership	\$12,500	\$-

The Group newly invested NT\$12,500 thousand in CDIB-Innolux Limited Partnership with the capital contribution ratio of 4.37% in 2021.

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

	As of December 31,	
	2021	2020
Equity instrument investments measured at fair value through other comprehensive income, non-current:		
Unlisted companies' stocks		
SHIEH YONG Investment Co., Ltd.	\$3,339,067	\$2,407,239
Unitech Capital Inc.	251,661	212,049
TriKnight Capital Corporation	649,229	391,887
Fortemedia Inc.	4,510	4,510
Yobon Technologies, Inc.	-	150
Perinnova Limited	5,861	5,861
Gear Radio Limited	26,579	39,431
	\$4,276,907	\$3,061,127

The Group acquire NT\$4,760 thousand for the return of capital from TriKnight Capital Corporation which was reported under equity instrument investments measured at fair value through other comprehensive income in 2020.

The Group's dividend income related to equity instrument investments measured at fair value through other comprehensive income for the years ended December 31, 2021 and 2020 are as follows:

	Years Ended December 31,	
	2021	2020
Related to investments held at the end of the reporting period	\$193,958	\$-
Related to investments derecognized during the period	-	-
Dividends recognized during the period	\$193,958	\$-

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(7) Property, plant and equipment

	As of December 31,	
	2021	2020
Owner occupied property, plant and equipment	\$6,906,038	\$6,577,261

A. Owner occupied property, plant and equipment

	Land	Buildings and facilities	Machinery and equipment	Moulding equipment	Other equipment	Construction in progress	Total
Cost:							
As of January 1, 2021	\$-	\$2,390,906	\$3,246,743	\$180,398	\$120,784	\$3,341,907	\$9,280,738
Additions	2,997	33,417	422,120	93,212	10,461	283,020	845,227
Disposals	-	(10,347)	(100,978)	(35,637)	(32,795)	-	(179,757)
Exchange differences	-	(4,296)	(1,044)	-	(641)	-	(5,981)
Other changes	987,793	2,903,980	18,663	-	23,350	(3,624,927)	308,859
As of December 31, 2021	\$990,790	\$5,313,660	\$3,585,504	\$237,973	\$121,159	\$-	\$10,249,086
As of January 1, 2020	\$-	\$2,339,008	\$2,651,830	\$122,548	\$109,061	\$773,143	\$5,995,590
Additions	-	22,814	646,606	79,239	6,588	2,568,764	3,324,011
Disposals	-	(750)	(109,651)	(21,389)	(2,620)	-	(134,410)
Exchange differences	-	9,374	1,921	-	735	-	12,030
Other changes	-	20,460	56,037	-	7,020	-	83,517
As of December 31, 2020	\$-	\$2,390,906	\$3,246,743	\$180,398	\$120,784	\$3,341,907	\$9,280,738

Depreciation and impairment:

As of January 1, 2021	\$-	\$1,036,686	\$1,485,871	\$92,145	\$88,775	\$-	\$2,703,477
Depreciation	-	101,045	628,567	80,556	10,859	-	821,027
Disposals	-	(10,347)	(100,870)	(35,637)	(32,667)	-	(179,521)
Exchange differences	-	(757)	(613)	-	(565)	-	(1,935)
Other changes	-	-	(858)	-	858	-	-
As of December 31, 2021	\$-	\$1,126,627	\$2,012,097	\$137,064	\$67,260	\$-	\$3,343,048
As of January 1, 2020	\$-	\$957,550	\$1,066,802	\$55,322	\$77,213	\$-	\$2,156,887
Depreciation	-	78,064	527,802	58,212	12,609	-	676,687
Disposals	-	(750)	(109,483)	(21,389)	(2,371)	-	(133,993)
Exchange differences	-	1,822	1,454	-	620	-	3,896
Other changes	-	-	(704)	-	704	-	-
As of December 31, 2020	\$-	\$1,036,686	\$1,485,871	\$92,145	\$88,775	\$-	\$2,703,477

Net carrying amount as of:

December 31, 2021	\$990,790	\$4,187,033	\$1,573,407	\$100,909	\$53,899	\$-	\$6,906,038
December 31, 2020	\$-	\$1,354,220	\$1,760,872	\$88,253	\$32,009	\$3,341,907	\$6,577,261

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

B. Components of buildings with different useful lives are main building structure, electromechanical and air conditioning units, which are depreciated over 20~51 years and 6~21 years, respectively.

C. The Group's property, plant and equipment were not pledged.

(8) Intangible assets

	Computer software	Goodwill	Expertise capitalized	Others	Total
Cost:					
As of January 1, 2021	\$339,954	\$2,080,084	\$2,401,665	\$91,000	\$4,912,703
Additions	25,164	-	132,377	-	157,541
Decreases	(18,716)	-	-	(91,000)	(109,716)
Exchange differences	(39)	-	(66)	-	(105)
Other changes	7,500	-	-	-	7,500
As of December 31, 2021	<u>\$353,863</u>	<u>\$2,080,084</u>	<u>\$2,533,976</u>	<u>\$-</u>	<u>\$4,967,923</u>
As of January 1, 2020	\$309,840	\$2,080,084	\$2,329,731	\$91,000	\$4,810,655
Additions	39,336	-	71,790	-	111,126
Decreases	(9,300)	-	-	-	(9,300)
Exchange differences	78	-	144	-	222
As of December 31, 2020	<u>\$339,954</u>	<u>\$2,080,084</u>	<u>\$2,401,665</u>	<u>\$91,000</u>	<u>\$4,912,703</u>
Amortization and impairment:					
As of January 1, 2021	\$287,359	\$-	\$1,989,172	\$91,000	\$2,367,531
Amortization	44,171	-	181,136	-	225,307
Decreases	(18,716)	-	-	(91,000)	(109,716)
Exchange differences	(26)	-	(60)	-	(86)
As of December 31, 2021	<u>\$312,788</u>	<u>\$-</u>	<u>\$2,170,248</u>	<u>\$-</u>	<u>\$2,483,036</u>
As of January 1, 2020	\$245,736	\$-	\$1,788,685	\$80,889	\$2,115,310
Amortization	50,863	-	200,353	10,111	261,327
Decreases	(9,300)	-	-	-	(9,300)
Exchange differences	60	-	134	-	194
As of December 31, 2020	<u>\$287,359</u>	<u>\$-</u>	<u>\$1,989,172</u>	<u>\$91,000</u>	<u>\$2,367,531</u>
Net carrying amount as of:					
December 31, 2021	<u>\$41,075</u>	<u>\$2,080,084</u>	<u>\$363,728</u>	<u>\$-</u>	<u>\$2,484,887</u>
December 31, 2020	<u>\$52,595</u>	<u>\$2,080,084</u>	<u>\$412,493</u>	<u>\$-</u>	<u>\$2,545,172</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Amortization expense of intangible assets under the statement of comprehensive income:

	Years Ended December 31,	
	2021	2020
Operating costs	\$377	\$-
Research and development expenses	\$200,093	\$230,242
Administrative expenses	\$24,837	\$31,085

(9) Impairment testing of goodwill

The Group is a single operating segment, also a cash-generating unit, based on which, the Group assesses whether the goodwill is impaired annually. The major revenue of the Group comes from flat panel display and integrated circuit design products, assessments are as follows:

The recoverable amounts of the cash-generating unit have been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections is 16.43% in 2021 and 16.06% in 2020. Cash flows beyond the five-year period are extrapolated using the growth rate of 2.1% in 2021 and 0.1% in 2020. As of December 31, 2021 and 2020, the group did not identify any impairment for goodwill of NT\$2,080,084 thousand.

The calculation of value-in-use for cash-generating units is most sensitive to the following assumptions:

- A. Gross margin
- B. Discount rates
- C. Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins — gross margins are based on the actual results in the recent years, and are adjusted with considering the expected future market trend.

Discount rates — the discount rates were estimated based on the weighted average cost of capital (WACC) for the Group, taking into account the particular situations of the Group and its operating segments. The WACC includes both the cost of liabilities and cost of equities. The cost of equities is derived from the expected returns of the Group's investors on capital, where the cost of liabilities is measured by the interest-bearing loans that the Group has obligation to settle.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Growth rates of sales estimates — the growth rates of sales are based on historical experiences. For the reasons explained above, the long-term average growth rate used to extrapolate the budget has been adjusted base on the speed of product innovation and the overall economic environment.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(10) Other financial assets

	As of December 31,	
	2021	2020
Refundable deposits for capacity reservation	\$7,215,367	\$-
Others	24,634	11,300
	<u>\$7,240,001</u>	<u>\$11,300</u>
Current	\$1,542,551	\$-
Non-current	5,697,450	11,300
	<u>\$7,240,001</u>	<u>\$11,300</u>

The Group entered into the capacity reservation agreements with suppliers to ensure stable foundry capacity. The deposits were paid to suppliers in compliance with the agreements and refunded to the Group when terms and conditions set forth in the agreements have been satisfied.

(11) Other non-current assets

	As of December 31,	
	2021	2020
Prepayments for equipment	\$192,707	\$127,382
Others	64	19,082
	<u>\$192,771</u>	<u>\$146,464</u>

(12) Other current liabilities

	As of December 31,	
	2021	2020
Sales returns and allowance	\$75,840	\$82,237
Advance sales receipts	28,089	18,554
Others	36,806	34,963
	<u>\$140,735</u>	<u>\$135,754</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(13) Post-employment benefits

Defined contribution plan

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

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

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

For the years ended December 31, 2021 and 2020, the pension expenses recognized under the defined contribution plan are NT\$192,003 thousand and NT\$178,129 thousand, respectively.

Defined benefit plan

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandating, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$8,928 thousand to its defined benefit plan during the 12 months beginning after December 31, 2021.

The average duration of the defined benefit plan obligation as of December 31, 2021 and 2020 are 12.80 years and 14.64 years, respectively.

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

	Years Ended December 31,	
	2021	2020
Current period service costs	\$2,664	\$2,779
Interest income or expense	621	1,298
Other adjustments	27	12
	<u>\$3,312</u>	<u>\$4,089</u>

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

	As of		
	December 31, 2021	December 31, 2020	January 1, 2020
Defined benefit obligation	\$444,075	\$368,810	\$349,951
Plan assets at fair value	(213,490)	(200,952)	(187,746)
Other adjustments	(115)	2	(11)
Net defined benefit liabilities, non-current recognized on the consolidated balance sheets	<u>\$230,470</u>	<u>\$167,860</u>	<u>\$162,194</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Reconciliation of liabilities (assets) under the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liabilities (assets)
As of January 1, 2020	\$349,951	\$(187,746)	\$162,205
Current period service costs	2,779	-	2,779
Net interest expense (income)	2,800	(1,502)	1,298
	<u>355,530</u>	<u>(189,248)</u>	<u>166,282</u>
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	2,683	-	2,683
Actuarial gains and losses arising from changes in financial assumptions	22,059	-	22,059
Experience adjustments	(8,042)	-	(8,042)
Remeasurements on plan assets	-	(6,191)	(6,191)
	<u>16,700</u>	<u>(6,191)</u>	<u>10,509</u>
Contributions by employer	-	(8,933)	(8,933)
Payments from the plan	(3,420)	3,420	-
As of December 31, 2020	368,810	(200,952)	167,858
Current period service costs	2,664	-	2,664
Net interest expense (income)	1,365	(744)	621
	<u>372,839</u>	<u>(201,696)</u>	<u>171,143</u>
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	(4,513)	-	(4,513)
Actuarial gains and losses arising from changes in financial assumptions	(21,958)	-	(21,958)
Experience adjustments	97,707	-	97,707
Remeasurements on plan assets	-	(2,866)	(2,866)
	<u>71,236</u>	<u>(2,866)</u>	<u>68,370</u>
Contributions by employer	-	(8,928)	(8,928)
Payments from the plan	-	-	-
As of December 31, 2021	<u>\$444,075</u>	<u>\$(213,490)</u>	<u>\$230,585</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

	As of December 31,	
	2021	2020
Discount rate	0.74%	0.37%
Expected rate of salary increases	3.00%	3.00%

The sensitivity analyses for significant assumption are shown below:

	Years Ended December 31,			
	2021		2020	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increases by 0.5%	\$-	\$(27,185)	\$-	\$(25,733)
Discount rate decreases by 0.5%	29,665	-	28,263	-
Future salary increases by 0.5%	28,839	-	27,369	-
Future salary decreases by 0.5%	-	(26,738)	-	(25,223)

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

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

(14) Guarantee deposits, non-current

	As of December 31,	
	2021	2020
Guarantee deposits for capacity reservation	\$13,481,156	\$-

The customers entered into the capacity reservation agreements with the Group to reserve specific production capacity. The deposits were received from the customers in compliance with the agreements and refunded to them when terms and conditions set forth in the agreements have been satisfied.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

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

(15) Equities

A. Common stock

As of both December 31, 2021 and 2020, the Company's authorized capital was NT\$7,500,000 thousand and the issued capital was NT\$6,085,115 thousand, each at a par value of NT\$10. The Company has issued 608,512 thousand common shares as of both December 31, 2021 and 2020. Each share has one voting right and a right to receive dividends.

B. Capital surplus

	As of December 31,	
	2021	2020
Additional paid-in capital — conversion of convertible bonds	\$7,959	\$7,959
Premium from merger	2,244,432	2,244,432
Employee stock option	122,663	122,663
	<u>\$2,375,054</u>	<u>\$2,375,054</u>

According to the Company Act, the capital surplus shall not be used except for offset a deficit of the company. When a company incurs no loss, it may distribute the capital surplus derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Legal Reserve

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

D. Special Reserve

When the Company distributing distributable earnings, it shall set aside to special reserve, an amount equal to “other net deductions from shareholders” equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements for the adoption of IFRS, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders’ equity. For any subsequent reversal of other net deductions from shareholders’ equity, the amount reversed may be distributed from the special reserve.

The FSC on March 31, 2021 issued Order No. Financial-Supervisory-Securities-Corporate-1090150022, which sets out the following provisions for compliance: Upon a public company's first-time adoption of the IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders’ equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside special reserve. For any subsequent use, disposal or reclassification of related assets, the Company can reverse the special reserve by the proportion of the special reserve first appropriated and distribute it.

E. Retained earnings and dividend policies

According to the Company’s Articles of Incorporation, current year’s earnings, if any, shall be distributed in the following order:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- (d) Special reserve in compliance with the Company Law or Securities and Exchange Law;
- (e) The remaining balance after the mentioned above payment to be made, combining with the undistributed earnings of the proceeding years may be retained or distributed as shareholders’ dividends after the approval of the shareholders’ meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders’ meeting. Dividends distributed to shareholders, if any, could be paid in the form of cash or share dividends. At least 50% of the dividends must be paid in the form of cash.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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The 2020 and 2019 earnings distribution and dividends per share as approved by the shareholders' meeting on July 20, 2021 and June 9, 2020, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	Years Ended December 31,			
	2020	2019	2020	2019
Legal reserve	\$1,180,673	\$792,741		
Special reserve	(248,629)	(215,821)		
Common stock — cash dividends	9,492,779	5,476,603	15.60	9.00

In addition, the general shareholders' meeting on June 9, 2020 resolved to distribute the additional paid-in capital by cash in the amount of NT\$912,768 thousand, or NT\$1.5 per share.

Please refer to Note 6(19) for further details on employees' compensation and remuneration to directors.

(16) Operating revenue

A. Disaggregation of revenue

	Years Ended December 31,	
	2021	2020
Revenue from contracts with customers		
Sale of goods	\$134,905,074	\$79,358,538
Other operating revenues	460,436	596,982
	<u>\$135,365,510</u>	<u>\$79,955,520</u>
Timing of revenue recognition:		
At a point in time	\$134,926,586	\$79,404,149
Over time	438,924	551,371
	<u>\$135,365,510</u>	<u>\$79,955,520</u>

B. Contract balances

Contract liabilities, current

	December 31, 2021	December 31, 2020	January 1, 2020
Sale of goods	\$265,222	\$2,773	\$28,477
Other operating revenues	347,989	327,874	12,785
	<u>\$613,211</u>	<u>\$330,647</u>	<u>\$41,262</u>

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Notes to Consolidated Financial Statements (Continued)

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The significant changes in the Group's balances of contract liabilities for the years ended December 31, 2021 and 2020 are as follows:

	Years Ended December 31,	
	2021	2020
Performance during the period	\$(604,629)	\$(119,634)
Increase in receipts in advance during the period	887,193	409,019

C. Transaction price allocated to unsatisfied performance obligations

There is no need to provide relevant information of the unsatisfied performance obligations as the contract terms with customers about the sales of goods are all shorter than one year.

D. Assets recognized from costs to fulfil a contract: None.

(17) Expected credit losses

	Years Ended December 31,	
	2021	2020
Operating expenses — Expected credit losses		
Trade receivables	\$-	\$80,000

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

The Group measures the credit loss allowance of its trade receivables at an amount equal to lifetime expected credit losses. The assessment of the Group's credit loss allowance as of December 31, 2021 and 2020 are as follows:

The Group consider the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follows:

As of December 31, 2021

	Days of trade receivables			Total
	<=60 days	61-180 days	>=180 days	
Gross carrying amount	\$17,952,057	\$6,327,097	\$20,153	\$24,299,307
Loss ratio	1%-5%	5%-30%	20%-100%	
Lifetime expected credit losses	303,518	404,127	20,153	727,798
	<u>\$17,648,539</u>	<u>\$5,922,970</u>	<u>\$-</u>	<u>\$23,571,509</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

As of December 31, 2020

	Days of trade receivables			Total
	<=60 days	61-180 days	>=180 days	
Gross carrying amount	\$10,785,254	\$3,292,153	\$23,859	\$14,101,266
Loss ratio	1%-5%	10%-30%	20%-100%	
Lifetime expected credit losses	209,764	494,175	23,859	727,798
	<u>\$10,575,490</u>	<u>\$2,797,978</u>	<u>\$-</u>	<u>\$13,373,468</u>

The movement in the provision for impairment of trade receivables as for the years ended December 31, 2021 and 2020 are as follows:

Loss allowance	Year Ended December 31, 2021
As of January 1, 2021	\$727,798
Addition/(reversal) for the current period	-
As of December 31, 2021	<u>\$727,798</u>

Loss allowance	Year Ended December 31, 2020
As of January 1, 2020	\$647,798
Addition for the current period	80,000
As of December 31, 2020	<u>\$727,798</u>

(18) Leases

A. Group as a lessee

The Group leases various properties, including real estate such as land and buildings, and other equipment. The lease terms range from 1 to 35 years.

The Group's leases effect on the financial position, financial performance and cash flows are as follow:

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(a) Amounts recognized in the balance sheet

I. Right-of-use assets

The carrying amount of right-of-use assets

	As of December 31,	
	2021	2020
Land	\$159,119	\$166,889
Buildings	81,834	95,163
	<u>\$240,953</u>	<u>\$262,052</u>

During the years ended December 31, 2021 and 2020, the Group's additions to right-of-use assets amounting to NT\$47,048 and NT\$4,326, respectively.

II. Lease liabilities

	As of December 31,	
	2021	2020
Lease liabilities	<u>\$247,502</u>	<u>\$267,049</u>
Current	\$46,902	\$53,318
Non-current	200,600	\$213,731

Please refer to Note 6(20) for the interest on lease liabilities recognized during the years ended December 31, 2021 and 2020, and refer to Note 12(5) Liquidity Risk Management for the maturity analysis for lease liabilities as of December 31, 2021 and 2020.

(b) Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	Years Ended December 31,	
	2021	2020
Land	\$10,067	\$9,338
Buildings	43,266	53,420
	<u>\$53,333</u>	<u>\$62,758</u>

(c) Income and costs relating to leasing activities

	Years Ended December 31,	
	2021	2020
The expenses relating to short-term leases	\$2,211	\$2,308
The expenses relating to leases of low-value assets (Not including the short-term leases)	1,471	1,386
Income from subleasing right-of-use assets	3,302	3,112

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(d) Cash outflow relating to leasing activities

During the years ended December 31, 2021 and 2020, the Group's total cash outflows for leases amounting to NT\$61,043 thousand and NT\$70,569 thousand, respectively.

(e) Other information relating to leasing activities

Extension option

Some of the Group's property rental agreements contain extension option. In determining the lease terms, the non-cancellable period for which the Group has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option. The option is used to maximize operational flexibility in terms of managing contracts. The majority of extension option held is exercisable only by the Group. After the commencement date, the Group reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

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

	Years Ended December 31,					
	2021			2020		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$334,796	\$13,112,770	\$13,447,566	\$295,535	\$7,784,025	\$8,079,560
Labor and health insurance	17,533	459,752	477,285	14,891	329,080	343,971
Pension	12,393	182,922	195,315	11,397	170,821	182,218
Others	1,235	57,094	58,329	710	38,290	39,000
Total amount	\$365,957	\$13,812,538	\$14,178,495	\$322,533	\$8,322,216	\$8,644,749
Depreciation	\$215,924	\$658,436	\$874,360	\$191,323	\$548,122	\$739,445
Amortization (Note)	\$377	\$226,057	\$226,434	\$-	\$262,914	\$262,914

Note: The amortization expenses include the amortization of other non-current assets for the years ended December 31, 2021 and 2020 were NT\$1,127 thousand and NT\$1,587 thousand, respectively.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

According to the Articles of Incorporation, no lower than 1% of profit of the current year is distributable as employees' compensation and no higher than 0.4‰ of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2021 to be NT\$486,165 thousand and NT\$12,000 thousand, respectively. The employees' compensation and remuneration to directors recognized as salary expense. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year. If the board of directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of resolution.

A resolution was approved at a Board of Directors meeting held on February 25, 2022 to distribute NT\$486,165 thousand and NT\$12,000 thousand in cash as employees' compensation and remuneration to directors, respectively. There was no material difference between the aforementioned approved amounts and the amounts charged against earnings in 2021.

No material differences exist between the estimated amount and the actual distribution NT\$147,041 thousand and NT\$12,000 thousand of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2020.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(20) Non-operating income and expenses

A. Interest income

	Years Ended December 31,	
	2021	2020
Interest income — Financial assets measured at amortized cost	\$127,165	\$102,472

B. Other income

	Years Ended December 31,	
	2021	2020
Rental income	\$3,302	\$3,112
Dividend income	193,958	-
Others	16,893	43,062
	\$214,153	\$46,174

C. Other gains and losses

	Years Ended December 31,	
	2021	2020
Foreign exchange gains (losses), net	\$24,776	\$(366,793)
Loss on disposal of property, plant and equipment	(236)	(417)
Others	(4,325)	(3,257)
	\$20,215	\$(370,467)

D. Finance costs

	Years Ended December 31,	
	2021	2020
Interest on borrowings from bank	\$13,815	\$842
Interest on lease liabilities	5,871	5,961
	\$19,686	\$6,803

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(21) Components of other comprehensive income

For the year ended December 31, 2021

		Reclassification adjustments	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
	Arising during the period	during the period			
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(68,370)	\$-	\$(68,370)	\$-	\$(68,370)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	1,215,780	-	1,215,780	-	1,215,780
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(12,071)	-	(12,071)	-	(12,071)
	<u>\$1,135,339</u>	<u>\$-</u>	<u>\$1,135,339</u>	<u>\$-</u>	<u>\$1,135,339</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

For the year ended December 31, 2020

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(10,509)	\$-	\$(10,509)	\$-	\$(10,509)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	1,443,250	-	1,443,250	-	1,443,250
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	4,274	-	4,274	-	4,274
	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>

(22) Income tax

The major components of income tax expense are as follows:

Income tax expense (income) recognized in profit or loss

	Years Ended December 31,	
	2021	2020
Current income tax expense:		
Current income tax charge	\$9,499,589	\$2,869,040
Adjustments in respect of current income tax of prior periods	(135,431)	(38,040)
Deferred tax expense:		
Deferred tax expense relating to origination and reversal of temporary differences	(113,030)	(107,346)
Others	(1,731)	8,081
Total income tax expense	<u>\$9,249,397</u>	<u>\$2,731,735</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

	Years Ended December 31,	
	2021	2020
Accounting profit before tax from continuing operations	\$48,114,957	\$14,548,974
Tax at the domestic rates applicable 20% to profits in the country concerned	\$9,622,991	\$2,909,795
Tax effect of revenues exempt from taxation	(32,136)	(259)
Tax effect of expenses not deductible for tax purposes	196	196
Tax effect of deferred tax assets/ liabilities	(244,723)	(158,089)
5% surtax on undistributed retained earnings	39,118	-
Adjustments in respect of current income tax of prior periods	(135,431)	(38,040)
Others	(618)	18,132
Total income tax expense recognized in profit or loss	\$9,249,397	\$2,731,735

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2021

	Beginning balance as of January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Acquired in business combinations	Exchange differences	Ending balance as of December 31, 2021
Temporary differences							
Unrealized foreign exchange losses (gains)	\$(28,046)	\$13,241	\$-	\$-	\$-	\$-	\$(14,805)
Unrealized inventory loss provision	366,354	146,374	-	-	-	-	512,728
Unrealized loss allowance	117,262	(20,203)	-	-	-	-	97,059
Unrealized estimated expense	35,558	(4,795)	-	-	-	-	30,763
Goodwill	(285,193)	(20,308)	-	-	-	-	(305,501)
Unrealized sales returns and allowances	16,447	(1,279)	-	-	-	-	15,168
Net defined benefit liabilities, non-current	8,922	-	-	-	-	-	8,922
Unused tax credits	2,198	-	-	-	-	-	2,198
Deferred tax income/ (expense)		\$113,030	\$-	\$-	\$-	\$-	
Net deferred tax assets	\$233,502						\$346,532
Reflected in balance sheet as follows:							
Deferred tax assets	\$546,741						\$666,838
Deferred tax liabilities	\$313,239						\$320,306

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

For the year ended December 31, 2020

	Beginning balance as of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Acquired in business combinations	Exchange differences	Ending balance as of December 31, 2020
Temporary differences							
Unrealized foreign exchange losses (gains)	\$(40,438)	\$12,392	\$-	\$-	\$-	\$-	\$(28,046)
Unrealized inventory loss provision	270,739	95,615	-	-	-	-	366,354
Unrealized loss allowance	101,506	15,756	-	-	-	-	117,262
Unrealized estimated expense	30,099	5,459	-	-	-	-	35,558
Goodwill	(264,885)	(20,308)	-	-	-	-	(285,193)
Unrealized sales returns and allowances	18,015	(1,568)	-	-	-	-	16,447
Net defined benefit liabilities, non-current	8,922	-	-	-	-	-	8,922
Unused tax credits	2,198	-	-	-	-	-	2,198
Deferred tax income/ (expense)		\$107,346	\$-	\$-	\$-	\$-	
Net deferred tax assets	\$126,156						\$233,502
Reflected in balance sheet as follows:							
Deferred tax assets	\$431,479						\$546,741
Deferred tax liabilities	\$305,323						\$313,239

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

The Company	Year	Tax losses for the period	Unused tax losses as of		Expiration year
			December 31, 2021	December 31, 2020	
Novatek (Shenzhen) Co., Ltd.	2017	\$189,004	\$174,691	\$180,936	2026
	2018	95,226	95,226	95,226	2027
Novatek Investment Corporation Limited	2013	12,927	12,927	12,927	2023
	2018	52,059	52,059	52,059	2028
Novatek (Beijing) Co., Ltd.	2021	2,430	2,430	-	2030
			\$337,333	\$341,148	

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Unrecognized deferred tax assets

As of December 31, 2021 and 2020, deferred tax assets that have not been recognized amount to NT\$78,203 thousand and NT\$69,261 thousand, respectively.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2021 and 2020, deferred tax liability not being recognized for subsidiaries, aggregated to NT\$39,942 thousand and NT\$37,963 thousand, respectively.

The assessment of income tax returns

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

The Group	The assessment of income tax returns
NVT	Assessed and approved up to 2019
Subsidiary — Novatek Investment Corporation Limited	Assessed and approved up to 2019
Subsidiary — NTK International Limited	Assessed and approved up to 2020

(23) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The capital structure of the Group is considered complex. Computations are as follows:

	Years Ended December 31,	
	2021	2020
(a) Basic earnings per share		
Profit attributable to ordinary equity holders of the parent company (in thousand NT\$)	\$38,865,560	\$11,817,239
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	608,512	608,512
Basic earnings per share (NT\$)	\$63.87	\$19.42
(b) Diluted earnings per share		
Profit attributable to ordinary equity holders of the parent company after dilution (in thousand NT\$)	\$38,865,560	\$11,817,239
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	608,512	608,512
Effect of dilution:		
Employee bonus-stock (in thousand share)	945	521
Weighted average number of ordinary shares outstanding after dilution (in thousand share)	609,457	609,033
Diluted earnings per share (NT\$)	\$63.77	\$19.40

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

7. RELATED PARTY TRANSACTIONS

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

Names of related parties	Nature of relationship of the related parties
United Microelectronics Corporation	Director of the Company
HeJian Technology (Suzhou) Co., Ltd.	Other related party
United Semiconductor (Xiamen) Co., LTD.	Other related party
Wavetek Microelectronics Corporation	Other related party
United Semiconductor Japan Co., Ltd.	Other related party

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Significant transactions with related parties

(1) Purchases

	Years Ended December 31,	
	2021	2020
United Microelectronics Corporation	\$15,625,168	\$11,731,985
HeJian Technology (Suzhou) Co., Ltd.	1,886,433	1,630,049
Others	2,831,177	642,550
	<u>\$20,342,778</u>	<u>\$14,004,584</u>

The payment terms from the related party suppliers were comparable with third party suppliers, and they are 45 days from the end of the month when the invoices are issued.

(2) Technology Service

	Years Ended December 31,	
	2021	2020
United Microelectronics Corporation	\$313,390	\$187,231
Others	100,291	19,033
	<u>\$413,681</u>	<u>\$206,264</u>

(3) Trade payables to related parties

Names of related parties	As of December 31,	
	2021	2020
United Microelectronics Corporation	\$3,110,821	\$1,889,963
HeJian Technology (Suzhou) Co., Ltd	376,194	287,496
Others	941,276	18,388
	<u>\$4,428,291</u>	<u>\$2,195,847</u>

(4) Other financial assets, non-current

	As of December 31,	
	2021	2020
United Microelectronics Corporation	<u>\$3,101,897</u>	<u>\$-</u>

Key management personnel compensation

	Years Ended December 31,	
	2021	2020
Short-term employee benefits	\$351,242	\$243,787
Post-employment benefits	1,520	1,341
	<u>\$352,762</u>	<u>\$245,128</u>

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

8. ASSETS PLEDGE AS SECURITY

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

Assets pledged for security	As of December 31,		Secured liabilities
	2021	2020	
Other financial assets, non-current	\$11,300	\$11,300	Guarantee for land

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

- (1) The Group recorded certain royalty fee since using certain technology know-how of other companies.
- (2) FOCALTECH ELECTRONICS, LTD. (“FOCALTECH”) filed two applications for preliminary injunctions with the Intellectual Property Court against the Company alleging infringement of Patent No. I529580B “TOUCH DISPLAY DEVICE, DRIVING CIRCUIT AND DRIVING METHOD” on August 29, 2018 and September 20, 2018. The Company received Intellectual Property Court 108-Min-Zhan-Kang-Zi-No.2 Civil Ruling in April, 2019. Intellectual Property Court has two applications for preliminary injunctions filed by FOCALTECH. FOCALTECH filed a complaint in the Intellectual Property Court on September 17, 2018 alleging that the Company’s chips infringe the I529580B patent. The Company received Intellectual Property Court 107-Min- Zhuan-Su-Zi-No.95 Civil Judgment on December 23, 2019. The first instance of the complaint for patent infringement has been OVERRULED by the Intellectual Property Court. The second instance of Litigation Proceedings are still processing, and the operations and financial of the Company would not be materially affected by this case.

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

12. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

	As of December 31,	
	2021	2020
<u>Financial assets</u>		
Financial assets measured at fair value through profit or loss	\$12,500	\$-
Financial assets measured at fair value through other comprehensive income	4,276,907	3,061,127
Financial assets measured at amortized cost		
Cash and cash equivalents (exclude cash on hand)	60,127,680	22,873,691
Trade receivables	23,912,795	13,693,515
Other financial assets (include current and non-current)	7,240,001	11,300
Refundable deposits (classified as other non-current assets)	-	17,882
	<u>\$95,569,883</u>	<u>\$39,657,515</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Trade and other payables	\$27,123,027	\$15,072,554
Guarantee deposits	13,481,156	-
Lease liabilities	247,502	267,049
	<u>\$40,851,685</u>	<u>\$15,339,603</u>

(2) Financial risk management objectives

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies, measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(3) Market risk

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

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

Foreign currency risk

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

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows:

When NTD strengthens/weakens against USD by 5%, the profit for the years ended December 31, 2021 and 2020 would decrease/increase by NT\$273,000 thousand and NT\$382,353 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans at variable interest rates.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

All of the Group's financial assets and financial liabilities that are exposed to cash flow risk due to fluctuating interest rate are under short term contracts, thus the cash flow risk of fluctuate interest is considerably low.

Equity price risk

The fair value of the Group's unlisted equity securities is susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's unlisted equity securities are classified under financial assets measured at fair value through other comprehensive income. The Group manages the equity price risk through diversification of equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

(4) Credit risk management

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

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

As of December 31, 2021 and 2020, trade receivables from top ten customers represented 56% and 58% of the total trade receivables of the Group, respectively. The credit concentration risk of other trade receivables is insignificant.

Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions and companies with good credit rating. Consequently, there is no significant credit risk for these counter parties.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The Group adopted IFRS 9 to assess the expected credit losses and the details of the assessment is described as follows:

Level of credit risk	Indicator	Measurement method for expected credit losses	Total carrying amount of trade receivables as of December 31,	
			2021	2020
Simplified approach (Note)	(Note)	Lifetime expected credit losses	<u>\$24,299,307</u>	<u>\$14,101,266</u>

Note: By using simplified approach (loss allowance is measured at lifetime expected credit losses), including accounts receivables.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest.

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2021					
Trade and other payables	\$27,123,027	\$-	\$-	\$-	\$27,123,027
Lease liabilities	52,225	66,322	24,878	149,379	292,804
Guarantee deposits	-	5,142,391	2,588,245	5,750,520	13,481,156
December 31, 2020					
Trade and other payables	\$15,072,554	\$-	\$-	\$-	\$15,072,554
Lease liabilities	58,867	61,699	38,115	157,973	316,654

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2021:

	Guarantee deposits	Lease liabilities	Total liabilities from financing activities
As of January 1, 2021	\$-	\$267,049	\$267,049
Cash flows	13,518,642	(51,490)	13,467,152
Non-cash changes			
Addition for the current period	-	47,048	47,048
Lease modification	-	(14,800)	(14,800)
Foreign exchange movement	(37,486)	(305)	(37,791)
As of December 31, 2021	<u>\$13,481,156</u>	<u>\$247,502</u>	<u>\$13,728,658</u>

Reconciliation of liabilities for the year ended December 31, 2020:

	Guarantee deposits	Lease liabilities	Total liabilities from financing activities
As of January 1, 2020	\$299,800	\$269,374	\$569,174
Cash flows	(307,153)	(60,914)	(368,067)
Non-cash changes			
Addition for the current period	-	4,326	4,326
Lease modification	-	52,124	52,124
Foreign exchange movement	7,353	2,139	9,492
As of December 31, 2020	<u>\$-</u>	<u>\$267,049</u>	<u>\$267,049</u>

(7) Fair values of financial instruments

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

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

- (a) The carrying amount of cash and cash equivalents, trade receivables, other receivables, refundable deposit (classified as other non-current assets), other financial assets, non-current and trade and other payables approximate their fair value due to their short maturities.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and funds etc.) at the reporting date.
- (c) Fair value of equity instruments without market quotations (including private company equity securities) are estimated using the market approach or asset approach valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information.
- (d) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

B. Fair value of financial instruments measured at amortized cost

Book value of the Group's financial assets and liabilities measured at amortized cost approximate their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Group.

(8) Fair values measurement hierarchy

A. Fair value measurement hierarchy

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 — Unobservable inputs for the asset or liability

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through profit or loss				
Stock	\$-	\$-	\$12,500	\$12,500
Financial assets measured at fair value through other comprehensive income				
Equity instrument	-	-	4,276,907	4,276,907
	<u>\$-</u>	<u>\$-</u>	<u>\$4,289,407</u>	<u>\$4,289,407</u>

As of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument	\$-	\$-	\$3,061,127	\$3,061,127
	<u>\$-</u>	<u>\$-</u>	<u>\$3,061,127</u>	<u>\$3,061,127</u>

Transfers between Level 1 and Level 2 during the period.

During the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements.

The detail movement of recurring fair value measurements in Level 3:

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

For the year ended December 31, 2021

	Assets	
	At fair value through profit or loss	At fair value through other comprehensive income
	Stocks	Stocks
As of January 1, 2021	\$-	\$3,061,127
Total gains and losses recognized:		
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	-	1,215,780
Additions in 2021	12,500	-
As of December 31, 2021	\$12,500	\$4,276,907

For the year ended December 31, 2020

	Assets	
	At fair value through other comprehensive income	At fair value through other comprehensive income
	Stocks	Stocks
As of January 1, 2020		\$1,607,542
Total gains and losses recognized:		
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)		1,443,250
Return of capital		(4,760)
Additions in 2020		15,095
As of December 31, 2020		\$3,061,127

Information on significant unobservable inputs to valuation

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

As of December 31, 2021:

	Valuation	Significant	Quantitative	Relationship	Sensitivity analysis of the
	technique	unobservable inputs	information	between inputs and fair value	input to fair value
Financial assets:					
Financial assets					
measured at fair					
value through					
profit or loss					
Stocks	Asset	Discount for lack	10%	The higher the	10% increase (decrease) in
	approach	of marketability		discount for lack of	the discount for lack of
		and minority		marketability, the	marketability would result
		interest		lower the fair value	in increase (decrease) in
				estimated	the Group's profit or loss
					by NT\$1,807 thousand
Financial assets					
measured at fair					
value through					
other					
comprehensive					
income					
Stocks	Asset	Discount for lack	10%	The higher the	10% increase (decrease) in
	approach	of marketability		discount for lack of	the discount for lack of
		and minority		marketability, the	marketability would result
		interest		lower the fair value	in increase (decrease) in
				estimated	the Group's equity by
					NT\$471,106 thousand
Stocks	Market	Discount for lack	10%	The higher the	10% increase (decrease) in
	approach	of marketability		discount for lack of	the discount for lack of
				marketability, the	marketability would result
				lower the fair value	in increase (decrease) in
				estimated	the Group's equity by
					NT\$2,953 thousand

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

As of December 31, 2020:

	Valuation	Significant	Quantitative	Relationship	Sensitivity analysis of the
	technique	unobservable inputs	information	between inputs and fair value	input to fair value
Financial assets:					
Financial assets measured at fair value through other comprehensive income					
Stocks	Asset approach	Discount for lack of marketability and minority interest	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Group's equity by NT\$334,575 thousand
Stocks	Market approach	Discount for lack of marketability	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Group's equity by NT\$4,381 thousand

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

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

(9) Significant assets and liabilities denominated in foreign currencies

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

As of December 31, 2021			
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
Financial assets			
Monetary items:			
USD	\$1,277,130	27.68	\$35,350,803
RMB	71,148	4.344	309,068
Financial liabilities			
Monetary items:			
USD	\$1,079,876	27.68	\$29,890,962
RMB	24,025	4.344	104,364
As of December 31, 2020			
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
Financial assets			
Monetary items:			
USD	\$591,280	28.48	\$16,869,735
RMB	53,065	4.377	232,264
Financial liabilities			
Monetary items:			
USD	\$322,774	28.48	\$9,192,593
RMB	17,663	4.377	77,310

The Group does not disclose all of information regarding the assets and liabilities denominated in foreign currencies due to the varieties of foreign currency transactions. During the years ended December 31, 2021 and 2020, the foreign exchange gains (losses) were NT\$24,776 thousand and NT\$(366,793) thousand, respectively.

(10) Capital management

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

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

13. ADDITIONAL DISCLOSURES

- (1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau:

A. Financing provided to others for the year ended December 31, 2021: None.

B. Endorsement/Guarantee provided to others for the year ended December 31, 2021: None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

C. Marketable securities held as of December 31, 2021 (excluding subsidiaries):

Held Company Name	Marketable Securities Type and Name		Relationship with the Company	Financial Statement Account	December 31, 2021				Note
					Shares/Units (In thousands)	Carrying Value	Percentage of Ownership (%)	Fair Value	
Novatek Microelectronics Corp.	Common Stock	SHIEH YONG Investment Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income, non-current	243,681	\$3,339,067	15.15%	\$3,339,067	-
	Common Stock	Unitech Capital Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	6,000	251,661	12.00%	251,661	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	27,333	432,819	4.67%	432,819	-
Novatek Investment Corporation Limited	-	CDIB-Innolux Limited Partnership	-	Financial assets measured at fair value through profit or loss, non-current	-	12,500	-	12,500	-
	Preferred Stock	Fortemedia Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	296	4,510	0.22%	4,510	-
	Common Stock	Yobon Technologies, Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	26	-	3.79%	-	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	13,666	216,410	2.33%	216,410	-
	Common Stock	Perinnova Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	1.9	5,861	19.00%	5,861	-
	Preferred Stock	Gear Radio Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	2,400	26,579	9.29%	26,579	-

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2021:

Company Name	Marketable Securities Type and Name		Financial Statement Account	Counter-party	Nature of Relationship	Beginning balance		Acquisition		Disposal				Ending balance	
						Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Carrying Value	Gains (Losses) on Disposal	Shares /Units (In thousands)	Amount
Novatek Microelectronics Corp.	Common Stock	Novatek International (BVI) Ltd.	Investments accounted for using the equity method	Novatek International (BVI) Ltd.	Subsidiary	50,000	\$688,740	25,000	\$709,030	-	\$-	\$-	\$-	52,000 (Note 2)	\$734,392 (Note 1)

Note 1: Including losses recognizes from investments accounted for using the equity method in the amount of NT\$658,784 thousand, and losses from cumulative-translation adjustment recognized base on exchange rate in the amount of NT\$4,594 thousand.

Note 2: The decrease in a total of 23,000 shares is due to reduce capital and make up for losses.

E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended December 31, 2021: None.

F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2021: None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2021:

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchase/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Novatek Microelectronics Corp.	NTK International Limited (NTK)	Subsidiary	Sales	\$(5,282,415)	3.90%	month-end 60 days	-	-	\$238,196	0.98%
Novatek Microelectronics Corp.	United Microelectronics Corp.	Directors of the Company	Purchase	15,625,168	32.31%	month-end 45 days	-	-	(3,110,821)	(18.32)%
Novatek Microelectronics Corp.	HeJian Technology (Suzhou) Co., Ltd	Other related party	Purchase	1,886,433	3.90%	month-end 45 days	-	-	(376,194)	(2.22)%
Novatek Microelectronics Corp.	United Semiconductor (Xiamen) Corp.	Other related party	Purchase	160,454	0.33%	month-end 45 days	-	-	(145,350)	(0.86)%
Novatek Microelectronics Corp.	United Semiconductor Japan Co., Ltd.	Other related party	Purchase	2,648,503	5.48%	month-end 45 days	-	-	(789,195)	(4.65)%
NTK International Limited (NTK)	Novatek Microelectronics Corp.	Subsidiary	Purchase	5,282,415	100.00%	month-end 60 days	-	-	(238,196)	(100.00)%

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of paid-in capital as of December 31, 2021:

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Novatek Microelectronics Corp.	NTK International Limited (NTK)	Subsidiary	\$238,196	10.06	-	-	\$238,196	-

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

I. Financial instruments and derivative transactions: None.

J. Intercompany relationship and significant intercompany transactions for the year ended December 31, 2021:

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statement Item	Amount	Term	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Novatek Microelectronics Corp.	Novatek Japan Kabushiki-Kaisha (NJKK)	1	Service expenses	\$29,285	According to the contract	(0.02)%
0	Novatek Microelectronics Corp.	NTK International Limited (NTK)	1	Sales	5,282,415	month-end 60 days	3.90%
0	Novatek Microelectronics Corp.	NTK International Limited (NTK)	1	Trade receivables	238,196	month-end 60 days	0.20%
1	Novatek International (BVI) Ltd.	Novatek (Suzhou) Co., Ltd.	3	Administrative expenses	152,559	According to the contract	(0.11)%
1	Novatek International (BVI) Ltd.	Novatek (Xian) Co., Ltd.	3	Administrative expenses	241,065	According to the contract	(0.18)%
1	Novatek International (BVI) Ltd.	Novatek (Shenzhen) Co., Ltd.	3	Administrative expenses	260,296	According to the contract	(0.19)%
1	Novatek International (BVI) Ltd.	Novatek (Beijing) Co., Ltd.	3	Administrative expenses	7,780	According to the contract	(0.01)%
2	Cheertek International Inc.	Novatek (Shanghai) Co., Ltd.	3	Administrative expenses	199,504	According to the contract	(0.15)%

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transactions.

1. 0 for parent company.

2. Subsidiaries are given a number in sequence starting with No. 1.

Note 2: There are three types of transactions. Please remark the type of transaction by giving a number to it.

1. Parent to Subsidiary.

2. Subsidiary to Parent.

3. Subsidiaries to Subsidiaries.

Note 3: Asset/liability items are calculated by using the ending balances of the item divided by ending balance of total consolidated assets; Profit/loss items are calculated by using the amount of the transaction divided by total consolidated revenue.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(2) Information on investees

Names, locations and related information of investees as of December 31, 2021 (excluding investment in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2021			Net Income (losses) of the Investee	Profits/losses of Investee	Note
				December 31, 2021	December 31, 2020	Shares (In thousands)	Percentage of Ownership	Carrying Value			
Novatek Microelectronics Corp.	Novatek Investment Corporation Limited	Taiwan	Investment	\$580,000	\$580,000	58,000	100.00%	\$636,557	\$30,985	\$30,985	-
	Cheertek International Inc.	Samoa	Investment	408,210	209,150	14,000	100.00%	33,555	(200,470)	(200,470)	-
	Novatek International (BVI) Ltd.	British Virgin Islands	Investment	1,524,780	1,517,830	52,000	100.00%	734,392	(658,784)	(658,784)	-
	NTK International Limited (NTK)	Kowloon, Hong Kong	Manufacture and sales in related business in the integrated circuit	20,949	20,949	5,000	100.00%	195,721	15,683	15,683	-
	Novatek Japan Kabushiki-Kaisha (NJKK)	Tokyo, Japan	Design, sales and services in related business in the integrated circuit	5,430	5,430	0.4	100.00%	2,186	1,407	1,407	-
Novatek International (BVI) Ltd.	Novatek International (SAMOA) Ltd.	Samoa	Investment	USD4,000 thousand	USD4,000 thousand	4,000	100.00%	115,957	9,694	-	-

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(3) Investment in China

A. Investment situation:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 7)	Method of Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2021 (Note 7)	Investment Flows		Accumulated outflow of Investment from Taiwan as of December 31, 2021 (Note 7)	Percentage of Ownership	Net Income (Losses) of the Investee Company	Share of Profits /Losses (Note 6)	Carrying Amount as of December 31, 2021	Accumulated Inward Remittance of Earnings as of December 31, 2021
					Outflow	Inflow						
Novatek (Suzhou) Co., Ltd.	Electronic spare part, trading and consulting services	\$34,300 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 1)	\$34,300 (USD1,000 thousand)	\$-	\$-	\$34,300 (USD1,000 thousand)	100.00%	\$4,602	\$4,602	\$52,852	\$-
Novatek (Shanghai) Co., Ltd.	Multimedia VLSI software amendment, testing and related consulting services	32,485 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	32,485 (USD1,000 thousand)	-	-	32,485 (USD1,000 thousand)	100.00%	1,300	1,300	59,812	-
Novatek (Xian) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	88,410 (USD3,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 3)	88,410 (USD3,000 thousand)	-	-	88,410 (USD3,000 thousand)	100.00%	5,093	5,093	63,099	-
Novatek (Shenzhen) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	938,280 (USD30,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	938,280 (USD30,000 thousand)	-	-	938,280 (USD30,000 thousand)	100.00%	5,428	5,428	572,022	-
Novatek (Beijing) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	28,000 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 5)	-	28,000 (USD1,000 thousand)	-	28,000 (USD1,000 thousand)	100.00%	(2,485)	(2,485)	25,582	-

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Accumulated Investment in Mainland China as of December 31, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,121,475 (Note 7) (USD36,000 thousand)	\$1,121,475 (Note 7) (USD36,000 thousand)	\$42,270,794

Note 1: The Company indirectly invested in Novatek (Suzhou) Co., Ltd., via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 2: The Company indirectly invested in Novatek (Shanghai) Co., Ltd. via investment in Cheertek International Inc., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 3: The Company indirectly invested in Novatek (Xian) Co., Ltd. via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 4: The Company indirectly invested in Novatek (Shenzhen) Co., Ltd. via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 5: The Company indirectly invested in Novatek (Beijing) Co., Ltd. via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 6: The share of profits/losses from equity investments under the equity method in 2021 were recognized based on its financial statements audited by Taiwan parent company's independent auditor.

Note 7: This was calculated by using the exchange rate on remittance day.

B. Significant direct or indirect transactions with the investees in Mainland China:

- (a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: None.
- (b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
- (c) The amount of property transactions and the amount of the resultant gains or losses: None.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
- (e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None.
- (f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: Please refer to Note 13(1) J.

(4) Information of major shareholders

There are no shareholders holding more than 5% (included) of the Company's shares for the year ended December 31, 2021.

NOVATEK MICROELECTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

14. SEGMENT INFORMATION

(1) General information

The major revenue of the Group comes from flat panel display and integrated circuit design products. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Therefore, the Group is aggregated into a single segment.

(2) Operations in different geographic areas

A geographical financial information for the years ended December 31, 2021 and 2020 is as follows:

A. Revenues from external customers:

	Years Ended December 31,	
	2021	2020
Taiwan	\$ 48,535,725	\$33,015,712
Asia	86,357,980	46,160,370
Others	588,170	1,005,393
	<u>\$ 135,481,875</u>	<u>\$80,181,475</u>

B. Non-current assets:

	As of December 31,	
	2021	2020
Taiwan	\$19,910,420	\$12,546,865
Hong Kong	28	30
Japan	988	1,145
Others	566,908	602,077
	<u>\$20,478,344</u>	<u>\$13,150,117</u>

(3) Major customers representing at least 10% of gross sales:

Customer Name	Years Ended December 31,	
	2021	2020
A	\$31,308,332	\$18,412,721
B	19,501,504	12,165,652

E. Parent Company Only Financial Statements

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Financial Statements for the Years Ended December 31, 2021 and 2020 with Independent Auditors' Report

Independent Auditors' Report

The Board of Directors and Shareholders
Novatek Microelectronics Corp.

Opinion

We have audited the accompanying parent company only balance sheets of Novatek Microelectronics Corp. as of December 31, 2021 and 2020, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to the parent company only financial statements, including the summary of significant accounting policies (together referred as “the parent company only financial statements”).

In our opinion, based on our audits and the reports of other auditors (please refer to the section “Other Matter — Making Reference to the Audits of Component Auditors” of our audit report) the parent company only financial statements referred to above present fairly, in all material respects, the financial position of Novatek Microelectronics Corp. as of December 31, 2021 and 2020, and its financial performance and cash flows for the years ended December 31, 2021 and 2020, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Parent Company Only Financial Statements” section of our report. We are independent of Novatek Microelectronics Corp. in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of our auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of parent company only financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Novatek Microelectronics Corp. is mainly engaged in manufacturing and sales of integrated circuit products, and recognized net sales of NT\$135,338,550 thousand for the year ended December 31, 2021. Since the trading terms of the sales orders varied with demand, the management's judgement is exercised to determine when the performance obligations were satisfied. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) assessing the appropriateness of the accounting policy for revenue recognition; evaluating and testing the effectiveness of internal controls within the sales cycle which are related to the timing of revenue recognition; performing test of details on selected samples and reviewing the significant terms of sales agreements and tracing to relevant documentation of transactions; performing confirmation procedures on key terms of sales agreements on selected samples; performing cut-off procedures on selected samples for a period before and after the reporting date, tracing to relevant documentation to verify the appropriateness of the timing of revenue recognition, and reviewing significant sales reversals in subsequent period.

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

Valuation for inventories

Novatek Microelectronics Corp. recognized net inventories of NT\$14,186,415 thousand as of December 31, 2021, the amount was significant to parent company only financial statements. Novatek Microelectronics Corp. operates in an industry where technologies are upgrading rapidly and thereby their inventories become obsolete speedily. Novatek Microelectronics Corp.'s policy of provision for inventory is based on those inventories aged over a certain period of time and identified as obsolete or damaged. The amount of inventories is material, the types of inventories vary and the estimation of net realizable value for individually obsolete or damaged inventories is subject to management's judgment. As a result, we determined the matter to be a key audit matter.

Our audit procedures include (but are not limited to) evaluating the appropriate accounting policies of slow-moving and obsolete inventories; selecting samples to evaluate and test the design and operating effectiveness of internal controls of the valuation of inventories by management; selecting samples to test the correctness of calculating inventory aging and recalculating the amount of inventory allowance; selecting samples to evaluate and test the net realizable value used by management; evaluating management's inventory count plan and selecting important inventory locations to observe physical inventory count for confirming inventory quantity and status.

We also assessed the adequacy of disclosures of inventories. Please refer to Notes 5 and 6 in notes to parent company only financial statements.

Other Matter — Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain investments accounted for under the equity method whose statements are based solely on the reports of other auditors. These investments under equity method amounted to NT\$195,721 thousand and NT\$186,672 thousand, representing 0.16% and 0.32% of parent company only total assets as of December 31, 2021 and 2020, respectively. The related shares of profits of subsidiaries and associates accounted for using the equity method amounted to NT\$15,683 thousand and NT\$59,605 thousand, representing 0.03% and 0.41% of the parent company only income before tax for the years ended December 31, 2021 and 2020, respectively, and the related shares of other comprehensive income (loss) from the shares of profits of subsidiaries and associates accounted for using the equity method both amounted to NT\$0, representing 0% of the parent company only other comprehensive income (loss) for the years ended December 31, 2021 and 2020.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of Novatek Microelectronics Corp.

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Novatek Microelectronics Corp.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of Novatek Microelectronics Corp. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Novatek Microelectronics Corp. to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Novatek Microelectronics Corp. to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2021 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

/s/Chen, Chih-Chung

/s/Kuo, Shao-Pin

Ernst & Young, Taiwan
February 25, 2022

Notice to Readers

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

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

English Translation of Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Balance Sheets

As of December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2021		December 31, 2020		Liabilities and Equity	Notes	December 31, 2021		December 31, 2020	
Current assets						Current liabilities					
Cash and cash equivalents	4, 6(1)	\$ 59,253,174	49.21	\$ 22,023,108	38.01	Contract liabilities, current	6(16)	\$ 613,176	0.51	\$ 328,815	0.57
Trade receivables, net	4, 6(2), 6(17)	23,284,198	19.34	12,608,749	21.76	Trade payables		12,547,792	10.42	7,528,440	12.99
Trade receivables from related parties, net	4, 6(2), 6(17), 7	238,196	0.20	812,084	1.40	Trade payables to related parties	7	4,428,291	3.68	2,195,847	3.79
Other receivables	6(3)	340,839	0.28	319,520	0.55	Other payables		10,038,353	8.34	5,265,353	9.09
Inventories, net	4, 6(4)	14,186,415	11.78	8,156,212	14.07	Current income tax liabilities	4, 6(22)	7,983,732	6.63	1,863,027	3.21
Prepayments		330,345	0.27	217,906	0.38	Lease liabilities, current	4, 6(18)	23,646	0.02	36,923	0.06
Other financial assets, current	4, 6(10)	1,542,551	1.28	-	-	Other current liabilities	4, 6(12)	139,648	0.11	131,364	0.23
Total current assets		99,175,718	82.36	44,137,579	76.17	Total current liabilities		35,774,638	29.71	17,349,769	29.94
Non-current assets						Non-current liabilities					
Financial assets measured at fair value through other comprehensive income, non-current	4, 6(5)	4,023,547	3.34	2,880,546	4.97	Deferred income tax liabilities	4, 6(22)	320,306	0.27	313,239	0.54
Investments accounted for using the equity method	4, 6(6)	1,602,411	1.33	1,444,792	2.49	Lease liabilities, non-current	4, 6(18)	162,598	0.13	172,386	0.30
Property, plant and equipment	4, 6(7)	6,407,513	5.32	6,044,344	10.43	Net defined benefit liabilities, non-current	4, 6(13), 6(19)	230,470	0.19	167,860	0.29
Right-of-use assets	4, 6(18)	182,244	0.15	206,119	0.36	Guarantee deposits	6(14)	13,481,156	11.20	-	-
Intangible assets	4, 6(8), 6(9)	2,483,507	2.06	2,542,806	4.39	Total non-current liabilities		14,194,530	11.79	653,485	1.13
Deferred income tax assets	4, 6(22)	664,640	0.55	544,543	0.94	Total liabilities		49,969,168	41.50	18,003,254	31.07
Other financial assets, non-current	4, 6(10), 8	5,688,204	4.73	11,300	0.02	Equity					
Other assets, non-current	6(11)	192,707	0.16	134,428	0.23	Share capital	6(15)				
Total non-current assets		21,244,773	17.64	13,808,878	23.83	Common stock		6,085,115	5.05	6,085,115	10.50
						Capital surplus	6(15)	2,375,054	1.97	2,375,054	4.10
						Retained earnings	6(15)				
						Legal reserve		10,408,988	8.64	9,228,315	15.92
						Special reserve		-	-	248,629	0.43
						Undistributed earnings		49,179,562	40.84	20,807,195	35.91
						Other equity		2,402,604	2.00	1,198,895	2.07
						Total equity		70,451,323	58.50	39,943,203	68.93
Total assets		<u>\$ 120,420,491</u>	<u>100.00</u>	<u>\$ 57,946,457</u>	<u>100.00</u>	Total liabilities and equity		<u>\$ 120,420,491</u>	<u>100.00</u>	<u>\$ 57,946,457</u>	<u>100.00</u>

The accompanying notes are an integral part of the parent company only financial statements.

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Financial Statements Originally Issued in Chinese
NOVATEK MICROELECTRONICS CORP.
Parent Company Only Statements of Comprehensive Income
For The Years Ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Description	Notes	For the years ended December 31,			
		2021		2020	
Operating revenues	4, 6(16), 7	\$ 135,338,550	100.00	\$ 79,867,485	100.00
Operating costs	6(4), 6(8), 6(19), 7	(67,949,211)	(50.21)	(51,947,351)	(65.04)
Gross profit		67,389,339	49.79	27,920,134	34.96
Unrealized intercompany profit		-	-	(3,211)	-
Realized intercompany profit		-	-	3,211	-
Gross profit, net		67,389,339	49.79	27,920,134	34.96
Operating expenses	6(8), 6(17), 6(18), 6(19), 7				
Selling expenses		(469,958)	(0.35)	(350,315)	(0.44)
Administrative expenses		(2,244,440)	(1.66)	(1,494,309)	(1.87)
Research and development expenses		(16,056,777)	(11.86)	(10,567,406)	(13.23)
Expected credit losses		-	-	(80,000)	(0.10)
Total operating expenses		(18,771,175)	(13.87)	(12,492,030)	(15.64)
Operating income		48,618,164	35.92	15,428,104	19.32
Non-operating income and expenses	6(20)				
Interest income		125,242	0.09	99,932	0.13
Other income		181,685	0.14	28,147	0.03
Other gains and losses	4	13,712	0.01	(406,882)	(0.51)
Financial costs		(17,064)	(0.01)	(4,609)	(0.01)
Share of profit of subsidiaries and associates accounted for using the equity method		(811,179)	(0.60)	(607,453)	(0.76)
Total non-operating income and expenses		(507,604)	(0.37)	(890,865)	(1.12)
Income before income tax		48,110,560	35.55	14,537,239	18.20
Income tax expense	4, 6(22)	(9,245,000)	(6.83)	(2,720,000)	(3.40)
Net income		38,865,560	28.72	11,817,239	14.80
Other comprehensive income	6(21)				
Not to be reclassified to profit or loss in subsequent periods					
Remeasurements of defined benefit plans	6(13)	(68,370)	(0.05)	(10,509)	(0.01)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income		1,143,001	0.85	1,445,496	1.81
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income of subsidiaries and associates accounted for using the equity method		72,779	0.05	(2,246)	-
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of foreign operations		(12,071)	(0.01)	4,274	-
Other comprehensive income (net of income tax)		1,135,339	0.84	1,437,015	1.80
Total comprehensive income		\$ 40,000,899	29.56	\$ 13,254,254	16.60
Earnings per share	6(23)				
Basic earnings per share (in New Taiwan Dollars)		\$ 63.87		\$ 19.42	
Diluted earnings per share (in New Taiwan Dollars)		\$ 63.77		\$ 19.40	

The accompanying notes are an integral part of the parent company only financial statements.

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Statements of Changes in Equity

For The Years Ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

Description	Common stock	Capital surplus	Retained earnings			Other adjustments		Total equity
			Legal reserve	Special reserve	Unappropriated earnings	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	
Balance as of January 1, 2020	\$ 6,085,115	\$ 3,287,822	\$ 8,435,574	\$ 464,450	\$ 15,053,988	\$ (131,007)	\$ (117,622)	\$ 33,078,320
Appropriation and distribution of 2019 earnings:								
Legal reserve	-	-	792,741	-	(792,741)	-	-	-
Cash dividends	-	-	-	-	(5,476,603)	-	-	(5,476,603)
Reversal of special reserve	-	-	-	(215,821)	215,821	-	-	-
Cash dividends distributed from capital surplus	-	(912,768)	-	-	-	-	-	(912,768)
Net income for the year ended December 31, 2020	-	-	-	-	11,817,239	-	-	11,817,239
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	(10,509)	4,274	1,443,250	1,437,015
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	11,806,730	4,274	1,443,250	13,254,254
Balance as of December 31, 2020	<u>\$ 6,085,115</u>	<u>\$ 2,375,054</u>	<u>\$ 9,228,315</u>	<u>\$ 248,629</u>	<u>\$ 20,807,195</u>	<u>\$ (126,733)</u>	<u>\$ 1,325,628</u>	<u>\$ 39,943,203</u>
Balance as of January 1, 2021	\$ 6,085,115	\$ 2,375,054	\$ 9,228,315	\$ 248,629	\$ 20,807,195	\$ (126,733)	\$ 1,325,628	\$ 39,943,203
Appropriation and distribution of 2020 earnings:								
Legal reserve	-	-	1,180,673	-	(1,180,673)	-	-	-
Cash dividends	-	-	-	-	(9,492,779)	-	-	(9,492,779)
Reversal of special reserve	-	-	-	(248,629)	248,629	-	-	-
Net income for the year ended December 31, 2021	-	-	-	-	38,865,560	-	-	38,865,560
Other comprehensive income for the year ended December 31, 2021	-	-	-	-	(68,370)	(12,071)	1,215,780	1,135,339
Total comprehensive income for the year ended December 31, 2021	-	-	-	-	38,797,190	(12,071)	1,215,780	40,000,899
Balance as of December 31, 2021	<u>\$ 6,085,115</u>	<u>\$ 2,375,054</u>	<u>\$ 10,408,988</u>	<u>\$ -</u>	<u>\$ 49,179,562</u>	<u>\$ (138,804)</u>	<u>\$ 2,541,408</u>	<u>\$ 70,451,323</u>

The accompanying notes are an integral part of the parent company only financial statements.

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

English Translation of Financial Statements Originally Issued in Chinese

NOVATEK MICROELECTRONICS CORP.

Parent Company Only Statements of Cash Flows

For The Years Ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

Description	For the years ended December 31,		Description	For the years ended December 31,	
	2021	2020		2021	2020
Cash flows from operating activities:			Cash flows from investing activities:		
Income before income tax	\$ 48,110,560	\$ 14,537,239	Proceeds from capital return of financial assets measured at fair value through other comprehensive income	-	3,173
Adjustments for:			Acquisition of investments accounted for using the equity method	(908,090)	(682,500)
The profit or loss items:			Acquisition of property, plant and equipment	(833,129)	(3,299,414)
Depreciation	812,238	671,289	Increase in refundable deposits	(7,212,409)	(1,009)
Amortization	224,340	260,231	Acquisition of intangible assets	(157,541)	(110,758)
Expected credit losses	-	80,000	Increase in prepayment for equipment	(381,684)	(201,981)
Interest expense	17,064	4,609	Dividend received	163,796	-
Interest income	(125,242)	(99,932)	Net cash used in investing activities	(9,329,057)	(4,292,489)
Dividend income	(163,796)	-			
Share of profit of subsidiaries and associates accounted for using the equity method	811,179	607,453	Cash flows from financing activities:		
Unrealized (gains) losses from exchange foreign currency	(37,486)	7,353	Increase in guarantee deposits	13,518,642	-
Others	(272)	-	Decrease in guarantee deposits	-	(307,153)
Changes in operating assets and liabilities :			Cash payment for the principal portion of the lease liabilities	(32,337)	(35,645)
Trade receivables	(10,675,449)	89,144	Cash dividends	(9,492,779)	(6,389,371)
Trade receivables from related parties	573,888	(210,763)	Interest paid	(17,064)	(4,609)
Other receivables	(18,707)	(68,813)	Net cash generated (used) in financing activities	3,976,462	(6,736,778)
Inventories	(6,030,203)	(1,893,641)			
Prepayments	(112,439)	7,219			
Other financial assets	-	(4,800)			
Contract liabilities	284,361	287,553			
Trade payables	5,019,352	1,729,343			
Trade payables to related parties	2,232,444	292,656			
Other payables	4,773,000	1,446,330			
Other current liabilities	8,284	(5,013)			
Net defined benefit liabilities	(5,760)	(4,843)			
Cash generated from operating activities	45,697,356	17,732,614			
Interest received	122,630	100,958	Net increase in cash and cash equivalents	37,230,066	4,880,980
Income tax paid	(3,237,325)	(1,923,325)	Cash and cash equivalents at the beginning of the year	22,023,108	17,142,128
Net cash generated by operating activities	42,582,661	15,910,247	Cash and cash equivalents at the end of the year	\$ 59,253,174	\$ 22,023,108

The accompanying notes are an integral part of the parent company only financial statements.

Chairman: T. S. Ho

President: Steve Wang

Chief Accounting Officer: S. C. Chou

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements

For The Years Ended December 31, 2021 and 2020

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

1. HISTORIES AND ORGANIZATION

Novatek Microelectronics Corporation ("the Company") was incorporated in Hsinchu Science-Based Industrial Park on May 28, 1997. The Company is mainly engaged in researching, developing, manufacturing and sales of integrated circuit chips speech, communication, computer peripheral, LCD driver IC system, embedded MCU, DSP and system. The Company's shares are traded in Taiwan Stock Exchange. The Company's registered office and the main business location is at 2F, No.13, Innovation Road I, Hsinchu Science Park, Hsinchu 300, Taiwan R.O.C.

2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The parent company only financial statements of the Company for the years ended December 31, 2021 and 2020 were authorized for issue by the Board of Directors on February 25, 2022.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

Standards or		
Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 3, IAS 16 and IAS 37	"Business Combination", "Property, Plant and Equipment" and "Provisions, Contingent Assets" (Amendment) and the Annual Improvements	January 1, 2022

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

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

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

Standards or Interpretations Numbers	The Projects of Standards or Interpretations	Effective Dates
IFRS 10 and IAS 28	“Consolidated financial statements” and “Investments in Associates and Joint Ventures” (Amendment)	To be determined by IASB
IFRS 17	“Insurance Contracts”	January 1, 2023
IAS 1	“Classification of Liabilities as Current or Non-current” (Amendment)	January 1, 2023
IAS 1	“Disclosure Initiative - Accounting Policies” (Amendment)	January 1, 2023
IAS 8	“Definition of accounting estimates” (Amendment)	January 1, 2023
IAS 12	“Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction” (Amendment)	January 1, 2023

The abovementioned standards and interpretations issued by IASB have not yet been endorsed by FSC at the date of issuance of the Company’s financial statements. The local effective dates are to be determined by FSC. All standards and interpretations have no material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The parent company only financial statements for the years ended December 31, 2021 and 2020 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”).

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(2) Basis of preparation

According to Article 21 of the Regulations, the profit or loss and other comprehensive income presented in parent company only financial statements will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial statements prepared on a consolidated basis. Therefore, the investments in subsidiaries will be disclosed under "Investments accounted for using the equity method" in parent company only financial report and change in value will be adjusted.

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

(3) Foreign currency transactions

The Company's parent company only financial statements are presented in thousands of NT\$ unless otherwise stated.

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

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

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

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Notes to Parent Company Only Financial Statements (Continued)

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

(4) Translation of financial statements in foreign currency

Each foreign entity of the Company determines its function currency upon its primary economic environment and items included in the financial statements of each entity are measured using that functional currency. The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is adjustment in “investment accounted for using the equity method”. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

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

(5) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

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Notes to Parent Company Only Financial Statements (Continued)

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

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

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

(7) Financial instruments

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

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

A. Financial instruments: Recognition and Measurement

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

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

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

Financial assets measured at amortized cost

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

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Notes to Parent Company Only Financial Statements (Continued)

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

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

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

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

Financial assets measured at fair value through other comprehensive income

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

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.

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Notes to Parent Company Only Financial Statements (Continued)

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

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

Financial assets measured at fair value through profit or loss

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

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

B. Impairment of financial assets

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

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Notes to Parent Company Only Financial Statements (Continued)

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

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

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

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

C. Derecognition of financial assets

A financial asset is derecognized when:

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

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

D. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

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

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

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

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

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

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Notes to Parent Company Only Financial Statements (Continued)

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

E. Offsetting of financial instruments

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

(8) Fair value measurement

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

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

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

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

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

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

(9) Inventories

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

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

Raw materials — Actual purchase cost measured using weighted-average method.

Finished goods and work in progress — Cost of direct materials and manufacturing overheads.

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Notes to Parent Company Only Financial Statements (Continued)

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

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

(10) Investments accounted for using the equity method

According to article 21 of the Regulations, the investments in subsidiaries will be disclosed under “Investments accounted for using the equity method” and change in value will be adjusted to comply. The profit or loss and other comprehensive income presented in parent company only financial reports will be the same as the allocations of profit or loss and other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. The difference of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under “investments accounted for using the equity method,” “share of profit of subsidiaries and associates accounted for using the equity method” and “share of other comprehensive income of subsidiaries and associates accounted for using the equity method.”

(11) Property, plant and equipment

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

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

Buildings and facilities	6~51 years
Machinery and equipment	4~6 years
Moulding equipment	2 years
Other equipment	2~6 years

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Notes to Parent Company Only Financial Statements (Continued)

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

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

(12) Leases

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

- A. the right to obtain substantially all of the economic benefits from use of the identified asset; and
- B. the right to direct the use of the identified asset.

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

Company as a lessee

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

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

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Notes to Parent Company Only Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

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Notes to Parent Company Only Financial Statements (Continued)

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

(13) Intangible assets

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

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

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

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

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

Research and development costs

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

- A. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- B. its intention to complete and its ability to use or sell the asset;
- C. how the asset will generate future economic benefits;
- D. the availability of resources to complete the asset;
- E. the ability to measure reliably the expenditure during development.

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Notes to Parent Company Only Financial Statements (Continued)

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

A summary of the policies applied to the Company's intangible assets is as follows:

	Expertise capitalized	Computer software	Other intangible assets
Useful lives	Finite (5 years)	Finite (3 years)	Finite (3 years)
Amortization method used	Amortized on a straight-line basis over the period of the patent	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired	Acquired	Acquired

(14) Impairment of non-financial assets

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

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

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

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

(15) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(16) Sales returns and allowances

The Company estimates sales returns and allowances based on past experience and other known factors in accordance with IFRS 15, which are recognized as deduction of operating revenue and provisions.

(17) Revenue recognition

The Company's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policy is explained as follows:

Sale of goods

The Company manufactures and sells goods. Sales are recognized when control of the goods is transferred to the customers and the goods are delivered to the customers. The main products of the Company are Display driver IC and SoC and revenue is recognized based on the consideration stated in the contract.

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The credit period of the Company's sale of goods is from 60 to 150 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Company has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses.

Rendering of services

Revenue from the rendering of services primarily comes from non-recurring engineering, which is recognized based on the stage of completion of the contracts. Most of the contractual considerations of the Company are collected evenly throughout the contract period. When the Company has performed the services to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arises.

(18) Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company's financial statements.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees' subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

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

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

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

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

(19) Income taxes

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

Current income tax

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

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

Deferred tax

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

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

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

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

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Notes to Parent Company Only Financial Statements (Continued)

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

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

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Notes to Parent Company Only Financial Statements (Continued)

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

(1) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 6.

(2) Valuation for inventories

Inventories are stated at lower of cost and net realizable value, so the Company exercises the judgments and estimates to determine the net realizable value of the inventories at the end of the reporting period. Due to the rapid changes of technology, the Company estimates the net realizable value of the inventories for obsolescence and unmarketable items based on historical experience for the nature of the inventories and future value in use as well as market price at the reporting date. Please refer to Note 6.

(3) Post-employment benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 for more details.

(4) Revenue recognition — sales returns and allowance

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

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Notes to Parent Company Only Financial Statements (Continued)

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

(5) Fair value of financial instruments

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

(6) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for disclosure on unrecognized deferred tax assets of the Company as of December 31, 2021.

6. CONTENT OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,	
	2021	2020
Cash on hand	\$1,070	\$1,150
Checking and saving accounts	6,515,783	5,414,637
Fixed-term deposits	52,736,321	16,607,321
	<u>\$59,253,174</u>	<u>\$22,023,108</u>

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Notes to Parent Company Only Financial Statements (Continued)

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

(2) Trade receivables and trade receivables from related parties

	As of December 31,	
	2021	2020
Trade receivables	\$24,011,996	\$13,336,547
Less: loss allowance	(727,798)	(727,798)
	23,284,198	12,608,749
Trade receivables from related parties	238,196	812,084
Less: loss allowance	-	-
	238,196	812,084
	<u>\$23,522,394</u>	<u>\$13,420,833</u>

Trade receivables were not pledged.

Trade receivables are generally on 60-150 day terms. Please refer to Note 6(17) for more details on loss allowance of trade receivables for the years ended December 31, 2021 and 2020. Please refer to Note 12 for more details on credit risk management.

(3) Other receivables

	As of December 31,	
	2021	2020
Income tax refund receivable	\$336,336	\$317,629
Interest receivable	4,503	1,891
	<u>\$340,839</u>	<u>\$319,520</u>

(4) Inventories

	As of December 31,	
	2021	2020
Raw materials	\$1,316,319	\$803,127
Supplies	271,971	410,908
Work in progress	7,860,221	4,560,264
Finished goods	4,737,904	2,381,913
	<u>\$14,186,415</u>	<u>\$8,156,212</u>

Expenses and losses incurred on inventories for the years ended December 31, 2021 and 2020 are as follows:

	Years Ended December 31,	
	2021	2020
Cost of inventories sold	\$67,090,415	\$51,291,825
Allowance for inventory valuation and obsolescence loss	860,000	657,000
Revenue from sale of scraps	(1,204)	(1,474)
	<u>\$67,949,211</u>	<u>\$51,947,351</u>

Inventories were not pledged.

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Notes to Parent Company Only Financial Statements (Continued)

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

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

	As of December 31,	
	2021	2020
Equity instrument investments measured at fair value through other comprehensive income, non-current:		
Unlisted companies' stocks		
SHIEH YONG Investment Co., Ltd.	\$3,339,067	\$2,407,239
Unitech Capital Inc.	251,661	212,049
TriKnight Capital Corporation	432,819	261,258
	<u>\$4,023,547</u>	<u>\$2,880,546</u>

The Company acquire NT\$3,173 thousand for the return of capital from TriKnight Capital Corporation which was reported under equity instrument investments measured at fair value through other comprehensive income in 2020.

The Company's dividend income related to equity instrument investments measured at fair value through other comprehensive income for the years ended December 31, 2021 and 2020 are as follows:

	Years Ended December 31,	
	2021	2020
Related to investments held at the end of the reporting period	\$163,796	\$-
Related to investments derecognized during the period	-	-
Dividends recognized during the period	<u>\$163,796</u>	<u>\$-</u>

(6) Investments accounted for using the equity method

Investees	As of			
	December 31, 2021		December 31, 2020	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:				
Novatek Investment Co., Ltd.	\$636,557	100%	\$532,793	100%
Cheertek International Inc.	33,555	100%	35,420	100%
Novatek International (BVI) Ltd.	734,392	100%	688,740	100%
NTK International Limited (NTK)	195,721	100%	186,672	100%
Novatek Japan Kabushiki-Kaisha (NJKK)	2,186	100%	1,167	100%
	<u>\$1,602,411</u>		<u>\$1,444,792</u>	

Investments in subsidiaries are expressed as "Investments accounted for using the equity method" in parent company only financial statements with necessary valuation adjustments.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

For the years ended December 31, 2021 and 2020 the Company increased Novatek International (BVI) Ltd.'s capital in the amount of NT\$709,030 thousand and NT\$503,900 thousand, respectively.

For the years ended December 31, 2021 and 2020 the Company increased Cheertek International Inc.'s capital in the amount of NT\$199,060 thousand and NT\$178,600 thousand, respectively.

Investments accounted for using the equity method were not pledged.

(7) Property, plant and equipment

	As of December 31,	
	2021	2020
Owner occupied property, plant and equipment	\$6,407,513	\$6,044,344

A. Owner occupied property, plant and equipment

	Land	Buildings and facilities	Machinery equipment	Moulding equipment	Other equipment	Construction in progress	Total
Cost:							
As of January 1, 2021	\$-	\$1,821,017	\$3,108,352	\$180,398	\$64,797	\$3,341,907	\$8,516,471
Additions	2,997	33,417	410,499	93,212	9,984	283,020	833,129
Disposals	-	(10,347)	(99,896)	(35,637)	(17,994)	-	(163,874)
Other changes	987,793	2,903,980	19,847	-	22,166	(3,624,927)	308,859
As of December 31, 2021	<u>\$990,790</u>	<u>\$4,748,067</u>	<u>\$3,438,802</u>	<u>\$237,973</u>	<u>\$78,953</u>	<u>\$-</u>	<u>\$9,494,585</u>
As of January 1, 2020	\$-	\$1,778,493	\$2,536,968	\$122,548	\$52,625	\$773,143	\$5,263,777
Additions	-	22,814	622,475	79,239	6,122	2,568,764	3,299,414
Disposals	-	(750)	(107,968)	(21,389)	(130)	-	(130,237)
Other changes	-	20,460	56,877	-	6,180	-	83,517
As of December 31, 2020	<u>\$-</u>	<u>\$1,821,017</u>	<u>\$3,108,352</u>	<u>\$180,398</u>	<u>\$64,797</u>	<u>\$3,341,907</u>	<u>\$8,516,471</u>
Depreciation and impairment:							
As of January 1, 2021	\$-	\$934,117	\$1,403,239	\$92,145	\$42,626	\$-	\$2,472,127
Depreciation	-	75,608	614,584	80,556	8,071	-	778,819
Disposals	-	(10,347)	(99,896)	(35,637)	(17,994)	-	(163,874)
As of December 31, 2021	<u>\$-</u>	<u>\$999,378</u>	<u>\$1,917,927</u>	<u>\$137,064</u>	<u>\$32,703</u>	<u>\$-</u>	<u>\$3,087,072</u>
As of January 1, 2020	\$-	\$881,892	\$994,685	\$55,322	\$36,230	\$-	\$1,968,129
Depreciation	-	52,975	516,522	58,212	6,526	-	634,235
Disposals	-	(750)	(107,968)	(21,389)	(130)	-	(130,237)
As of December 31, 2020	<u>\$-</u>	<u>\$934,117</u>	<u>\$1,403,239</u>	<u>\$92,145</u>	<u>\$42,626</u>	<u>\$-</u>	<u>\$2,472,127</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

	Land	Buildings and facilities	Machinery equipment	Moulding equipment	Other equipment	Construction in progress	Total
Net carrying amount as of:							
December 31, 2021	\$990,790	\$3,748,689	\$1,520,875	\$100,909	\$46,250	\$-	\$6,407,513
December 31, 2020	\$-	\$886,900	\$1,705,113	\$88,253	\$22,171	\$3,341,907	\$6,044,344

B. Components of buildings with different useful lives are main building structure, electromechanical and air conditioning units, which are depreciated over 20~51 years and 6~21 years, respectively.

C. The Company's property, plant and equipment were not pledged.

(8) Intangible assets

	Computer software	Goodwill	Expertise capitalized	Others	Total
Cost:					
As of January 1, 2021	\$334,840	\$2,080,084	\$2,392,911	\$91,000	\$4,898,835
Additions	25,164	-	132,377	-	157,541
Decreases	(18,716)	-	-	(91,000)	(109,716)
Other changes	7,500	-	-	-	7,500
As of December 31, 2021	\$348,788	\$2,080,084	\$2,525,288	\$-	\$4,954,160
As of January 1, 2020	\$305,171	\$2,080,084	\$2,321,121	\$91,000	\$4,797,376
Additions	38,968	-	71,790	-	110,758
Decreases	(9,299)	-	-	-	(9,299)
As of December 31, 2020	\$334,840	\$2,080,084	\$2,392,911	\$91,000	\$4,898,835
Amortization and impairment:					
As of January 1, 2021	\$283,882	\$-	\$1,981,147	\$91,000	\$2,356,029
Amortization	43,637	-	180,703	-	224,340
Decreases	(18,716)	-	-	(91,000)	(109,716)
As of December 31, 2021	\$308,803	\$-	\$2,161,850	\$-	\$2,470,653
As of January 1, 2020	\$242,842	\$-	\$1,781,366	\$80,889	\$2,105,097
Amortization	50,339	-	199,781	10,111	260,231
Decreases	(9,299)	-	-	-	(9,299)
As of December 31, 2020	\$283,882	\$-	\$1,981,147	\$91,000	\$2,356,029
Net carrying amount as of:					
December 31, 2021	\$39,985	\$2,080,084	\$363,438	\$-	\$2,483,507
December 31, 2020	\$50,958	\$2,080,084	\$411,764	\$-	\$2,542,806

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Notes to Parent Company Only Financial Statements (Continued)

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

Amortization expense of intangible assets under the statement of comprehensive income:

	Years ended December 31,	
	2021	2020
Operating costs	\$377	\$-
Research and development expenses	\$199,231	\$229,248
Administrative expenses	\$24,732	\$30,983

(9) Impairment testing of goodwill

The Company is a single operating segment, also a cash-generating unit, based on which, the Company assesses whether the goodwill is impaired annually. The major revenue of the Company comes from flat panel display and integrated circuit design products, assessments are as follows:

The recoverable amounts of the cash-generating unit have been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the change in demand for products and services. The pre-tax discount rate applied to cash flow projections is 16.43% in 2021 and 16.06% in 2020. Cash flows beyond the five-year period are extrapolated using the growth rate of 2.1% in 2021 and 0.1% in 2020. As of December 31, 2021 and 2020, the company did not identify any impairment for goodwill of NT\$2,080,084 thousand.

The calculation of value-in-use for cash-generating units is most sensitive to the following assumptions:

- A. Gross margin
- B. Discount rates
- C. Growth rate used to extrapolate cash flows beyond the budget period

Gross margins — gross margins are based on the actual results in the recent years, and are adjusted with considering the expected future market trend.

Discount rates — the discount rates were estimated based on the weighted average cost of capital (WACC) for the Company, taking into account the particular situations of the Company and its operating segments. The WACC includes both the cost of liabilities and cost of equities. The cost of equities is derived from the expected returns of the Company's investors on capital, where the cost of liabilities is measured by the interest-bearing loans that the Company has obligation to settle.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

Growth rates of sales estimates — the growth rates of sales are based on historical experiences. For the reasons explained above, the long-term average growth rate used to extrapolate the budget has been adjusted base on the speed of product innovation and the overall economic environment.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

(10) Other financial assets

	As of December 31,	
	2021	2020
Refundable deposits for capacity reservation	\$7,215,367	\$-
Others	15,388	11,300
	<u>\$7,230,755</u>	<u>\$11,300</u>
Current	\$1,542,551	\$-
Non-current	5,688,204	11,300
	<u>\$7,230,755</u>	<u>\$11,300</u>

The Company entered into the capacity reservation agreements with suppliers to ensure stable foundry capacity. The deposits were paid to suppliers in compliance with the agreements and refunded to the Company when terms and conditions set forth in the agreements have been satisfied.

(11) Other non-current assets

	As of December 31,	
	2021	2020
Prepayments for equipment	\$192,707	\$127,382
Others	-	7,046
	<u>\$192,707</u>	<u>\$134,428</u>

(12) Other current liabilities

	As of December 31,	
	2021	2020
Sales returns and allowance	\$75,840	\$82,237
Advance sales receipts	28,089	18,554
Others	35,719	30,573
	<u>\$139,648</u>	<u>\$131,364</u>

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Notes to Parent Company Only Financial Statements (Continued)

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

(13) Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

For the years ended December 31, 2021 and 2020, the pension expenses recognized under the defined contribution plan are NT\$191,837 thousand and NT\$177,964 thousand, respectively.

Defined benefit plan

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandating, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$8,928 thousand to its defined benefit plan during the 12 months beginning after December 31, 2021.

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Notes to Parent Company Only Financial Statements (Continued)

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

The average duration of the defined benefit plan obligation as of December 31, 2021 and 2020 are 12.80 years and 14.64 years, respectively.

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

	Years Ended December 31,	
	2021	2020
Current period service costs	\$2,664	\$2,779
Interest income or expense	621	1,298
Other adjustments	27	12
	<u>\$3,312</u>	<u>\$4,089</u>

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

	As of		
	December 31, 2021	December 31, 2020	January 1, 2020
Defined benefit obligation	\$444,075	\$368,810	\$349,951
Plan assets at fair value	(213,490)	(200,952)	(187,746)
Other adjustments	(115)	2	(11)
Net defined benefit liabilities, non-current recognized on the balance sheets	<u>\$230,470</u>	<u>\$167,860</u>	<u>\$162,194</u>

Reconciliation of liabilities (assets) under the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liabilities (assets)
As of January 1, 2020	\$349,951	\$(187,746)	\$162,205
Current period service costs	2,779	-	2,779
Net interest expense (income)	2,800	(1,502)	1,298
	<u>355,530</u>	<u>(189,248)</u>	<u>166,282</u>
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	2,683	-	2,683
Actuarial gains and losses arising from changes in financial assumptions	22,059	-	22,059
Experience adjustments	(8,042)	-	(8,042)
Remeasurements on plan assets	-	(6,191)	(6,191)
	<u>16,700</u>	<u>(6,191)</u>	<u>10,509</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

	Defined benefit obligation	Fair value of plan assets	Benefit liabilities (assets)
Contributions by employer	-	(8,933)	(8,933)
Payments from the plan	(3,420)	3,420	-
As of December 31, 2020	368,810	(200,952)	167,858
Current period service costs	2,664	-	2,664
Net interest expense (income)	1,365	(744)	621
	372,839	(201,696)	171,143
Remeasurements of the net defined benefit liabilities (assets):			
Actuarial gains and losses arising from changes in demographic assumptions	(4,513)	-	(4,513)
Actuarial gains and losses arising from changes in financial assumptions	(21,958)	-	(21,958)
Experience adjustments	97,707	-	97,707
Remeasurements on plan assets	-	(2,866)	(2,866)
	71,236	(2,866)	68,370
Contributions by employer	-	(8,928)	(8,928)
Payments from the plan	-	-	-
As of December 31, 2021	\$444,075	\$(213,490)	\$230,585

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

	As of December 31,	
	2021	2020
Discount rate	0.74%	0.37%
Expected rate of salary increases	3.00%	3.00%

The sensitivity analyses for significant assumption are shown below:

	Years Ended December 31,			
	2021		2020	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increases by 0.5%	\$-	\$(27,185)	\$-	\$(25,733)
Discount rate decreases by 0.5%	29,665	-	28,263	-
Future salary increases by 0.5%	28,839	-	27,369	-
Future salary decreases by 0.5%	-	(26,738)	-	(25,223)

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

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

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

(14) Guarantee deposits, non-current

	As of December 31,	
	2021	2020
Guarantee deposits for capacity reservation	\$13,481,156	\$-

The customers entered into the capacity reservation agreements with the Company to reserve specific production capacity. The deposits were received from the customers in compliance with the agreements and refunded to them when terms and conditions set forth in the agreements have been satisfied.

(15) Equities

A. Common stock

As of both December 31, 2021 and 2020, the Company's authorized capital was NT\$7,500,000 thousand and the issued capital was NT\$6,085,115 thousand, each at a par value of NT\$10. The Company has issued 608,512 thousand common shares as of both December 31, 2021 and 2020. Each share has one voting right and a right to receive dividends.

B. Capital surplus

	As of December 31,	
	2021	2020
Additional paid-in capital — conversion of convertible bonds	\$7,959	\$7,959
Premium from merger	2,244,432	2,244,432
Employee stock option	122,663	122,663
	<u>\$2,375,054</u>	<u>\$2,375,054</u>

According to the Company Act, the capital surplus shall not be used except for offset a deficit of the company. When a company incurs no loss, it may distribute the capital surplus derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

C. Legal Reserve

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

D. Special Reserve

When the Company distributing distributable earnings, it shall set aside to special reserve, an amount equal to “other net deductions from shareholders” equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements for the adoption of IFRS, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders’ equity. For any subsequent reversal of other net deductions from shareholders’ equity, the amount reversed may be distributed from the special reserve.

The FSC on March 31, 2021 issued Order No. Financial-Supervisory-Securities-Corporate-1090150022, which sets out the following provisions for compliance: Upon a public company's first-time adoption of the IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders’ equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside special reserve. For any subsequent use, disposal or reclassification of related assets, the Company can reverse the special reserve by the proportion of the special reserve first appropriated and distribute it.

E. Retained earnings and dividend policies

According to the Company’s Articles of Incorporation, current year’s earnings, if any, shall be distributed in the following order:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income after tax; where such legal reserve amounts to the total authorized capital, this provision shall not apply.
- (d) Special reserve in compliance with the Company Law or Securities and Exchange Law;
- (e) The remaining balance after the mentioned above payment to be made, combining with the undistributed earnings of the proceeding years may be retained or distributed as shareholders’ dividends after the approval of the shareholders’ meeting.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting. Dividends distributed to shareholders, if any, could be paid in the form of cash or share dividends. At least 50% of the dividends must be paid in the form of cash.

The 2020 and 2019 earnings distribution and dividends per share as approved by the shareholders' meeting on July 20, 2021 and June 9, 2020, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	Years Ended December 31,			
	2020	2019	2020	2019
Legal reserve	\$1,180,673	\$792,741		
Special reserve	(248,629)	(215,821)		
Common stock —				
cash dividends	9,492,779	5,476,603	15.60	9.00

In addition, the general shareholders' meeting on June 9, 2020 resolved to distribute the additional paid-in capital by cash in the amount of NT\$912,768 thousand, or NT\$1.5 per share.

Please refer to Note 6(19) for further details on employees' compensation and remuneration to directors.

(16) Operating revenue

A. Disaggregation of revenue

	Years Ended December 31,	
	2021	2020
Revenue from contracts with customers		
Sale of goods	\$134,878,114	\$79,270,503
Other operating revenues	460,436	596,982
	<u>\$135,338,550</u>	<u>\$79,867,485</u>
Timing of revenue recognition:		
At a point in time	\$134,899,626	\$79,316,114
Over time	438,924	551,371
	<u>\$135,338,550</u>	<u>\$79,867,485</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

B. Contract balances

Contract liabilities, current

	December 31, 2021	December 31, 2020	January 1, 2020
Sale of goods	\$265,187	\$941	\$28,477
Other operating revenues	347,989	327,874	12,785
	<u>\$613,176</u>	<u>\$328,815</u>	<u>\$41,262</u>

The significant changes in the Company's balances of contract liabilities for the years ended December 31, 2021 and 2020 are as follows:

	Years Ended December 31,	
	2021	2020
Performance during the period	\$(602,128)	\$(40,259)
Increase in receipts in advance during the period	886,489	327,812

C. Transaction price allocated to unsatisfied performance obligations

There is no need to provide relevant information of the unsatisfied performance obligations as the contract terms with customers about the sales of goods are all shorter than one year.

D. Assets recognized from costs to fulfil a contract: None.

(17) Expected credit losses

	Years Ended December 31,	
	2021	2020
Operating expenses — Expected credit losses		
Trade receivables	<u>\$-</u>	<u>\$80,000</u>

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

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

The Company consider the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follows:

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

As of December 31, 2021

	Days of trade receivables			Total
	<=60days	61-180 days	>=181 days	
Gross carrying amount	\$17,902,942	\$6,327,097	\$20,153	\$24,250,192
Loss ratio	1%-5%	5%-30%	20%-100%	
Lifetime expected credit losses	303,518	404,127	20,153	727,798
	<u>\$17,599,424</u>	<u>\$5,922,970</u>	<u>\$-</u>	<u>\$23,522,394</u>

As of December 31, 2020

	Days of trade receivables			Total
	<=60days	61-180 days	>=181 days	
Gross carrying amount	\$10,832,619	\$3,292,153	\$23,859	\$14,148,631
Loss ratio	1%-5%	10%-30%	20%-100%	
Lifetime expected credit losses	209,764	494,175	23,859	727,798
	<u>\$10,622,855</u>	<u>\$2,797,978</u>	<u>\$-</u>	<u>\$13,420,833</u>

The movement in the provision for impairment of trade receivables as for the years ended December 31, 2021 and 2020 are as follows:

Loss allowance	Year Ended
	December 31, 2021
As of January 1, 2021	\$727,798
Addition/(reversal) for the current period	-
As of December 31, 2021	<u>\$727,798</u>

Loss allowance	Year Ended
	December 31, 2020
As of January 1, 2020	\$647,798
Addition for the current period	80,000
As of December 31, 2020	<u>\$727,798</u>

(18) Leases

A. Company as a lessee

The Company leases properties, including real estate such as land, buildings, and other equipment. The lease terms range from 1 to 35 years.

The Company's leases effect on the financial position, financial performance and cash flows are as follow:

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(a) Amounts recognized in the balance sheet

I. Right-of-use assets

The carrying amount of right-of-use assets

	As of December 31,	
	2021	2020
Land	\$159,119	\$166,889
Buildings	23,125	39,230
	<u>\$182,244</u>	<u>\$206,119</u>

During the years ended December 31, 2021 and 2020, the Company's additions to right-of-use assets amounting to NT\$24,073 thousand and NT\$4,326 thousand, respectively.

II. Lease liabilities

	As of December 31,	
	2021	2021
Lease liabilities	<u>\$186,244</u>	<u>\$209,309</u>
Current	\$23,646	\$36,923
Non-current	162,598	172,386

Please refer to Note 6 (20) for the interest on lease liabilities recognized during the years ended December 31, 2021 and 2020, and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities as of December 31, 2021 and 2020.

(b) Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	Years Ended December 31,	
	2021	2020
Land	\$10,067	\$9,338
Buildings	23,352	27,716
	<u>\$33,419</u>	<u>\$37,054</u>

(c) Income and costs relating to leasing activities

	Years Ended December 31,	
	2021	2020
The expenses relating to short-term leases	\$2,211	\$2,308
The expenses relating to leases of low-value assets (Not including the short-term leases)	1,471	1,386
Income from subleasing right-of-use assets	3,302	3,112

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(d) Cash outflow relating to leasing activities

During the years ended December 31, 2021 and 2020, the Company's total cash outflows for leases amounting to NT\$39,268 thousand and NT\$43,106 thousand.

(e) Other information relating to leasing activities

Extension option

Some of the Company's property rental agreements contain extension option. In determining the lease terms, the non-cancellable period for which the Company has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. The option is used to maximize operational flexibility in terms of managing contracts. The majority of extension option held is exercisable only by the Company. After the commencement date, the Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Company is reasonably certain to exercise an option not previously included in its determination of the lease term.

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

	Years Ended December 31,					
	2021			2020		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$334,796	\$12,512,320	\$12,847,116	\$295,534	\$7,269,090	\$7,564,624
Labor and health insurance	17,533	352,628	370,161	14,891	276,320	291,211
Pension	12,393	182,756	195,149	11,397	170,656	182,053
Directors' remuneration	-	16,728	16,728	-	16,200	16,200
Others	1,235	57,094	58,329	710	38,290	39,000
Total amount	<u>\$365,957</u>	<u>\$13,121,526</u>	<u>\$13,487,483</u>	<u>\$322,532</u>	<u>\$7,770,556</u>	<u>\$8,093,088</u>
Depreciation	<u>\$215,924</u>	<u>\$596,314</u>	<u>\$812,238</u>	<u>\$191,323</u>	<u>\$479,966</u>	<u>\$671,289</u>
Amortization	<u>\$377</u>	<u>\$223,963</u>	<u>\$224,340</u>	<u>\$-</u>	<u>\$260,231</u>	<u>\$260,231</u>

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Notes to Parent Company Only Financial Statements (Continued)

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

For the years ended December 31, 2021 and 2020, the Company's average employees totaled to 2,495 and 2,326, respectively, including six and five non-employee directors for the years ended December 31, 2021 and 2020, respectively. The Company's average employee benefit expenses for the years ended December 31, 2021 and 2020 were NT\$5,412 thousand and NT\$3,480 thousand, respectively. The Company's average salary expenses for the years ended December 31, 2021 and 2020 were NT\$5,162 thousand and NT\$3,259 thousand, respectively. The Company's average salary expense adjustment for the year ended December 31, 2021 increased by 58.39%.

According to the Articles of Incorporation, no lower than 1% of profit of the current year is distributable as employees' compensation and no higher than 0.4% of profit of the current year is distributable as remuneration to directors. However, the Company's accumulated losses shall have been covered (if any). The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Directors' remuneration, including payments, operational implementation costs and compensations, requires the resolution made by the remuneration committee and the board of directors based on the level of participation and contribution of the directors given to the company operations and reference to similar positions in the same industry. The remunerations of managers and employees are determined based on "Company-Wide Salary Remuneration Rule" and the salary levels of the same job positions in the industry, which shall include fixed salary, employee remuneration, performance bonus, and other remunerations.

The functionality of Supervisors has been replaced by Audit Committee in 2012.

Based on profit of current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2021 to be NT\$486,165 thousand and NT\$12,000 thousand, respectively. The employees' compensation and remuneration to directors recognized as salary expense. If the estimated amounts differ from the actual distribution resolved by the board of directors, the Company will recognize the change as an adjustment to income of next year. If the board of directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of resolution.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

A resolution was approved at a Board of Directors meeting held on February 25, 2022 to distribute NT\$486,165 thousand and NT\$12,000 thousand in cash as employees' compensation and remuneration to directors, respectively. There was no material difference between the aforementioned approved amounts and the amounts charged against earnings in 2021.

No material differences exist between the estimated amount and the actual distribution NT\$147,041 thousand and NT\$12,000 thousand of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2020.

(20) Non-operating income and expenses

A. Interest income

	Years Ended December 31,	
	2021	2020
Interest income — Financial assets measured at amortized cost	\$125,242	\$99,932

B. Other income

	Years Ended December 31,	
	2021	2020
Rental income	\$3,302	\$3,112
Dividend income	163,796	-
Others	14,587	25,035
	\$181,685	\$28,147

C. Other gains and losses

	Years Ended December 31,	
	2021	2020
Foreign exchange gains (losses), net	\$17,909	\$(403,773)
Others	(4,197)	(3,109)
	\$13,712	\$(406,882)

D. Finance costs

	Years Ended December 31,	
	2021	2020
Interest on borrowings from bank	\$13,815	\$842
Interest on lease liabilities	3,249	3,767
	\$17,064	\$4,609

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(21) Components of other comprehensive income

For the year ended December 31, 2021

		Reclassification adjustments	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
	Arising during the period	during the period			
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(68,370)	\$-	\$(68,370)	\$-	\$(68,370)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	1,143,001	-	1,143,001	-	1,143,001
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income of subsidiaries and associates accounted for using the equity method	72,779	-	72,779	-	72,779
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(12,071)	-	(12,071)	-	(12,071)
	<u>\$1,135,339</u>	<u>\$-</u>	<u>\$1,135,339</u>	<u>\$-</u>	<u>\$1,135,339</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

For the year ended December 31, 2020

		Reclassification adjustments	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
	Arising during the period	during the period			
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(10,509)	\$-	\$(10,509)	\$-	\$(10,509)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	1,445,496	-	1,445,496	-	1,445,496
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income of subsidiaries and associates accounted for using the equity method	(2,246)	-	(2,246)	-	(2,246)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	4,274	-	4,274	-	4,274
	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>	<u>\$-</u>	<u>\$1,437,015</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(22) Income tax

The major components of income tax expense are as follows:

Income tax expense (income) recognized in profit or loss

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current income tax expense:		
Current income tax charge	\$9,497,597	\$2,856,642
Adjustments in respect of current income tax of prior periods	(135,580)	(38,076)
Deferred tax expense:		
Deferred tax expense relating to origination and reversal of temporary differences	(113,030)	(107,346)
Others	(3,987)	8,780
Total income tax expense	<u>\$9,245,000</u>	<u>\$2,720,000</u>

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

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Accounting profit before tax from continuing operations	<u>\$48,110,560</u>	<u>\$14,537,239</u>
Tax at the domestic rates applicable 20% to profits in the country concerned	9,622,112	2,907,448
Tax effect of revenues exempt from taxation	(32,136)	(259)
Tax effect of expenses not deductible for tax purposes	196	196
Tax effect of deferred tax assets/ liabilities	(244,723)	(158,089)
5% surtax on undistributed retained earnings	39,118	-
Adjustments in respect of current income tax of prior periods	(135,580)	(38,076)
Others	(3,987)	8,780
Total income tax expense recognized in profit or loss	<u>\$9,245,000</u>	<u>\$2,720,000</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2021

	Beginning balance as of January 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance as of December 31, 2021
Temporary differences						
Unrealized foreign exchange						
losses (gains)	\$(28,046)	\$13,241	\$-	\$-	\$-	\$(14,805)
Unrealized inventory loss						
provision	366,354	146,374	-	-	-	512,728
Unrealized loss allowance	117,262	(20,203)	-	-	-	97,059
Unrealized estimated expense	35,558	(4,795)	-	-	-	30,763
Goodwill	(285,193)	(20,308)	-	-	-	(305,501)
Unrealized sales returns and						
allowances	16,447	(1,279)	-	-	-	15,168
Net defined benefit liabilities,						
non-current	8,922	-	-	-	-	8,922
Deferred tax income/ (expense)		<u>\$113,030</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	
Net deferred tax assets	<u>\$231,304</u>					<u>\$344,334</u>
Reflected in balance sheet as						
follows:						
Deferred tax assets	<u>\$544,543</u>					<u>\$664,640</u>
Deferred tax liabilities	<u>\$313,239</u>					<u>\$320,306</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

For the year ended December 31, 2020

	Beginning balance as of January 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Charged directly to equity	Exchange differences	Ending balance as of December 31, 2020
Temporary differences						
Unrealized foreign exchange losses (gains)	\$(40,438)	\$12,392	\$-	\$-	\$-	\$(28,046)
Unrealized inventory loss provision	270,739	95,615	-	-	-	366,354
Unrealized loss allowance	101,506	15,756	-	-	-	117,262
Unrealized estimated expense	30,099	5,459	-	-	-	35,558
Goodwill	(264,885)	(20,308)	-	-	-	(285,193)
Unrealized sales returns and allowances	18,015	(1,568)	-	-	-	16,447
Net defined benefit liabilities, non-current	8,922	-	-	-	-	8,922
Deferred tax income/ (expense)		\$107,346	\$-	\$-	\$-	
Net deferred tax assets	\$123,958					\$231,304
Reflected in balance sheet as follows:						
Deferred tax assets	\$429,281					\$544,543
Deferred tax liabilities	\$305,323					\$313,239

Unrecognized deferred tax assets

As of December 31, 2021 and 2020, deferred tax assets that have not been recognized both amount to NT\$0.

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Company's overseas subsidiaries, as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2021 and 2020, deferred tax liability not being recognized for subsidiaries, aggregated to NT\$39,942 thousand and NT\$37,963 thousand, respectively.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

The assessment of income tax returns

As of December 31, 2021, the assessment and approval of the income tax returns of the Company is up to 2019.

(23) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

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

The capital structure of the Company is considered complex. Computations are as follows:

	Years Ended December 31,	
	2021	2020
(a) Basic earnings per share		
Profit (in thousand NT\$)	\$38,865,560	\$11,817,239
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	608,512	608,512
Basic earnings per share (NT\$)	\$63.87	\$19.42
(b) Diluted earnings per share		
Profit (in thousand NT\$)	\$38,865,560	\$11,817,239
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand share)	608,512	608,512
Effect of dilution:		
Employee bonus-stock (in thousand share)	945	521
Weighted average number of ordinary shares outstanding after dilution (in thousand share)	609,457	609,033
Diluted earnings per share (NT\$)	\$63.77	\$19.40

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

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

7. RELATED PARTY TRANSACTIONS

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

Names of related parties	Nature of relationship of the related parties
United Microelectronics Corporation	Director of the Company
HeJian Technology (Suzhou) Co., Ltd.	Other related party
United Semiconductor (Xiamen) Co., LTD.	Other related party
Wavetek Microelectronics Corporation	Other related party
United Semiconductor Japan Co., LTD.	Other related party
NTK International Limited (NTK)	Subsidiary
Novatek Japan Kabushiki-Kaisha	Subsidiary

Significant transactions with related parties

(1) Purchases

	Years Ended December 31,	
	2021	2020
United Microelectronics Corporation	\$15,625,168	\$11,731,985
HeJian Technology (Suzhou) Co., Ltd.	1,886,433	1,630,049
Others	2,831,177	642,550
	<u>\$20,342,778</u>	<u>\$14,004,584</u>

The payment terms from the related party suppliers were comparable with third party suppliers, and they are 45 days from the end of the month when the invoices are issued.

(2) Sales

	Years Ended December 31,	
	2021	2020
The Company's subsidiaries	<u>\$5,282,415</u>	<u>\$9,323,323</u>

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for domestic sales to related parties was month-end 60 days.

(3) Technology Service

Transaction	Years Ended December 31,	
	2021	2020
United Microelectronics Corporation	\$313,390	\$187,231
Others	100,291	19,033
	<u>\$413,681</u>	<u>\$206,264</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(4) Service expense

Transaction	Years Ended December 31,	
	2021	2020
The Company's subsidiaries	\$29,285	\$28,958

(5) Trade receivables from related parties

Names of related parties	As of December 31,	
	2021	2020
The Company's subsidiaries	\$238,196	\$812,084

(6) Trade payables to related parties

Names of related parties	As of December 31,	
	2021	2020
United Microelectronics Corporation	\$3,110,821	\$1,889,963
HeJian Technology (Suzhou) Co., Ltd	376,194	287,496
Others	941,276	18,388
	\$4,428,291	\$2,195,847

(7) Other financial assets, non-current

Names of related parties	As of December 31,	
	2021	2020
United Microelectronics Corporation	\$3,101,897	\$-

Key management personnel compensation

	Years Ended December 31,	
	2021	2020
Short-term employee benefits	\$351,242	\$243,787
Post-employment benefits	1,520	1,341
	\$352,762	\$245,128

8. ASSETS PLEDGE AS SECURITY

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

Assets pledged for security	As of December 31,		Secured liabilities
	2021	2020	
Other financial assets, non-current	\$11,300	\$11,300	Guarantee for land

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

- (1) The Company recorded certain royalty fee since using certain technology know-how of other companies.
- (2) FOCALTECH ELECTRONICS, LTD. (“FOCALTECH”) filed two applications for preliminary injunctions with the Intellectual Property Court against the Company alleging infringement of Patent No. I529580B “TOUCH DISPLAY DEVICE, DRIVING CIRCUIT AND DRIVING METHOD” on August 29, 2018 and September 20, 2018. The Company received Intellectual Property Court 108-Min-Zhan-Kang-Zi-No.2 Civil Ruling in April, 2019. Intellectual Property Court has two applications for preliminary injunctions filed by FOCALTECH. FOCALTECH filed a complaint in the Intellectual Property Court on September 17, 2018 alleging that the Company’s chips infringe the I529580B patent. The Company received Intellectual Property Court 107-Min-Zhuan-Su-Zi-No.95 Civil Judgment on December 23, 2019. The first instance of the complaint for patent infringement has been OVERRULED by the Intellectual Property Court. The second instance of Litigation Proceedings are still processing, and the operations and financial of the Company would not be materially affected by this case.

10. LOSSES DUE TO MAJOR DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. FINANCIAL INSTRUMENTS

- (1) Categories of financial instruments

	As of December 31,	
	2021	2020
<u>Financial assets</u>		
Financial assets measured at fair value through other comprehensive income	\$4,023,547	\$2,880,546
Financial assets measured at amortized cost		
Cash and cash equivalents (exclude cash on hand)	59,252,104	22,021,958
Trade receivables	23,863,233	13,740,353
Other financial assets (include current and non-current)	7,230,755	11,300
Refundable deposits (classified as other non-current assets)	-	7,046
	<u>\$94,369,639</u>	<u>\$38,661,203</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

	As of December 31,	
	2021	2020
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Trade and other payables	\$27,014,436	\$14,989,640
Guarantee deposits	13,481,156	-
Lease liabilities	186,244	209,309
	<u>\$40,681,836</u>	<u>\$15,198,949</u>

(2) Financial risk management objectives

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies, measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

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

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

Foreign currency risk

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

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows:

When NTD strengthens/weakens against USD by 5%, the profit for the years ended December 31, 2021 and 2020 would decrease/increase by NT\$260,668 thousand and NT\$372,396 thousand, respectively.

Interest rate risk

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

All of the Company's financial assets and financial liabilities that are exposed to cash flow risk due to fluctuating interest rate are under short term contracts, thus the cash flow risk of fluctuate interest is considerably low.

Equity price risk

The fair value of the Company's unlisted equity securities is susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's unlisted equity securities are classified under financial assets measured at fair value through other comprehensive income. The Company manages the equity price risk through diversification of equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

(4) Credit risk management

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

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

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

As of December 31, 2021 and 2020, trade receivables from top ten customers represented 52% and 59% of the total trade receivables of the Company, respectively. The credit concentration risk of other trade receivables is insignificant.

Credit risk from balances with banks and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions and companies with good credit rating. Consequently, there is no significant credit risk for these counter parties.

The Company adopted IFRS 9 to assess the expected credit losses and the details of the assessment is described as follows:

Level of credit risk	Indicator	Measurement method for expected credit losses	Total carrying amount of trade receivables as of December 31,	
			2021	2020
Simplified approach (Note)	(Note)	Lifetime expected credit losses	\$24,250,192	\$14,148,631

Note: By using simplified approach (loss allowance is measured at lifetime expected credit losses), including accounts receivables.

(5) Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest.

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Notes to Parent Company Only Financial Statements (Continued)

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

Non-derivative financial liabilities

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
December 31, 2021					
Trade and other payables	\$27,014,436	\$-	\$-	\$-	\$27,014,436
Lease liabilities	26,662	32,092	19,297	149,379	227,430
Guarantee deposits	-	5,142,391	2,588,245	5,750,520	13,481,156
December 31, 2020					
Trade and other payables	\$14,989,640	\$-	\$-	\$-	\$14,989,640
Lease liabilities	40,176	33,928	21,406	157,973	253,483

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2021:

	Guarantee deposits	Lease liabilities	Total liabilities from financing activities
As of January 1, 2021	\$-	\$209,309	\$209,309
Cash flows	13,518,642	(32,337)	13,486,305
Non-cash changes			
Addition for the current period	-	24,073	24,073
Lease modification	-	(14,801)	(14,801)
Foreign exchange movement	(37,486)	-	(37,486)
As of December 31, 2021	<u>\$13,481,156</u>	<u>\$186,244</u>	<u>\$13,667,400</u>

Reconciliation of liabilities for the year ended December 31, 2020:

	Guarantee deposits	Lease liabilities	Total liabilities from financing activities
As of January 1, 2020	\$299,800	\$237,443	\$537,243
Cash flows	(307,153)	(35,645)	(342,798)
Non-cash changes			
Addition for the current period	-	4,326	4,326
Lease modification	-	3,185	3,185
Foreign exchange movement	7,353	-	7,353
As of December 31, 2020	<u>\$-</u>	<u>\$209,309</u>	<u>\$209,309</u>

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(7) Fair values of financial instruments

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

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

- (a) The carrying amount of cash and cash equivalents, trade receivables, other receivables, refundable deposit (classified as other non-current assets), other financial assets, non-current and trade and other payables approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and funds etc.) at the reporting date.
- (c) Fair value of equity instruments without market quotations (including private company equity securities) are estimated using the market approach or asset approach valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information.
- (d) The fair value of other financial assets and liabilities is determined using discounted cash flow analysis; the interest rate and discount rate are selected with reference to those of similar financial instruments.

B. Fair value of financial instruments measured at amortized cost

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

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Company.

(8) Fair values measurement hierarchy

A. Fair value measurement hierarchy

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

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Notes to Parent Company Only Financial Statements (Continued)

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

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

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 — Unobservable inputs for the asset or liability

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

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

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument	\$-	\$-	\$4,023,547	\$4,023,547

As of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets measured at fair value through other comprehensive income				
Equity instrument	\$-	\$-	\$2,880,546	\$2,880,546

Transfers between Level 1 and Level 2 during the period.

During the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements.

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Notes to Parent Company Only Financial Statements (Continued)

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

The detail movement of recurring fair value measurements in Level 3:

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

For the year ended December 31, 2021

	Assets
	At fair value through other comprehensive income
	Stocks
As of January 1, 2021	\$2,880,546
Total gains and losses recognized:	
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	1,143,001
As of December 31, 2021	\$4,023,547

For the year ended December 31, 2020

	Assets
	At fair value through other comprehensive income
	Stocks
As of January 1, 2020	\$1,438,223
Total gains and losses recognized:	
Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	1,445,496
Return of capital	(3,173)
As of December 31, 2020	\$2,880,546

Information on significant unobservable inputs to valuation

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

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Notes to Parent Company Only Financial Statements (Continued)

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As of December 31, 2021:

	Valuation technique	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of the input to fair value
Financial assets:					
Financial assets measured at fair value through other comprehensive income					
Stocks	Asset approach	Discount for lack of marketability and minority interest	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by NT\$447,061 thousand

As of December 31, 2020:

	Valuation technique	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity analysis of the input to fair value
Financial assets:					
Financial assets measured at fair value through other comprehensive income					
Stocks	Asset approach	Discount for lack of marketability and minority interest	10%	The higher the discount for lack of marketability, the lower the fair value estimated	10% increase (decrease) in the discount for lack of marketability would result in increase (decrease) in the Company's equity by NT\$320,061thousand

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Notes to Parent Company Only Financial Statements (Continued)

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

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

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

(9) Significant assets and liabilities denominated in foreign currencies

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

As of December 31, 2021			
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
<u>Financial assets</u>			
Monetary items:			
USD	\$1,268,220	27.680	\$35,104,325
<u>Financial liabilities</u>			
Monetary items:			
USD	\$1,079,876	27.680	\$29,890,962
As of December 31, 2020			
	Foreign currencies (In thousands)	Foreign exchange rate	NTD (In thousands)
<u>Financial assets</u>			
Monetary items:			
USD	\$584,288	28.480	\$16,640,531
<u>Financial liabilities</u>			
Monetary items:			
USD	\$322,774	28.480	\$9,192,593

The Company does not disclose all of information regarding the assets and liabilities denominated in foreign currencies due to the varieties of foreign currency transactions. During the years ended December 31, 2021 and 2020, the foreign exchange gains (losses) were NT\$17,909 thousand and NT\$(403,773) thousand, respectively.

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Notes to Parent Company Only Financial Statements (Continued)

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(10) Capital management

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

13. ADDITIONAL DISCLOSURES

(1) The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau:

A. Financing provided to others for the year ended December 31, 2021: None.

B. Endorsement/Guarantee provided to others for the year ended December 31, 2021: None.

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Notes to Parent Company Only Financial Statements (Continued)

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C. Marketable securities held as of December 31, 2021 (excluding subsidiaries):

Held Company Name	Marketable Securities Type and Name		Relationship with the Company	Financial Statement Account	December 31, 2021				Note
					Shares/Units (In thousands)	Carrying Value	Percentage of Ownership (%)	Fair Value	
Novatek Microelectronics Corp.	Common Stock	SHIEH YONG Investment Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income, non-current	243,681	\$3,339,067	15.15%	\$3,339,067	-
	Common Stock	Unitech Capital Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	6,000	251,661	12.00%	251,661	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	27,333	432,819	4.67%	432,819	-
Novatek Investment Corporation Limited	-	CDIB-Innolux Limited Partnership	-	Financial assets measured at fair value through profit or loss, non-current	-	12,500	-	12,500	-
	Preferred Stock	Fortemedia Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	296	4,510	0.22%	4,510	-
	Common Stock	Yobon Technologies, Inc.	-	Financial assets measured at fair value through other comprehensive income, non-current	26	-	3.79%	-	-
	Common Stock	TriKnight Capital Corporation	-	Financial assets measured at fair value through other comprehensive income, non-current	13,666	216,410	2.33%	216,410	-
	Common Stock	Perinnova Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	1.9	5,861	19.00%	5,861	-
	Preferred Stock	Gear Radio Limited	-	Financial assets measured at fair value through other comprehensive income, non-current	2,400	26,579	9.29%	26,579	-

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D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2021:

Company Name	Marketable Securities Type and Name		Financial Statement Account	Counter-party	Nature of Relationship	Beginning balance		Acquisition		Disposal				Ending balance	
						Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Shares /Units (In thousands)	Amount	Carrying Value	Gains (Losses) on Disposal	Shares /Units (In thousands)	Amount
Novatek Microelectronics Corp.	Common Stock	Novatek International (BVI) Ltd.	Investments accounted for using the equity method	Novatek International (BVI) Ltd.	Subsidiary	50,000	\$688,740	25,000	\$709,030	-	\$-	\$-	\$-	52,000 (Note 2)	\$734,392 (Note 1)

Note 1: Including losses recognizes from investments accounted for using the equity method in the amount of NT\$658,784 thousand, and losses from cumulative-translation adjustment recognized base on exchange rate in the amount of NT\$4,594 thousand.

Note 2: The decrease in a total of 23,000 shares is due to reduce capital and make up for losses.

E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended December 31, 2021: None.

F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital for the year ended December 31, 2021: None.

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G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the paid-in capital for the year ended December 31, 2021:

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchase/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Novatek Microelectronics Corp.	NTK International Limited (NTK)	Subsidiary	Sales	\$(5,282,415)	3.90%	month-end 60 days	-	-	\$238,196	0.98%
Novatek Microelectronics Corp.	United Microelectronics Corp.	Directors of the Company	Purchase	15,625,168	32.31%	month-end 45 days	-	-	(3,110,821)	(18.32)%
Novatek Microelectronics Corp.	HeJian Technology (Suzhou) Co., Ltd	Other related party	Purchase	1,886,433	3.90%	month-end 45 days	-	-	(376,194)	(2.22)%
Novatek Microelectronics Corp.	United Semiconductor (Xiamen) Corp.	Other related party	Purchase	160,454	0.33%	month-end 45 days	-	-	(145,350)	(0.86)%
Novatek Microelectronics Corp.	United Semiconductor Japan Co., Ltd.	Other related party	Purchase	2,648,503	5.48%	month-end 45 days	-	-	(789,195)	(4.65)%
NTK International Limited (NTK)	Novatek Microelectronics Corp.	Subsidiary	Purchase	5,282,415	100.00%	month-end 60 days	-	-	(238,196)	(100.00)%

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of paid-in capital as of December 31, 2021:

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Novatek Microelectronics Corp.	NTK International Limited (NTK)	Subsidiary	\$238,196	10.06	-	-	\$238,196	-

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I. Financial instruments and derivative transactions: None.

J. Intercompany relationship and significant intercompany transactions for the year ended December 31, 2021:

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statement Item	Amount	Term	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	Novatek Microelectronics Corp.	Novatek Japan Kabushiki-Kaisha (NJKK)	1	Service expenses	\$29,285	According to the contract	(0.02)%
0	Novatek Microelectronics Corp.	NTK International Limited (NTK)	1	Sales	5,282,415	month-end 60 days	3.90%
0	Novatek Microelectronics Corp.	NTK International Limited (NTK)	1	Trade receivables	238,196	month-end 60 days	0.20%
1	Novatek International (BVI) Ltd.	Novatek (Suzhou) Co., Ltd.	3	Administrative expenses	152,559	According to the contract	(0.11)%
1	Novatek International (BVI) Ltd.	Novatek (Xian) Co., Ltd.	3	Administrative expenses	241,065	According to the contract	(0.18)%
1	Novatek International (BVI) Ltd.	Novatek (Shenzhen) Co., Ltd.	3	Administrative expenses	260,296	According to the contract	(0.19)%
1	Novatek International (BVI) Ltd.	Novatek (Beijing) Co., Ltd.	3	Administrative expenses	7,780	According to the contract	(0.01)%
2	Cheertek International Inc.	Novatek (Shanghai) Co., Ltd.	3	Administrative expenses	199,504	According to the contract	(0.15)%

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transactions.

1. 0 for parent company.

2. Subsidiaries are given a number in sequence starting with No. 1.

Note 2: There are three types of transactions. Please remark the type of transaction by giving a number to it.

1. Parent to Subsidiary.

2. Subsidiary to Parent.

3. Subsidiaries to Subsidiaries.

Note 3: Asset/liability items are calculated by using the ending balances of the item divided by ending balance of total consolidated assets;

Profit/loss items are calculated by using the amount of the transaction divided by total consolidated revenue.

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NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(2) Information on investees

Names, locations and related information of investees as of December 31, 2021 (excluding investment in Mainland China):

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2021			Net Income (losses) of the Investee	Profits/losses of Investee	Note
				December 31, 2021	December 31, 2020	Shares (In thousands)	Percentage of Ownership	Carrying Value			
Novatek Microelectronics Corp.	Novatek Investment Corporation Limited	Taiwan	Investment	\$580,000	\$580,000	58,000	100.00%	\$636,557	\$30,985	\$30,985	-
	Cheertek International Inc.	Samoa	Investment	408,210	209,150	14,000	100.00%	33,555	(200,470)	(200,470)	-
	Novatek International (BVI) Ltd.	British Virgin Islands	Investment	1,524,780	1,517,830	52,000	100.00%	734,392	(658,784)	(658,784)	-
	NTK International Limited (NTK)	Kowloon, Hong Kong	Manufacture and sales in related business in the integrated circuit	20,949	20,949	5,000	100.00%	195,721	15,683	15,683	-
	Novatek Japan Kabushiki-Kaisha (NJKK)	Tokyo, Japan	Design, sales and services in related business in the integrated circuit	5,430	5,430	0.4	100.00%	2,186	1,407	1,407	-
Novatek International (BVI) Ltd.	Novatek International (SAMOA) Ltd.	Samoa	Investment	USD4,000 thousand	USD4,000 thousand	4,000	100.00%	115,957	9,694	-	-

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NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

(3) Investment in China

A. Investment situation:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 7)	Method of Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2021 (Note 7)	Investment Flows		Accumulated outflow of Investment from Taiwan as of December 31, 2021 (Note 7)	Percentage of Ownership	Net Income (Losses) of the Investee Company	Share of Profits /Losses (Note 6)	Carrying Amount as of December 31, 2021	Accumulated Inward Remittance of Earnings as of December 31, 2021
					Outflow	Inflow						
Novatek (Suzhou) Co., Ltd.	Electronic spare part, trading and consulting services	\$34,300 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 1)	\$34,300 (USD1,000 thousand)	\$-	\$-	\$34,300 (USD1,000 thousand)	100.00%	\$4,602	\$4,602	\$52,852	\$-
Novatek (Shanghai) Co., Ltd.	Multimedia VLSI software amendment, testing and related consulting services	32,485 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 2)	32,485 (USD1,000 thousand)	-	-	32,485 (USD1,000 thousand)	100.00%	1,300	1,300	59,812	-
Novatek (Xian) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	88,410 (USD3,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 3)	88,410 (USD3,000 thousand)	-	-	88,410 (USD3,000 thousand)	100.00%	5,093	5,093	63,099	-
Novatek (Shenzhen) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	938,280 (USD30,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 4)	938,280 (USD30,000 thousand)	-	-	938,280 (USD30,000 thousand)	100.00%	5,428	5,428	572,022	-
Novatek (Beijing) Co., Ltd.	Multimedia VLSI software design, development, testing and related consulting services	28,000 (USD1,000 thousand)	Indirectly investment in Mainland China through companies registered in a third region (Note 5)	-	28,000 (USD1,000 thousand)	-	28,000 (USD1,000 thousand)	100.00%	(2,485)	(2,485)	25,582	-

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NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

Accumulated Investment in Mainland China as of December 31, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,121,475 (Note 7) (USD36,000 thousand)	\$1,121,475 (Note 7) (USD36,000 thousand)	\$42,270,794

Note 1: The Company indirectly invested in Novatek (Suzhou) Co., Ltd., via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 2: The Company indirectly invested in Novatek (Shanghai) Co., Ltd. via investment in Cheertek International Inc., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 3: The Company indirectly invested in Novatek (Xian) Co., Ltd. via investment in Novatek International (SAMOA) Ltd., an equity investee, via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 4: The Company indirectly invested in Novatek (Shenzhen) Co., Ltd. via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 5: The Company indirectly invested in Novatek (Beijing) Co., Ltd. via investment in Novatek International (BVI) Ltd., an equity investee. The Investment Commission, MOEA has approved the investment.

Note 6: The share of profits/losses from equity investments under the equity method in 2021 were recognized based on its financial statements audited by Taiwan parent company's independent auditor.

Note 7: This was calculated by using the exchange rate on remittance day.

B. Significant direct or indirect transactions with the investees in Mainland China:

- (a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: None.
- (b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
- (c) The amount of property transactions and the amount of the resultant gains or losses: None.

NOVATEK MICROELECTRONICS CORP.

Notes to Parent Company Only Financial Statements (Continued)

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

- (d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
- (e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None.
- (f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: Please refer to Note 13(1) J.

(4) Information of major shareholders

There are no shareholders holding more than 5% (included) of the Company's shares for the year ended December 31, 2021.

F. The effect of insolvency of the company and affiliates on the financial position of the company for the preceding year to the day of the annual report printed, if any:
None.

VII. Analysis of Financial Status, Financial Performance and Risk Management

A. Analysis of Financial Status

Unit: NT\$K

Account Title \ Year	December 31, 2021	December 31, 2020	Amount of Increase/Decrease	Percentage of Change (%)
Current assets	\$100,114,690	\$44,950,572	\$55,164,118	122.72
Property, plant and equipment	6,906,038	6,577,261	328,777	5.00
Intangible assets	2,484,887	2,545,172	(60,285)	(2.37)
Other assets	11,087,419	4,027,684	7,059,735	175.28
Total assets	120,593,034	58,100,689	62,492,345	107.56
Current liabilities	35,909,179	17,462,656	18,446,523	105.63
Non-current liabilities	14,232,532	694,830	13,537,702	1,948.35
Total liabilities	50,141,711	18,157,486	31,984,225	176.15
Shareholders' equity attributable to shareholders of parent	70,451,323	39,943,203	30,508,120	76.38
Share capital	6,085,115	6,085,115	-	-
Additional paid-in capital	2,375,054	2,375,054	-	-
Retained earnings	59,588,550	30,284,139	29,304,411	96.76
Other equity	2,402,604	1,198,895	1,203,709	100.40
Non-controlling interests	-	-	-	-
Total shareholders' equity	70,451,323	39,943,203	30,508,120	76.38

The cause and impact of changes between two terms for a ratio over 20% and for an amount over NT\$10 million:

1. Increase in current assets: due to the growth revenue, substantial increase of net income and cash and cash equivalents.
2. Increase in other assets: due to the increase of refundable deposits and fair value of financial assets measured at fair value through other comprehensive income.
3. Increase in total assets: due to the increase of cash and cash equivalents, accounts receivable, inventories, and refundable deposits.
4. Increase in current liabilities: due to the increase of purchases and payables, resulting from the increase of revenue.
5. Increase in non-current liabilities: due to the increase of guarantee deposits.
6. Increase in total liabilities: due to the increase of payables and guarantee deposits.
7. Increase in shareholders' equity attributable to shareholders of parent: due to the increase of retained earnings.
8. Increase in retained earnings: due to the increase of net income.
9. Increase in other equity: due to the increase in fair value of financial assets measured at fair value through other comprehensive income.
10. Increase in total shareholders' equity: due to the increase of retained earnings.

B. Analysis of Financial Performance

Unit: NT\$K

Account Title \ Year	2021	2020	Amount of Increase/Decrease	Percentage of Change (%)
Net sales	\$135,365,510	\$79,955,520	\$55,409,990	69.30
Operating cost	(67,973,986)	(51,997,813)	15,976,173	30.72
Gross profit	67,391,524	27,957,707	39,433,817	141.05
Operating expenses	(19,618,414)	(13,180,109)	6,438,305	48.85
Operating income	47,773,110	14,777,598	32,995,512	223.28
Non-operating income and expenses	341,847	(228,624)	570,471	249.52
Income before income tax	48,114,957	14,548,974	33,565,983	230.71
Income tax expense	(9,249,397)	(2,731,735)	6,517,662	238.59
Net income	38,865,560	11,817,239	27,048,321	228.89
Other comprehensive income	1,135,339	1,437,015	(301,676)	(20.99)
Comprehensive income	40,000,899	13,254,254	26,746,645	201.80
Net income attributable to shareholders of the parent	38,865,560	11,817,239	27,048,321	228.89
Net income attributable to non-controlling interests	-	-	-	-
Comprehensive income attributable to shareholders of parent	40,000,899	13,254,254	26,746,645	201.80
Comprehensive income attributable to non-controlling interests	-	-	-	-
Analysis of deviation greater than 20% and for an amount over NT\$10 million:				
1. Increase in net sales: benefiting from the business opportunities of telecommuting as well as the continuous growth of the stay-at-home economy, demand for the semiconductor industry is increasing, resulted in the substantial increase of revenue.				
2. Increase in operating cost: due to the increase of revenue and rising cost resulting from the insufficient capacity at semiconductor supply chain.				
3. Increase in gross profit: due to the price increase, and continued improvement of product portfolio.				
4. Increase in operating expenses: due to the increase of research and development expenses.				
5. Increase in operating income: due to the increase of gross profit.				
6. Increase in non-operating income and expenses: due to the increase of exchange gains and dividend income.				
7. Increase in income before income tax: due to the increase of operating income.				
8. Increase in income tax expense: due to the increase of income before income tax.				
9. Increase in net income: due to the increase of income before income tax.				
10. Decrease in other comprehensive income: due to the decrease of fair value growth rate of financial assets measured at fair value through other comprehensive income.				
11. Increase in comprehensive income: due to the increase of net income.				

C. Cash Flow Analysis

1. Analysis of cash flow deviation for the current period:

Unit: NT\$K

Beginning balance (1)	Net cash provided by operating activities (2)	Net cash outflow from investing and financing activities (3)	Cash balance (deficit) (1) + (2) - (3)	Remedy for cash flow shortfall	
				Investment plan	Financing plan
22,875,307	41,721,052	(4,467,152)	60,129,207	-	-

Analysis of cash flow:

1. Net cash provided by the operating activities was mainly from 2021 net income before income tax.
2. Net cash used in investing and financing activities was mainly for the payout of cash dividends.

2. Remedy for cash shortfall: Not applicable

3. Analysis of cash flow project for the next period:

Unit: NT\$K

Beginning balance (1)	Estimated net cash inflow from operating activities (2)	Estimated net cash outflow from investing and financing activities (3)	Cash balance (deficit) (1) + (2) - (3)	Remedy for cash flow shortfall	
				Investment plan	Financing plan
60,129,207	44,100,901	(35,909,756)	68,320,352	-	-

1. Cash flow analysis this year:

- (1) Operating activities: Net cash flow provided by profit of operating activities is expected.
- (2) Estimated net cash outflow: Net cash used in the payout of cash dividends and capital expenditures is expected.

2. Remedial measures for the expected insufficient cash and liquidity analysis: Not applicable

D. Financial Impact of Major Capital Expenditure

1. Purpose of major capital expenditure and source of funds:

Plan	Actual or Planned Source of Capital	Estimated Capital Requirement	Status of Actual or Projected Use of Capital
			2021
Financial assets	Cash flow generated from operation	\$12,500	\$12,500
Property, plant and equipment	Cash flow generated from operation	1,226,911	1,226,911
Intangible assets	Cash flow generated from operation	157,541	157,541
Total		\$1,396,952	\$1,396,952

2. Expected results and benefits from expansion:

Financial assets investment is mainly to assist investment in high-tech industries as well as high-end manufacturing industries to integrate resources and improve operations, seek opportunities to develop related industries and new products, and create investment benefits for the Group. Property, plant and equipment, and intangible assets are the acquisition of assets required for the R&D and design of the Group. The expected benefit is to speed up the development of new products and improve the efficiency of product development and design.

E. Direct Investment Policy, Main Causes for Profit or Loss, Improvement Plan and Investment Plan for the Upcoming Year:

The Group's investments are all based in long-term strategy. Unrealized gains from equity instruments investments measured at fair value through other comprehensive in 2021 were NT\$1,215,780 thousands due to the increase in fair value of some investments. The Group will keep its long-term strategic investment policy and evaluate investment plans prudentially.

F. Risk Management

1. Impacts due to foreign exchange volatility, inflation and interest rate fluctuation and remedy:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans at variable interest rates which are under short term contract, thus the cash flow risk of fluctuate interest is considerably low. The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, on borrowings with variable interest rates. While the balance of short-term loans is zero at the reporting date, there is no effect to the profit for the year ended December 31, 2021. The Group will keep on its attention to the global economics and environment to minimize the possible adverse impact on the Group.

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities and the Group's net investments in foreign subsidiaries. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD. The information of the sensitivity analysis is as follows: when NTD strengthens/weakens against USD by 5%, the profit for the year ended December 31, 2021 would increase/decrease by NT\$273,000 thousand. Accordingly dramatic currency exchange fluctuation would cause adverse effect on profit.

Financial Div. has been continuing to pay close attentions to manage foreign currency positions, settling foreign exchange transactions at the best moment while Sales Div. or Purchase Div would adjust this types of currency and maneuver the concluded fx rate of contracts at the right time.

2. Existing internal policies and procedures with respect to high-risk/high-leveraged investment; lending, endorsements and guarantees for other parties; and financial derivatives transactions, and measures to be taken in response to the potential risks:

The Group has not engaged in high-risk or high-leveraged financial investments during 2021 and up to date of this report.

3. Future development plan and expected R&D expenditure:

Future R&D Projects:

- (1) Mini LED driver ICs
- (2) 8K TV controller

- (3) Automobile TDDI
- (4) IVS Intelligent video single chips
- (5) LCD panel Under-Display Fingerprint
- (6) LCD Under-Display Fingerprint/Touch integrated Driver ICs (FTDI)
- (7) Mobile AMOLED TDDI
- (8) Wearable AMOLED driver ICs
- (9) AMOLED Under-Display Fingerprint

As of the date of this report, some of the new products are at the stages of verification and customers' acceptance. Should no major changes, the R&D expenditure will account for 12.5% of the consolidated sales revenue in 2022.

4. Political and regulatory environment:

The Group keeps paying high attention to any change in political and regulatory environment and deliberates the proper solutions in time.

5. Potential risks associated with industry/technology evolution (including information security risks):

High-tech industries face constant fast changes, with the global semiconductor and panel manufacturing industries experiencing a weeding out of the weak in recent years, with more consolidations and mergers. The Group will continue its efforts on cost reductions and a product mix of high value-added function enhancement. The Group's current financial position is well functioned, and the future technology development can be fully fulfilled.

The Group conducts a risk assessment of information assets every year and establishes a Business Continuity Plan (BCP) for high-value and high-risk assets. It is assessed that devastating disasters caused by hacker attacks are still the biggest risk affecting the availability of information systems and data. The Group has implemented an upgrade project and conducted drills on restoration mechanism in 2021 to ensure rapid restoration of ERP systems and data. For system and data protection in the R&D environment, in addition to regularly reviewing firewall policies and data flow control, the Company continuously adjusts the management mechanism, performs patch updates, and strengthens data backup management to reinforce information security management and control.

6. Potential impact and risks associated with contingent events that may have a significant adverse impact on the company's business and image:

The Group is committed to conducting business activities in accordance with the laws, regulations and decent principles to maximize the benefits for its customers, shareholders and the community. The Group will periodically disclose and release the relevant financial information and business news at the shareholders' meeting and investors' conference. A standing task force is established to be responsible for risk and crisis management.

7. Potential impact and risks associated with mergers and acquisitions:

As of the date of this report, the Group did not consummate any merger and acquisition activities. The Group will carefully evaluate the benefits and possible impacts of merger or acquisition.

8. Potential impact and risks associated with capacity expansion:

The Group is a pure play of chip design with no need of production-related facilities. The Group will conduct the office expansion for the increase of R&D personnel and activities. The expansion plan will be carefully evaluated and executed according to the approved budget plan.

9. Potential impacts and risks relating to concentration of sales and/or procurement sources and related measures to cope with such impacts and risks:

Wafer fabrication is the Group's major material supply. UMC, the world's leading foundry service provider, is the Group's major material supplier. The Group has continually looked for ways to reserve a reliable supply of services and materials from multiple resources.

The Group's major customers are the world's top-tier panel makers and related agencies. The Group will continue to expand its market presence and to broaden its customer base.

10. Potential impact and risks associated with sales of significant numbers of shares by Novatek's directors, supervisors and major shareholders who own 10% or more of Novatek's total outstanding shares:

One or more of the Group's existing shareholders may, from time to time, dispose of significant numbers of common shares according to their financing or funding purposes. This may cause an impact on the share price, as well as the Group's business. The Group will ensure that the dispose of shares will be in accordance with the regulations and laws.

11. Potential impact and risks associated with replacement of management:

In 2021, and as of the date of the report, there was no replacement of management. The management is one of the core competences of the Group's future growth and long-term development. The Board of committee will pay its special attention to any replacement of management to ensure of the best quality of the management for the Group.

12. Litigation and non-litigated incidents:

FOCALTECH ELECTRONICS, LTD. ("FOCALTECH") filed two applications for preliminary injunctions with the Intellectual Property Court against the Company alleging infringement of Patent No. I529580B "TOUCH DISPLAY DEVICE, DRIVING CIRCUIT AND DRIVING METHOD" on August 29, 2018 and September 20, 2018. The Company received Intellectual Property Court 108-Min-Zhan-Kang-Zi-No.2 Civil Ruling in April, 2019. Intellectual Property Court has two applications for preliminary injunctions filed by FOCALTECH. FOCALTECH filed a complaint in the Intellectual Property Court on

September 17, 2018 alleging that the Company's chips infringe the I529580B patent. The Company received Intellectual Property Court 107-Min- Zhuan-Su-Zi-No.95 Civil Judgment on December 23, 2019. The first instance of the complaint for patent infringement has been OVERRULED by the Intellectual Property Court. The second instance of Litigation Proceedings are still processing, and the operations and financial of the Company would not be materially affected by this case.

On August 31, 2017, the Taichung District Prosecutors Office indicted UMC based on the Trade Secret Act of R.O.C., alleging that employees of UMC misappropriated the trade secrets of MICRON TECHNOLOGY, INC. ("MICRON"). On June 12, 2020, an adverse ruling issued by the District Court of Taichung in a suit alleged that UMC, two of its current employees and a former employee engaged in the misappropriation of trade secrets. UMC appealed against the sentence. On November 26, 2021, UMC and MICRON announced a settlement agreement between the two companies for all legal proceedings worldwide (the "Settlement Agreement"). Accordingly, MICRON submitted a motion to withdraw the case. On January 27, 2022, the Intellectual Property and Commercial Court announced its ruling of this case and UMC was sentenced to a fine of NT\$20 million, subject to a two-year term of probation.

On December 5, 2017, MICRON filed a civil action with similar cause against UMC with the United States District Court, Northern District of California. MICRON claimed entitlement to the actual damages, treble damages and relevant fees and requested the court to issue an order that enjoins UMC from using its trade secrets in question. In accordance with the Settlement Agreement, the court issued a dismissal of the case with prejudice in January 2022.

On January 12, 2018, UMC filed three patent infringement actions with the Fuzhou Intermediate People's Court against, among others, MICRON (XI'AN) CO., LTD. and MICRON (SHANGHAI) TRADING CO., LTD., requesting the court to order the defendants to stop manufacturing, processing, importing, selling, and committing to sell the products deploying the infringing patents in question, and also to destroy all inventories and related molds and tools. On July 3, 2018, the Fuzhou Intermediate People's Court granted preliminary injunction against the aforementioned two defendants, holding that the two defendants must immediately cease to manufacture, sell, and import products that infringe the patent rights of UMC. The court approved withdrawal of one of the patent infringement actions on our motion while the other two actions are still on trial. In accordance with the Settlement Agreement, UMC submitted a motion to withdraw the case, and the motion is currently pending.

The amounts of aforementioned fine from ruling of the Intellectual Property and Commercial Court and the worldwide settlement between UMC and MICRON were recorded in non-operating other losses and have no material financial and operational effect on UMC's business for the years presented.

On March 14, 2019, a putative class action complaint was filed in the United States District

Court for the Southern District of New York against the Company and certain of its officers and/or directors, alleging violations of Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, arising out of an alleged scheme to misappropriate trade secrets. On May 3, 2021, the court approved the settlement reached between the plaintiffs and the defendants and UMC paid a settlement amount of US\$3 million to be allocated to the class plaintiffs and reimbursement of legal fees of class plaintiffs. The settlement has been recorded in non-operating other losses and has no material financial and operational effect on UMC's business.

13. Other important risks:

None.

G. Other Necessary Supplements: None.

VIII. Special Disclosures

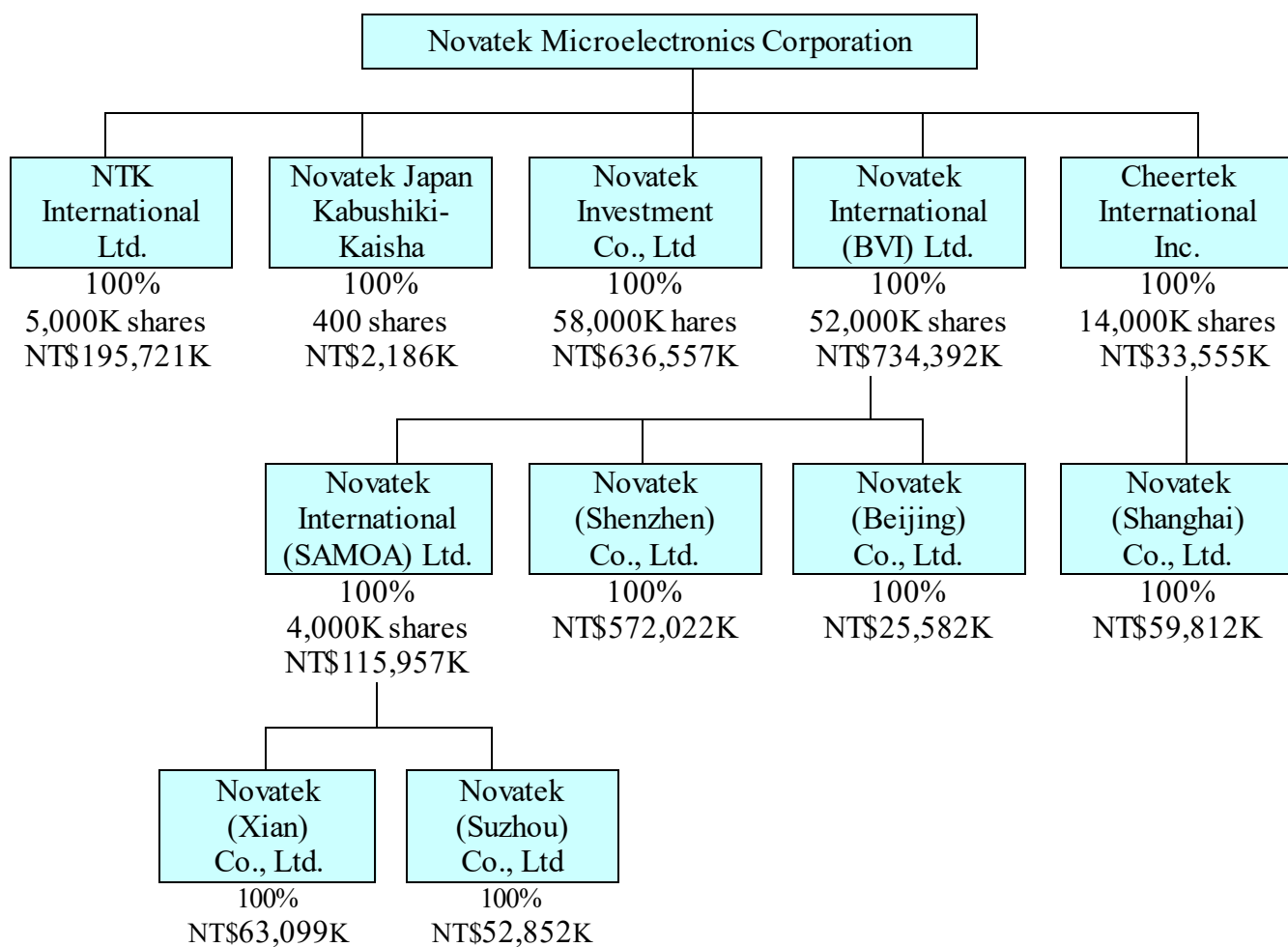
A. Affiliate Information

1. Merger operation report of affiliated companies:

a. Status of affiliated companies

(1) Affiliated companies:

Dec.31, 2021



(2) Background information on affiliated companies:

Dec. 31, 2021

Company	Date of incorporation	Location	Paid-in capital	Business activities
NTK International Limited	Jul. 1997	Kwun Tong, Hong Kong	HK\$5,000,003	Manufacturing and marketing of integrated circuits and semiconductor
Novatek Japan Kabushiki-Kaisha	Jun. 2001	Tokyo, Japan	JPY\$20,000,000	Manufacturing and marketing of integrated circuits and semiconductor
Novatek Investment Co., Ltd	Nov. 2001	Hsinchu, Taiwan	NT\$580,000,000	Investment activities
Novatek International (BVI) Ltd.	Jul. 2002	British Virgin Islands	US\$52,000,000	Investment activities
Novatek (Shenzhen) Co., Ltd	Feb. 2015	Shenzhen, China	US\$30,000,000	Design, testing and consulting of semiconductor application
Novatek (Beijing) Co., Ltd	Aug. 2021	Beijing, China	US\$1,000,000	Design, testing and consulting of semiconductor application
Novatek International (SAMOA) Ltd.	Aug. 2002	Samoa	US\$4,000,000	Investment activities
Novatek (Suzhou) Co., Ltd	Apr. 2002	Suzhou, China	US\$1,000,000	Sales and marketing of electronics, international trading and consulting
Novatek (Xian) Co., Ltd	Aug. 2011	Xian, China	US\$3,000,000	Design, testing and consulting of semiconductor application
Cheertek International Inc.	Feb. 2002	Samoa	US\$14,000,000	Investment activities
Novatek (Shanghai) Co., Ltd.	Jul. 2002	Shanghai, China	US\$1,000,000	Amending, testing and consulting of semiconductor application

(3) Common shareholders of Novatek and its subsidiaries or affiliates with actual or deemed control: None.

(4) Business scope of Novatek's affiliated companies

Name	Business activities	Business relations
NTK International Limited	Manufacturing and marketing of integrated circuits and semiconductor devices	Service and sales center in Hong Kong
Novatek Japan Kabushiki-Kaisha	Manufacturing and marketing of integrated circuits and semiconductor service	Service and sales center in Japan
Novatek Investment Co., Ltd	Investment activities	Not applicable
Novatek International (BVI) Ltd.	Investment activities	Not applicable
Novatek (Shenzhen) Co., Ltd	Design, testing and consulting of semiconductor application software	Design, testing and consulting of semiconductor application software
Novatek (Beijing) Co., Ltd	Design, testing and consulting of semiconductor application software	Design, testing and consulting of semiconductor application software
Novatek International (SAMOA) Ltd.	Investment activities	Not applicable
Novatek (Suzhou) Co., Ltd	Sales and marketing of electronics, international trading and service	Sales and marketing of electronics, international trading and service
Novatek (Xian) Co., Ltd	Design, testing and consulting of semiconductor application software	Design, testing and consulting of semiconductor application software
Cheertek International Inc.	Investment activities	Not applicable
Novatek (Shanghai) Co., Ltd.	Testing and consulting of semiconductor application software	Testing and consulting of semiconductor application software

(5) Directors, Supervisors and officers of Novatek's affiliated companies

Dec. 31, 2020

Company	Title	Name of representative		Shareholding	
				Shares	%
NTK International Limited	Chairman Director Director	Tai-Shung, Ho Steve Wang Jason Huang	Novatek representative Novatek representative Novatek representative	5,000K	100.00
Novatek Japan Kabushiki-Kaisha	Chairman Director Director Supervisor	Tai-Shung, Ho Steve Wang Allen Wu Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	400	100.00
Novatek Investment Corp., Ltd	Chairman Director Director Supervisor	Tommy Chen J. D. Lai Edward Tsai Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	58,000K	100.00
Novatek International (BVI) Ltd.	Chairman	Tai-Shung, Ho	Novatek representative	52,000K	100.00
Novatek (Shenzhen) Co., Ltd.	Chairman Director Director Supervisor	Steve Wang Tommy Chen Jason Huang Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00
Novatek (Beijing) Co., Ltd.	Execute Director Supervisor	Steve Wang Sheng-Cheng, Chou	Novatek representative Novatek representative	-	100.00
Novatek International (SAMOA) Ltd.	Chairman	Tai-Shung, Ho	Novatek representative	4,000K	100.00
Novatek (Suzhou) Co., Ltd	Chairman Director Director Supervisor	Steve Wang Robin Lin Denny Yeh Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00
Novatek (Xian) Co., Ltd	Chairman Director Director Supervisor	Steve Wang J H Chang C S Tang Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00
Cheertek International Inc.	Chairman	Tai-Shung, Ho	Novatek representative	14,000K	100.00
Novatek (Shanghai) Co., Ltd.	Chairman Director Director Supervisor	Steve Wang Jason Huang J H Chang Sheng-Cheng, Chou	Novatek representative Novatek representative Novatek representative Novatek representative	-	100.00

b. Operation highlights of Novatek's affiliated companies

Dec. 31, 2021; Unit: NT\$K, except for earnings per share

Company	Paid-in capital	Total assets	Total liabilities	Net worth	Net sales	Operating income	Net income (after tax)	EPS (after tax)
NTK International Limited	20,949	437,616	241,895	195,721	5,309,375	(7,368)	15,683	3.14
Novatek Japan Kabushiki-Kaisha	5,430	5,165	2,979	2,186	28,871	2,875	1,407	3.52
Novatek Investment Co., Ltd.	580,000	636,581	24	636,557	31,078	30,985	30,985	0.53
Novatek International (BVI) Ltd.	1,524,780	850,970	116,578	734,392	-	(646,332)	(658,784)	(12.67)
Novatek (Shenzhen) Co., Ltd	938,280	600,107	28,085	572,022	259,077	5,246	5,428	-
Novatek (Beijing) Co., Ltd	28,000	33,326	7,744	25,582	7,795	(2,067)	(2,485)	-
Novatek International (SAMOA) Ltd.	121,600	115,957	-	115,957	-	-	9,694	2.42
Novatek (Suzhou) Co., Ltd	34,300	68,771	15,919	52,852	152,778	5,110	4,602	-
Novatek (Xian) Co., Ltd	88,410	127,928	64,829	63,099	240,199	5,229	5,093	-
Cheertek International Inc.	408,210	82,817	49,262	33,555	-	(194,573)	(200,470)	(14.32)
Novatek (Shanghai) Co., Ltd.	32,485	109,063	49,251	59,812	187,622	(6,951)	1,300	-

2. Consolidated Financial Statements of affiliated Enterprises:

Please refer to D. Financial Statements in VI. Financial Highlights and the following representation letter.

3. Affiliated Reports:

Not Applicable.

REPRESENTATION LETTER

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

Very truly yours

Novatek Microelectronics Corp.

Chairman: Tai-Shung, Ho

February 25, 2022

B. Issuance of private placement securities: None.

C. Acquisition or Disposal of Novatek shares by Subsidiaries: None.

D. Other Necessary Supplements: None.

E. Events regulated in Article 36-3-2 of the Securities and Exchange Laws: None.