

FocalTech Systems Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 30, 2021 and 2020**

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.

Independent Accountants' Review Report

To the Board of Directors of FocalTech Systems Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (collectively, the "Company") as of June 30, 2021 and 2020, the related consolidated statements of comprehensive income for the three months ended June 30, 2021 and 2020 and for the six months ended June 30, 2021 and 2020, as well as the consolidated statements of changes in equity and cash flows for the six months period ended June 30, 2021 and 2020, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Note 12 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph were not reviewed. As of June 30, 2021 and 2020, combined total assets of these non-significant subsidiaries were NT\$534,371 thousand and NT\$504,174 thousand, respectively, representing 3% and 4%, respectively, of the consolidated total assets, and combined total liabilities of these subsidiaries were NT\$77,747 thousand and NT\$164,050 thousand, respectively, representing 1% and 5%, respectively, of the consolidated total liabilities; for the six months and six months ended June 30, 2021 and 2020, the amounts of combined comprehensive loss of these subsidiaries were NT\$67,581 thousand, NT\$58,563 thousand, NT\$115,682 thousand and NT\$84,052 thousand, respectively, representing (3%), (402%), (4%), (92%).

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of June 30, 2021 and 2020, its consolidated financial performance and its consolidated cash flows for the six months period ended June 30, 2021 and 2020 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Shio-Ming Shue and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China
August 10, 2021

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2021		December 31, 2020		June 30, 2020	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 5,960,588	36	\$ 4,011,682	33	\$ 3,013,886	26
Financial assets at fair value through profit or loss - current (Note 7)	344,760	2	-	-	-	-
Financial assets at fair value through other comprehensive income - current (Note 8)	56,612	-	-	-	18,103	-
Trade receivables, net (Note 10)	2,553,517	16	1,633,900	13	1,418,244	12
Inventories (Note 11)	1,944,013	12	1,755,142	14	2,747,726	24
Other financial assets (Note 9)	1,073,059	6	1,385,936	11	1,144,662	10
Other current assets	415,512	3	184,262	2	208,993	2
Total current assets	<u>12,348,061</u>	<u>75</u>	<u>8,970,922</u>	<u>73</u>	<u>8,551,614</u>	<u>74</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	320,044	2	234,662	2	52,493	-
Financial assets at fair value through other comprehensive income - non-current (Note 8)	183,917	1	247,974	2	60,836	1
Property, plant and equipment (Note 13)	1,286,016	8	1,321,940	11	1,299,218	11
Goodwill (Notes 14)	1,237,268	8	1,237,268	10	1,237,268	11
Other intangible assets (Note 15)	55,170	-	63,202	-	71,118	1
Deferred tax assets	58,711	-	85,154	1	101,496	1
Other non-current assets (Note 30)	951,549	6	183,931	1	137,272	1
Total non-current assets	<u>4,092,675</u>	<u>25</u>	<u>3,374,131</u>	<u>27</u>	<u>2,959,701</u>	<u>26</u>
TOTAL	<u>\$ 16,440,736</u>	<u>100</u>	<u>\$ 12,345,053</u>	<u>100</u>	<u>\$ 11,511,315</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 16)	\$ 765,245	5	\$ 523,648	4	\$ -	-
Trade payables (Note 17)	2,018,743	12	1,731,109	14	1,781,723	16
Other payables (Note 18)	1,057,947	7	1,037,431	8	787,809	7
Dividends payables (Note 26)	-	-	-	-	150,000	1
Current tax liabilities (Notes 4)	770,901	5	433,121	4	391,427	3
Other current liabilities (Notes 21)	209,765	1	230,944	2	166,169	1
Total current liabilities	<u>4,822,601</u>	<u>30</u>	<u>3,956,253</u>	<u>32</u>	<u>3,277,128</u>	<u>28</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities	57,351	-	53,213	1	31,412	1
Net defined benefit liabilities - non-current (Note 4)	23,132	-	23,366	-	23,885	-
Guarantee deposits received	612,484	4	490,361	4	258,070	2
Other non-current liabilities	10,400	-	10,400	-	10,400	-
Total non-current liabilities	<u>703,367</u>	<u>4</u>	<u>577,340</u>	<u>5</u>	<u>323,767</u>	<u>3</u>
Total liabilities	<u>5,525,968</u>	<u>34</u>	<u>4,533,593</u>	<u>37</u>	<u>3,600,895</u>	<u>31</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 4, 20 and 25)						
Share capital						
Ordinary shares	2,163,561	13	2,103,532	17	2,999,949	26
Capital surplus						
Additional paid-in capital	4,733,704	29	4,725,445	38	4,714,404	41
Treasury shares	79,812	1	69,361	1	49,201	1
Employee stock options	9,972	-	14,903	-	28,502	-
Restricted stock for employees	1,178,545	7	-	-	-	-
Employee share options – expired	34,134	-	33,933	-	33,933	-
Total capital surplus	<u>6,036,167</u>	<u>37</u>	<u>4,843,642</u>	<u>39</u>	<u>4,826,040</u>	<u>42</u>
Retained earnings	3,964,135	24	1,012,301	8	172,824	2
Other equity						
Exchange differences from translating the financial statements of foreign operations	(209,704)	(1)	(125,038)	(1)	(65,094)	(1)
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	2,926	-	2,722	-	2,290	-
Unearned employee compensation	(1,062,324)	(7)	-	-	-	-
Total other equity	<u>(1,269,102)</u>	<u>(8)</u>	<u>(122,316)</u>	<u>(1)</u>	<u>(62,804)</u>	<u>(1)</u>
Treasury shares	(3,184)	-	(24,316)	-	(43,074)	-
Equity attributable to owners of the parent	<u>10,891,577</u>	<u>66</u>	<u>7,812,843</u>	<u>63</u>	<u>7,892,935</u>	<u>69</u>
NON-CONTROLLING INTERESTS (Note 20)	<u>23,191</u>	<u>-</u>	<u>(1,383)</u>	<u>-</u>	<u>17,485</u>	<u>-</u>
Total equity	<u>10,914,768</u>	<u>66</u>	<u>7,811,460</u>	<u>63</u>	<u>7,910,420</u>	<u>69</u>
TOTAL	<u>\$ 16,440,736</u>	<u>100</u>	<u>\$ 12,345,053</u>	<u>100</u>	<u>\$ 11,511,315</u>	<u>100</u>

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUE (Note 21)	\$ 5,772,267	100	\$ 2,767,596	100	\$ 10,122,121	100	\$ 5,677,233	100
COST OF REVENUE (Note 11 and 22)	<u>(2,864,511)</u>	<u>(50)</u>	<u>(2,154,414)</u>	<u>(78)</u>	<u>(5,585,781)</u>	<u>(55)</u>	<u>(4,424,222)</u>	<u>(78)</u>
GROSS PROFIT	<u>2,907,756</u>	<u>50</u>	<u>613,182</u>	<u>22</u>	<u>4,536,340</u>	<u>45</u>	<u>1,253,011</u>	<u>22</u>
OPERATING EXPENSES (Note 22, 25, 27 and 29)								
Selling and marketing expenses	(131,285)	(2)	(76,412)	(3)	(244,796)	(2)	(170,566)	(3)
General and administrative expenses	(146,890)	(3)	(82,364)	(3)	(259,569)	(3)	(169,681)	(3)
Research and development expenses	<u>(590,733)</u>	<u>(10)</u>	<u>(346,949)</u>	<u>(12)</u>	<u>(1,067,633)</u>	<u>(11)</u>	<u>(734,602)</u>	<u>(13)</u>
Total operating expenses	<u>(868,908)</u>	<u>(15)</u>	<u>(505,725)</u>	<u>(18)</u>	<u>(1,571,998)</u>	<u>(16)</u>	<u>(1,074,849)</u>	<u>(19)</u>
OPERATING INCOME	<u>2,038,848</u>	<u>35</u>	<u>107,457</u>	<u>4</u>	<u>2,964,342</u>	<u>29</u>	<u>178,162</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES								
Finance costs(Note 22)	(2,406)	-	-	-	(4,757)	-	(1,078)	-
Interest income	6,959	-	16,158	1	14,578	-1	35,678	1
Gain on financial assets and liabilities at fair value through profit or loss	221,560	4	(1,830)	-	259,321	3	(4,592)	-
Other gains and losses - net	179,208	3	5,669	-	195,830	2	19,321	-
(Loss) gain on foreign exchange	<u>(43,147)</u>	<u>(1)</u>	<u>8,506</u>	<u>-</u>	<u>(49,879)</u>	<u>(1)</u>	<u>11,277</u>	<u>-</u>
Total non-operating income and expenses	<u>362,174</u>	<u>6</u>	<u>28,503</u>	<u>1</u>	<u>415,093</u>	<u>4</u>	<u>60,606</u>	<u>1</u>
INCOME BEFORE INCOME TAX	2,401,022	41	135,960	5	3,379,435	33	238,768	4
INCOME TAX EXPENSE (Note 23)	<u>(301,932)</u>	<u>(5)</u>	<u>(34,876)</u>	<u>(1)</u>	<u>(443,394)</u>	<u>(4)</u>	<u>(78,286)</u>	<u>(1)</u>
NET INCOME	<u>2,099,090</u>	<u>36</u>	<u>101,084</u>	<u>4</u>	<u>2,936,041</u>	<u>29</u>	<u>160,482</u>	<u>3</u>
OTHER COMPREHENSIVE INCOME								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences from translating the financial statements of foreign operations	(82,088)	(1)	(85,874)	(3)	(87,058)	(1)	(70,016)	(1)

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2021		2020		2021		2020	
	Amount	%	Amount	%	Amount	%	Amount	%
Unrealized gain(loss) from debt instrument investments measured at fair value through other comprehensive loss	267	-	(625)	-	204	-	540	-
Items that may be reclassified subsequently to profit or loss	(81,821)	(1)	(86,499)	(3)	(86,854)	(1)	(69,476)	(1)
Total other comprehensive income	(81,821)	(1)	(86,499)	(3)	(86,854)	(1)	(69,476)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 2,017,269</u>	<u>35</u>	<u>\$ 14,585</u>	<u>1</u>	<u>\$ 2,849,187</u>	<u>28</u>	<u>\$ 91,006</u>	<u>2</u>
NET INCOME								
ATTRIBUTABLE TO:								
Owners of the Parent	\$ 2,106,351	36	\$ 106,638	4	\$ 2,952,091	29	\$ 172,824	3
Non-controlling interests	(7,261)	-	(5,554)	-	(16,050)	-	(12,342)	-
	<u>\$ 2,099,090</u>	<u>36</u>	<u>\$ 101,084</u>	<u>4</u>	<u>\$ 2,936,041</u>	<u>29</u>	<u>\$ 160,482</u>	<u>3</u>
TOTAL COMPREHENSIVE INCOME								
ATTRIBUTABLE TO:								
Owners of the Parent	\$ 2,027,109	35	\$ 21,627	1	\$ 2,867,629	28	\$ 104,213	2
Non-controlling interests	(9,840)	-	(7,042)	-	(18,442)	-	(13,207)	-
	<u>\$ 2,017,269</u>	<u>35</u>	<u>\$ 14,585</u>	<u>1</u>	<u>\$ 2,849,187</u>	<u>28</u>	<u>\$ 91,006</u>	<u>2</u>
EARNINGS PER SHARE (Note 24)								
Basic	<u>\$ 10.43</u>		<u>\$ 0.38</u>		<u>\$ 14.70</u>		<u>\$ 0.62</u>	
Diluted	<u>\$ 9.95</u>		<u>\$ 0.36</u>		<u>\$ 13.93</u>		<u>\$ 0.59</u>	

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
	Share Capital			Other Equity				Treasury Shares	Total	Non-controlling Interests	Total Equity
	Ordinary Shares	Capital Surplus	Retained Earnings	Exchange Differences from Translating the Financial Statement of Foreign Operations	Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income	Unearned employee compensation					
BALANCE, JANUARY 1, 2020	\$ 2,996,759	\$ 5,145,377	\$ (183,307)	\$ 4,057	\$ 1,750	\$ -	\$ (267,158)	\$ 7,697,478	\$ 30,692	\$ 7,728,170	
Reduction on capital surplus to offset accumulated deficits	-	(183,307)	183,307	-	-	-	-	-	-	-	
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	(150,000)	-	(150,000)	
Net income for the six months ended June 30, 2020	-	-	172,824	-	-	-	-	172,824	(12,342)	160,482	
Other comprehensive income (loss) for the six months ended June 30, 2020, net of income tax	-	-	-	(69,151)	540	-	-	(68,611)	(865)	(69,476)	
Total comprehensive income (loss) for the six months ended June 30, 2020	-	-	172,824	(69,151)	540	-	-	104,213	(13,207)	91,006	
Compensation cost of employee share options (Note 20 and 25)	-	9,961	-	-	-	-	-	9,961	-	9,961	
Treasury shares transferred to employees (Note 20 and 25)	-	-	-	-	-	-	224,084	224,084	-	224,084	
Issuance of ordinary shares from exercise of employee share options (Note 20 and 25)	3,190	4,009	-	-	-	-	-	7,199	-	7,199	
BALANCE, JUNE 30, 2020	\$ 2,999,949	\$ 4,826,040	\$ 172,824	\$ (65,094)	\$ 2,290	\$ -	\$ (43,074)	\$ 7,892,935	\$ 17,485	\$ 7,910,420	
BALANCE, JANUARY 1, 2021	\$ 2,103,532	\$ 4,843,642	\$ 1,012,301	\$ (125,038)	\$ 2,722	\$ -	\$ (24,316)	\$ 7,812,843	\$ (1,383)	\$ 7,811,460	
Net income for the six months ended June 30, 2021	-	-	2,952,091	-	-	-	-	2,952,091	(16,050)	2,936,041	
Other comprehensive income (loss) for the six months ended June 30, 2021, net of income tax	-	-	-	(84,666)	204	-	-	(84,462)	(2,392)	(86,854)	
Total comprehensive income (loss) for the six months ended June 30, 2021	-	-	2,952,091	(84,666)	204	-	-	2,867,629	(18,442)	2,849,187	
Compensation cost of employee share options (Note 20 and 25)	-	8,396	-	-	-	-	-	8,396	-	8,396	
Treasury shares transferred to employees (Note 20 and 25)	-	1,797	-	-	-	-	21,132	22,929	-	22,929	
Increase in non-controlling interests	-	-	-	-	-	-	-	-	42,759	42,759	
Changes in ownership interests in subsidiaries	-	-	(257)	-	-	-	-	(257)	257	-	
Issuance of ordinary shares from exercise of employee share options (Note 20 and 25)	2,539	3,787	-	-	-	-	-	6,326	-	6,326	
Issuance of restricted stock employees (Note 4 . 20 and 25)	57,490	1,178,545	-	-	-	(1,178,545)	-	57,490	-	57,490	
Compensation cost of restricted stock to employees (Note 4 . 20 and 25)	-	-	-	-	-	116,221	-	116,221	-	116,221	
BALANCE, JUNE 30, 2021	\$ 2,163,561	\$ 6,036,167	\$ 3,964,135	\$ (209,704)	\$ 2,926	\$ (1,062,324)	\$ (3,184)	\$ 10,891,577	\$ 23,191	\$ 10,914,768	

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 3,379,435	\$ 238,768
Adjustments for:		
Depreciation expenses	38,483	38,989
Amortization expenses	7,992	28,128
Net (gain) loss on financial assets at fair value through profit or loss	(259,321)	4,592
Finance costs	4,757	1,078
Interest income	(14,578)	(35,678)
Compensation costs of employee share options	8,396	9,961
Compensation cost of restricted stock to employees	116,221	-
(Gain) loss on disposal of investments	(95,298)	40,928
Reversal gain on write-off of inventories	(93,601)	-
Unrealized (gain) loss on foreign exchange	(21,921)	(10,206)
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	(78,498)	(41,956)
Trade receivables	(925,390)	2,446
Inventories	(106,921)	(1,184,099)
Other current assets	(232,850)	141,548
Trade payables	295,005	(200,984)
Other payables	35,971	(157,692)
Other current liabilities	(19,170)	59,623
Net defined benefit liabilities	(234)	(193)
Cash generated from operations	2,038,478	(1,064,747)
Interest paid	(4,776)	(1,078)
Income tax paid	(68,649)	(29,169)
Net cash inflow (outflow) from operating activities	<u>1,965,053</u>	<u>(1,094,994)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial asset at fair value through other comprehensive income	-	102,002
Acquisition of property, plant and equipment	(17,983)	(9,475)
Acquisition of intangible assets	-	(147)
Decrease in other financial assets	292,317	440,123
Increase in refundable deposits	(550,188)	-
Increase in other non-current assets	(218,006)	(2,122)
Interest received	15,633	45,871
Net cash (outflow) inflow from investing activities	<u>(478,227)</u>	<u>576,252</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	\$ 243,494	\$ -
Increase (decrease) in guarantee deposits	122,231	(136,297)
Issuance of restricted stock employees	57,490	-
Exercise of employee share options	6,326	7,199
Treasury shares transferred to employees	22,929	224,084
Increase in non-controlling interests	<u>42,759</u>	<u>-</u>
Net cash inflow financing activities	<u>495,229</u>	<u>94,986</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(33,149)</u>	<u>(23,861)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,948,906	(447,617)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>4,011,682</u>	<u>3,461,503</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,960,588</u>	<u>\$ 3,013,886</u>

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

FocalTech Systems Co., Ltd. (the “FocalTech” or the “Company”), formerly named as Orise Technology Co., Ltd., was incorporated in the Republic of China (“ROC”) in January 2006 and moved to Hsinchu Science Park in April in the same year. The Company’s shares have been listed on the Taiwan Stock Exchange (“TSE”) since July 2007. On January 2, 2015, the Company acquired FocalTech Corporation, Ltd. through a share swap and renamed on January 17, 2015. This acquisition was comprehensively considered as a reverse merger, where FocalTech Corporation, Ltd. was treated as the acquirer in the financial statements. The Company mainly engages in the research, development, design, manufacturing, and sales of solutions regarding to human and machine interface devices, such as Display Driver IC, Touch Control IC and so on.

The consolidated financial statements are presented in the Company’s functional currency of New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on July 29, 2021.

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

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

The initial application of the amendments to the IFRSs endorsed and issued in to effect by the FSC did not have a significant impact on the Group’s accounting policies.

b.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB</u>
Annual Improvements to IFRS Standards 2018–2020	January 1, 2022 (Note 1)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 2)
Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”	January 1, 2022 (Note 3)
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	January 1, 2022 (Note 4)

Note 1: The amendments to IFRS 9 will be applied prospectively to modifications or exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 2: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 3: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have impact on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 2)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 3)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 4)

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

Note 2: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have impact on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and IAS 34 "Interim Financial Reporting" as endorsed by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of Preparation

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

The evaluation of fair value could be classified into Level 1 to Level 3 by the observable intensity and importance of related input value:

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

c. Basis of consolidation

The detail information, holding percentages, and main business of the subsidiaries could be found in Note 12.

d. Other significant accounting policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2020.

1) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, and adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income and the tax rate that would be applicable to expected total annual earnings.

3) Share-based payment arrangements

Restricted shares for employees

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefits.

When restricted shares for employees are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees.

At the end of each reporting period, the Group revises its estimate of the number of restricted shares for employees that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a

corresponding adjustment to capital surplus - restricted shares for employees.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgments, estimations and assumptions applied in these consolidated financial statements are consistent with those in the consolidated financial statements for the year ended December 31, 2020.

6. CASH AND CASH EQUIVALENTS

	June 30, 2021	December 31, 2020	June 30, 2020
Cash on hand	\$ 2,794	\$ 2,182	\$ 8,513
Checking accounts and demand deposits	3,380,923	3,668,013	1,617,438
Cash equivalent (time deposits with original maturities within three months)	<u>2,576,871</u>	<u>341,487</u>	<u>1,387,935</u>
	<u>\$ 5,960,588</u>	<u>\$ 4,011,682</u>	<u>\$ 3,013,886</u>

The interest rate intervals at the end of the reporting period were as follows:

	June 30, 2021	December 31, 2020	June 30, 2020
Demand deposits	0.001%-0.35%	0.001%-0.35%	0.001%-0.35%
Time deposits	0.03%-0.33%	0.1%-0.35%	0.2%-2%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2021	December 31, 2020	June 30, 2020
<u>Current</u>			
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed ordinary shares	<u>\$ 344,760</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Non – Current</u>			
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed preferred shares	\$ 150,792	\$ 72,186	\$ 11,016
Private Funds	62,345	52,579	41,477
Structured Investments	<u>106,907</u>	<u>109,897</u>	<u>-</u>
	<u>\$ 320,044</u>	<u>\$ 234,662</u>	<u>\$ 52,493</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2021	December 31, 2020	June 30, 2020
Investments in debt instruments			
<u>Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 56,612</u>	<u>\$ -</u>	<u>\$ 18,103</u>
<u>Non – Current</u>			
Foreign investments			
Fixed income bonds	<u>\$183,917</u>	<u>\$247,974</u>	<u>\$ 60,836</u>
Yield rates	1.801%-4.117%	1.801%-4.117%	2.837%-4.117%

9. OTHER FINANCIAL ASSETS

	June 30, 2021	December 31, 2020	June 30, 2020
Time deposits with original maturities more than three months	<u>\$ 1,073,059</u>	<u>\$ 1,385,936</u>	<u>\$ 1,144,662</u>
Interest rate intervals	0.1%-2.92%	0.2%-4.18%	0.38%-4.18%

10. TRADE RECEIVABLES, NET

	June 30, 2021	December 31, 2020	June 30, 2020
Trade receivables	<u>\$ 2,553,517</u>	<u>\$ 1,633,900</u>	<u>\$ 1,418,244</u>

The average credit term for sales of goods was 60-120 days. In order to minimize credit risk, management of the Group has delegated a team responsible for determining line of credit, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the Group's management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach prescribed by IFRS 9, which permits the use of allowances of expected credit losses over the lifetime for all trade receivables. The expected credit losses on trade receivables are estimated by using an allowance matrix with references to past customer default records, customer's current financial position, and general economic conditions of the industry. Due to the past experiences, there is no significant difference in the loss patterns of different customer groups. Therefore, the allowance matrix does not further distinguish the customer base, and only sets the expected credit loss rate based on the overdue days of trade receivable.

The following table details the loss allowance of trade receivables based on the Group's allowance matrix.
June 30, 2021

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 2,192,773</u>	<u>\$ 360,744</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553,517</u>

December 31, 2020

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 1,593,485</u>	<u>\$ 40,401</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 1,633,900</u>

June 30, 2020

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 1,307,235</u>	<u>\$ 111,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,418,244</u>

11. INVENTORIES

	June 30, 2021	December 31, 2020	June 30, 2020
Finished goods	\$ 439,554	\$ 418,694	\$ 615,005
Work in process	1,024,760	1,025,201	1,158,210
Raw materials and supplies	<u>479,699</u>	<u>311,247</u>	<u>974,511</u>
	<u>\$ 1,944,013</u>	<u>\$ 1,755,142</u>	<u>\$ 2,747,726</u>

The cost of goods sold were NT\$2,864,511 thousand and NT\$2,154,414 thousand, including reverse of write-off of inventories of NT\$77,858 thousand and NT\$0 thousand for the three months ended June 30, 2021 and 2020. The cost of goods sold were NT\$5,585,781 thousand and NT\$4,424,222 thousand, including the reverse of write-off of inventories NT\$93,601 thousand and NT\$0 thousand for the six months ended June 30, 2021 and 2020. Above mentioned gains from price recovery of inventory are resulted from sales of slow moving inventory.

12. SUBSIDIARIES

Details of the Company's subsidiaries included in the consolidated financial statements were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership			
			June 30, 2021	December 31, 2020	June 30, 2020	
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%	100%	
	FocalTech Electronics, Ltd.	Investment activity	100%	100%	100%	
FocalTech Systems Co., Ltd. And FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	66.45%	67.15%	67.15%	Note2
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%	Note2
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%	100%	
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Investment activity	100%	100%	100%	
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%	100%	
	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%	100%	Note2
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%	100%	Note2
	FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%	
	Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	100%	100%	100%	Note2

Note1: FocalTech Smart Sensors, Ltd. issued its ordinary shares but the Group did not subscribe according to the shareholding ratio causing changes in the shareholding ratio.

Note2: Immaterial subsidiaries of the Company, whose financial statements had not been reviewed by auditors.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Total
<u>Cost</u>						
Balance, January 1, 2020	\$ 1,322,961	\$ 285,660	\$ 15,548	\$ 42,621	\$ 38,388	\$ 1,705,178
Additions	-	7,218	2,063	194	-	9,475
Reclassification	-	(258)	(76)	334	-	-
Effect of foreign currency exchange differences	(33,559)	(3,222)	(340)	(1,004)	(358)	(38,483)

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Total
Balance, June 30, 2020	<u>\$ 1,289,402</u>	<u>\$ 289,398</u>	<u>\$ 17,195</u>	<u>\$ 42,145</u>	<u>\$ 38,030</u>	<u>\$ 1,676,170</u>
<u>Accumulated depreciation</u>						
Balance, January 1, 2020	\$ 84,761	\$ 174,368	\$ 12,431	\$ 33,752	\$ 38,388	\$ 343,700
Depreciation	17,452	19,813	447	1,277	-	38,989
Reclassification	-	-	10	(10)	-	-
Effect of foreign currency exchange differences	(2,423)	(1,941)	(230)	(785)	(358)	(5,737)
Balance, June 30, 2020	<u>\$ 99,790</u>	<u>\$ 192,240</u>	<u>\$ 12,658</u>	<u>\$ 34,234</u>	<u>\$ 38,030</u>	<u>\$ 376,952</u>
Carrying amounts as of June 30, 2020	<u>\$ 1,189,612</u>	<u>\$ 97,158</u>	<u>\$ 4,537</u>	<u>\$ 7,911</u>	<u>\$ -</u>	<u>\$ 1,299,218</u>
<u>Cost</u>						
Balance, January 1, 2021	\$ 1,343,090	\$ 292,977	\$ 11,557	\$ 38,869	\$ 38,604	\$ 1,725,097
Additions	-	15,334	186	2,463	-	17,983
Disposals	-	(750)	-	-	-	(750)
Reclassification	-	(158)	105	53	-	-
Effect of foreign currency exchange differences	(15,613)	(3,825)	(99)	(435)	(167)	(20,139)
Balance, June 30, 2021	<u>\$ 1,327,477</u>	<u>\$ 303,578</u>	<u>\$ 11,749</u>	<u>\$ 40,950</u>	<u>\$ 38,437</u>	<u>\$ 1,722,191</u>
<u>Accumulated depreciation</u>						
Balance, January 1, 2021	\$ 121,696	\$ 203,722	\$ 9,574	\$ 29,561	\$ 38,604	\$ 403,157
Depreciation	17,797	19,129	283	1,274	-	38,483
Disposals	-	(750)	-	-	-	(750)
Effect of foreign currency exchange differences	(1,558)	(2,607)	(74)	(309)	(167)	(4,715)
Balance, June 30, 2021	<u>\$ 137,935</u>	<u>\$ 219,494</u>	<u>\$ 9,783</u>	<u>\$ 30,526</u>	<u>\$ 38,437</u>	<u>\$ 436,175</u>
Carrying amounts as of December 31, 2020 and January 1, 2021	<u>\$ 1,221,394</u>	<u>\$ 89,255</u>	<u>\$ 1,983</u>	<u>\$ 9,308</u>	<u>\$ -</u>	<u>\$ 1,321,940</u>
Carrying amounts as of June 30, 2021	<u>\$ 1,189,542</u>	<u>\$ 84,084</u>	<u>\$ 1,966</u>	<u>\$ 10,424</u>	<u>\$ -</u>	<u>\$ 1,286,016</u>

Property, plant and equipment were depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	45-50 years
Development equipment	3-5 years
Office equipment	3-5 years
Information equipment	3-5 years
Leasehold improvements	1-5 years

Property, plant and equipment were pledged as collateral. Refer to Note 30.

14. GOODWILL

	June 30, 2021	December 31, 2020	June 30, 2020
<u>Ending balance</u>	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>

Considering the synergy of integration of LCD driver and touch controller under the industry trend, the reverse merger was triggered by FocalTech Corporation, Ltd. on January 2, 2015, accounted for goodwill according to business combination. The Group estimated cash flows from sales of IDC (Integrated Driver Controller) based on smartphone market growth rate and market share. Refer to Note 14 in financial statements in 2020 for related information.

15. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance, January 1, 2020	\$ 127,719	\$ 154,970	\$ 76,704	\$ 74,000	\$ 433,393
Additions	-	147	-	-	147
Effect of foreign currency exchange differences	<u>(1,273)</u>	<u>(1,781)</u>	<u>(6)</u>	<u>-</u>	<u>(3,060)</u>
Balance, June 30, 2020	<u>\$ 126,446</u>	<u>\$ 153,336</u>	<u>\$ 76,698</u>	<u>\$ 74,000</u>	<u>\$ 430,480</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2020	\$ 109,676	\$ 148,376	\$ 39,152	\$ 37,000	\$ 334,204
Amortization expenses	17,756	2,779	3,893	3,700	28,128
Effect of foreign currency exchange differences	<u>(1,284)</u>	<u>(1,680)</u>	<u>(6)</u>	<u>-</u>	<u>(2,970)</u>
Balance, June 30, 2020	<u>\$ 126,148</u>	<u>\$ 149,475</u>	<u>\$ 43,039</u>	<u>\$ 40,700</u>	<u>\$ 359,362</u>
Carrying amounts as of June 30, 2020	<u>\$ 298</u>	<u>\$ 3,861</u>	<u>\$ 33,659</u>	<u>\$ 33,300</u>	<u>\$ 71,118</u>
<u>Cost</u>					
Balance, January 1, 2021	\$ 122,262	\$ 148,247	\$ 76,708	\$ 74,000	\$ 421,217
Effect of foreign currency exchange differences	<u>(2,255)</u>	<u>(2,952)</u>	<u>(3)</u>	<u>-</u>	<u>(5,210)</u>
Balance, June 30, 2021	<u>\$ 120,007</u>	<u>\$ 145,295</u>	<u>\$ 76,705</u>	<u>\$ 74,000</u>	<u>\$ 416,007</u>

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Accumulated amortization</u>					
Balance, January 1, 2021	\$ 122,130	\$ 144,543	\$ 46,942	\$ 44,400	\$ 358,015
Amortization expenses	79	320	3,893	3,700	7,992
Effect of foreign currency exchange differences	<u>(2,255)</u>	<u>(2,912)</u>	<u>(3)</u>	<u>-</u>	<u>(5,170)</u>
Balance, June 30, 2021	<u>\$ 119,954</u>	<u>\$ 141,951</u>	<u>\$ 50,832</u>	<u>\$ 48,100</u>	<u>\$ 360,837</u>
Carrying amounts as of December 31, 2020 and January 1, 2021					
	<u>\$ 132</u>	<u>\$ 3,704</u>	<u>\$ 29,766</u>	<u>\$ 29,600</u>	<u>\$ 63,202</u>
Carrying amounts as of June 30, 2021					
	<u>\$ 53</u>	<u>\$ 3,344</u>	<u>\$ 25,873</u>	<u>\$ 25,900</u>	<u>\$ 55,170</u>
					(concluded)

Other intangible assets were amortized on a straight-line basis over the estimated useful lives as follows:

Licenses and franchises	3-5 years
Software	1-5 years
Patents	7-10 years
Trademark	10 years

16. SHORT-TERM BORROWINGS

	June 30, 2021	December 31, 2020	June 30, 2020
Unsecured bank loans	\$ 580,000	\$ 480,000	\$ -
Secured bank loans	<u>185,245</u>	<u>43,648</u>	<u>-</u>
	<u>\$ 765,245</u>	<u>\$ 523,648</u>	<u>\$ -</u>
Annual interest rate			
Unsecured bank loans	0.88-1.00%	0.88-1.06%	
Secured bank loans	2.65-4.52%	4.1%	

Properties, plants and equipment are pledged as collateral for the bank loans, please refer to Note 30.

17. TRADE PAYABLES

	June 30, 2021	December 31, 2020	June 30, 2020
Trade payables	<u>\$ 2,018,743</u>	<u>\$ 1,731,109</u>	<u>\$ 1,781,723</u>

The average credit period on purchases was 30-60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

18. OTHER PAYABLES

	June 30, 2021	December 31, 2020	June 30, 2020
Payable for rebates	\$ 483,105	\$ 423,800	\$ 374,918
Payable for salaries and bonuses	411,047	467,979	296,558
Payable for labor, health and social insurance	13,935	13,977	14,191
Reserve for litigations	46,562	47,598	49,520
Payable for professional services and others	<u>103,298</u>	<u>84,077</u>	<u>52,622</u>
	<u>\$1,057,947</u>	<u>\$1,037,431</u>	<u>\$ 787,809</u>

19. RETIREMENT BENEFIT

Pension expenses under the defined benefit plans, calculated using the actuarially determined pension cost rate as of December 31, 2020 and 2019, were NT\$46 thousand, NT\$91 thousand, NT\$92 thousand and NT\$182 thousand for the three months ended June 30, 2021 and 2020, and six months ended June 30, 2021 and 2020, respectively.

20. EQUITY

a. Share capital

Ordinary shares (par value at NT\$10 per share)

	June 30, 2021	December 31, 2020	June 30, 2020
Numbers of shares authorized (in thousands)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>216,356</u>	<u>210,353</u>	<u>299,995</u>
Shares issued	<u>\$ 2,163,561</u>	<u>\$ 2,103,532</u>	<u>\$ 2,999,949</u>

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Restricted stock for employees (3)	Employee Share Options (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2020	\$5,037,671	\$ 48,662	\$ -	\$ 25,510	\$ 33,534	\$5,145,377
Capital surplus used to cover accumulated deficits	(183,307)	-	-	-	-	(183,307)
Cash distribution from additional paid-in capital	(150,000)	-	-	-	-	(150,000)
Employee treasury share vested	-	539	-	(539)	-	-
Compensation cost of employee share options	-	-	-	9,961	-	9,961
Issuance of ordinary shares from exercise of employee share options	10,040	-	-	(6,031)	-	4,009
Employee share options expired	-	-	-	(399)	399	-
BALANCE, JUNE 30, 2020	<u>\$4,714,404</u>	<u>\$ 49,201</u>	<u>\$ -</u>	<u>\$ 28,502</u>	<u>\$ 33,933</u>	<u>\$4,826,040</u>

	Additional Paid-in Capital (1)	Treasury Shares (1)	Restricted stock for employees (3)	Employee Share Options (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2021	\$4,725,445	\$ 69,361	\$ -	\$ 14,903	\$ 33,933	\$4,843,642
Treasury shares transferred to employees	-	1,797	-	-	-	1,797
Employee treasury share vested	-	8,654	-	(8,654)	-	-
Compensation cost of employee share options	-	-	-	8,396	-	8,396
Issuance of ordinary shares from exercise of employee share options	8,259	-	-	(4,472)	-	3,787
Employee share options expired	-	-	-	(201)	201	-
Issuance of restricted stock for employees	-	-	1,178,545	-	-	1,178,545
BALANCE, JUNE 30, 2021	<u>\$4,733,704</u>	<u>\$ 79,812</u>	<u>\$1,178,545</u>	<u>\$ 9,972</u>	<u>\$ 34,134</u>	<u>\$6,036,167</u>

1) This type of capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (at a certain percentage of the Company's capital surplus annually).

2) This type of capital surplus may be used to offset a deficit.

3) This type of capital surplus cannot be used for any purposes.

c. Retained earnings and dividend policy

The amendments to the Company's Articles of Incorporation had been approved by the Company's shareholders' meeting held on June 20, 2019, which stipulate that earnings distribution may be made on a quarterly basis after the close of each quarter.

According to The Company's amended Articles of Incorporation, when the Company distributed earnings belonging to the first three quarters, it shall first estimate and reserve taxes to be paid, offset its deficits, estimate and reserve employees' compensation and remuneration to directors. Second, the Company set aside a legal capital reserve at 10% of the remaining earnings and set aside or reverse special reserve in accordance with the laws and regulations. Third any remaining profit along with any undistributed retained earnings at the beginning shall be used by the Company's board of directors. The board of directors shall propose the distribution of retained earnings after considering operational situations. When the retained earnings are distributed in form of stock, the resolution shall be approved by the shareholders' meeting. When the retained earnings are distributed in form of cash, the resolution shall be approved by the board of directors.

When the Company has earnings at the end of the year, it shall pay taxes, offset its losses, set aside 10% as legal reserve, then set aside or reverse a special reserve in accordance with relevant laws or regulations. The Board of Directors shall propose a distribution for the remaining earnings, along with the unappropriated retained earnings of previous years. Earnings distribution may be made in the form of shares after an approved resolution made by the shareholders' meeting. Pursuant to the Company Act, the distributable dividends and bonuses or the legal reserve and the capital reserve (stipulated in Article 241, Paragraph 1 of the Company Act) in whole or in part may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition to a report of such distribution shall be submitted to the shareholders' meeting.

Before the amendment of the Company's Articles of Incorporation on shareholders' meeting on June 20, 2019, the earning distribution is only allowed after yearly closing by the approval of the shareholders' meeting. The remaining retained earnings and dividends policy are consistent.

On June 20, 2020, the shareholders' meeting resolved that the Company's Articles of Incorporation amended on June 20, 2019 shall be revised back to the previous version.

See Note 22(d) for policy stipulated in the Articles of Incorporation regarding to the remuneration for

employees and directors.

Considering current and future development plans, investment conditions, capital requirements, and market competition situations and shareholder benefits, the Company would appropriate the dividends to the shareholders not less than 10% of the current year's earnings. The dividends could be paid in cash or shares. The cash portion should be equal or more than 10% of the total dividends. It is allowed not to distribute any cash dividend if the cash amount per share is less than NT 0.5.

Legal reserve should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Company's shareholders' meeting was held on June 20, 2020. The resolution was as follows. The Company offset the loss of NT\$183,307 thousand from additional paid-in capital and the cash distribution of NT\$150,000 thousand, i.e. NT\$0.50291032 per share, from additional paid-in capital of share issue premium

To increase the return on shareholders' equity, the Company was approved for reduction of capital in the Company's shareholders' meeting on June 20, 2020. Company's share capital was reduced by \$899,721 thousand, and estimated to eliminate 89,972 thousand shares of the Company. Each share will be returned by \$3 and the ratio of capital reduction is 30%. The reduction of capital was approved by Financial Supervisory Commission on September 2, 2020. The record date of capital reduction was September 8, 2020, and the date of completion of capitalization change registration was on September 14, 2020. The fund of capital reduction was returned to the company's shareholders on October 28th, 2020.

The board of directors proposed the earnings distribution on April, 28 2021 as follows:

	2020
Legal reserve	<u>\$ 101,230</u>
Special reserve	<u>\$ 122,316</u>
Cash dividends	<u>\$ 700,000</u>
Cash dividends per share	<u>\$ 3.32</u>

The Group suspends its originally scheduled shareholders' meeting in response to the FSC's announcement: "For pandemic prevention, the FSC demands public companies to postpone their shareholders' meeting". The appropriation of earnings for 2020 will be resolved on the shareholders' meeting that will be held on Aug 19,2021.

d. Treasury stock

	Shares (In Thousands)
Number of shares on January 1, 2020	10,978
Decrease during the period	<u>(9,247)</u>
Number of shares on June 30, 2020	<u>1,731</u>
Number of shares on January 1, 2021	778
Decrease during the period	<u>(676)</u>
Number of shares on June 30, 2021	<u>102</u>

The detailed information for other treasure stock transferred to employees programs could be found in

Note 25 (b).

The treasury shares held by the company cannot be pledged and no dividend and voting right is attached in accordance with the Regulations of Securities and Exchange Act.

e. Unearned employee compensation

	For the Six Months Ended June 30
Balance, beginning	\$ -
Issuance of shares	(1,178,545)
Share-based payment expenses recognized	<u>116,221</u>
Balance, ending	<u><u>(\$1,062,324)</u></u>

In the shareholders' meeting on June 20, 2020, approved a restricted share plan for employees, and board of directors approved to issue 5,749 thousand share on April 7 2021. Refer Note 25 (c).

f. Non-controlling interests

	For the Six Months Ended June 30	
	2021	2020
Balance, beginning	(\$ 1,383)	\$ 30,692
Net loss	(16,050)	(12,342)
Other comprehensive income (loss)		
Exchange differences from translating the financial statements of foreign operations	(2,392)	(865)
Non-controlling interests subscribing subsidiary new shares issuing for cash	42,759	-
Changes in ownership interests in subsidiaries	<u>257</u>	<u>-</u>
Balance, ending	<u><u>23,191</u></u>	<u><u>17,485</u></u>

21. REVENUE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
IC for human and machine interface devices	<u>\$ 5,772,267</u>	<u>\$ 2,767,596</u>	<u>\$ 10,122,121</u>	<u>\$ 5,677,233</u>
<u>Contract balances</u>				
		June 30, 2021	December 31, 2020	June 30, 2020
Contract liabilities				
Sales of goods		<u>\$ 161,030</u>	<u>\$ 149,430</u>	<u>\$ 113,015</u>

22. NET INCOME

a. Financial costs

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Interest on bank loans	\$ 2,406	\$ -	\$ 4,317	\$ -
Interest on deposits	<u>-</u>	<u>-</u>	<u>440</u>	<u>1,078</u>
	<u>\$ 2,406</u>	<u>\$ -</u>	<u>\$ 4,757</u>	<u>\$ 1,078</u>

b. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Property, plant and equipment	\$ 19,323	\$ 19,330	\$ 38,483	\$ 38,989
Intangible assets	<u>3,995</u>	<u>5,137</u>	<u>7,992</u>	<u>28,128</u>
	<u>\$ 23,318</u>	<u>\$ 24,467</u>	<u>\$ 46,475</u>	<u>\$ 67,117</u>
An analysis of depreciation by function				
Operating costs	\$ 133	\$ 179	\$ 268	\$ 375
Operating expenses	<u>23,185</u>	<u>24,288</u>	<u>46,207</u>	<u>66,742</u>
	<u>\$ 23,318</u>	<u>\$ 24,467</u>	<u>\$ 46,475</u>	<u>\$ 67,117</u>

c. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Post-employment benefits				
Defined contribution plans	\$ 7,212	\$ 6,885	\$ 14,206	\$ 13,898
Defined benefit plans (Note 19)	46	91	92	182
Share-based payments (Note 25)	119,779	6,983	124,617	9,961
Other employee benefits	<u>479,372</u>	<u>315,130</u>	<u>973,194</u>	<u>671,695</u>
Total employee benefits expense	<u>\$ 606,409</u>	<u>\$ 329,089</u>	<u>\$ 1,112,109</u>	<u>\$ 695,736</u>

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
An analysis of employee benefits expense by function				
Operating costs	\$ 49,805	\$ 29,912	\$ 87,622	\$ 59,157
Operating expenses	<u>556,604</u>	<u>299,177</u>	<u>1,024,487</u>	<u>636,579</u>
	<u>\$ 606,409</u>	<u>\$ 329,089</u>	<u>\$ 1,112,109</u>	<u>\$ 695,736</u>

d. The remuneration of employees and directors

According to the Company's Articles of Incorporation, the distributable compensation to employees and remuneration to directors shall not be less than 1% and not more than 1.5%, respectively, of net profit before income tax. The accrued employees' compensation and remuneration of directors for the three months and six months ended June 30, 2021 and 2020 are as follows:

Amount

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021 Cash	2020 Cash	2021 Cash	2020 Cash
Employees' compensation	<u>\$ 23,274</u>	<u>\$ 24,502</u>	<u>\$ 103,514</u>	<u>\$ 24,502</u>
Remuneration of directors	<u>\$ 1,225</u>	<u>\$ 2,722</u>	<u>\$ 6,024</u>	<u>\$ 2,722</u>

If there is any change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The board of directors resolved the remuneration of employees and directors on February 4th, 2021 as follows;

	<u>Cash</u>
Employees' compensation	<u>\$ 123,450</u>
Remuneration of directors	<u>\$ 7,214</u>

There is no difference between the actual amount of remuneration of employees and directors paid and that accounted for in 2020 financial statements.

Information on the employees' compensation and remuneration to directors resolved by the Company's board of directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

23. INCOME TAXES

a. Major components of tax expense recognized in profit or loss:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Current income tax expense recognized in the current period	<u>\$279,605</u>	<u>\$ 30,409</u>	<u>\$412,913</u>	<u>\$ 61,490</u>
Deferred income tax expense recognized in the current period	22,327	3,133	30,481	15,462
Other income tax adjustments	<u>-</u>	<u>1,334</u>	<u>-</u>	<u>1,334</u>
	<u>22,327</u>	<u>4,467</u>	<u>30,481</u>	<u>16,796</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 301,932</u>	<u>\$ 34,876</u>	<u>\$ 443,394</u>	<u>\$ 78,286</u>

b. Income tax assessments

The Company's tax returns through 2018, FocalTech Smart Sensors Co., Ltd., and FocalTech Electronics Co., Ltd.'s tax returns through 2019 have been examined by the tax authorities.

24. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Basic earnings per share	<u>\$ 10.43</u>	<u>\$ 0.38</u>	<u>\$ 14.70</u>	<u>\$ 0.62</u>
Diluted earnings per share	<u>\$ 9.95</u>	<u>\$ 0.36</u>	<u>\$ 13.93</u>	<u>\$ 0.59</u>

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net Profit for the Period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Earnings used in the computation of basic earnings per share	<u>\$2,106,351</u>	<u>\$ 106,638</u>	<u>\$2,952,091</u>	<u>\$ 172,824</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Weighted average number of ordinary shares in computation of basic earnings per share	202,022	280,422	200,842	279,628
Effect of potentially dilutive ordinary shares:				
Treasure share issued to employee	8,774	17,803	9,687	14,362
Employees stock options (share)	490	506	536	524
Restricted stock for employees(share)	202	-	102	-
The compensation to employees	<u>103</u>	<u>-</u>	<u>735</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>211,591</u>	<u>298,731</u>	<u>211,902</u>	<u>294,514</u>

25. SHARE-BASED PAYMENT ARRANGEMENTS

The Group did not have stock option plan issued for employees and share buyback program for the six months ended June 30, 2021 and 2020. The detailed information could be found in Note 25 of the consolidated financial statements of the year ended December 31, 2020.

a. Employee stock option plan

Information on outstanding options for the six months ended June 30, 2021 and 2020 is as follows:
June 30, 2021

	Beginning Balance		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)
2006	398,199	\$ 26.25	(145,400)	\$ 31.64	-	\$ -	252,799	\$ 23.78
2015	397,500	15.90	(108,500)	15.90	(12,000)	15.90	277,000	15.90

June 30, 2020

Employee Stock Option Plan	Beginning Balance		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)
2006	805,599	\$ 23.49	(228,000)	\$ 26.70	-	\$ -	577,599	\$ 22.23
2015	677,500	12.20	(91,000)	12.20	(24,000)	12.20	562,500	12.20

b. Treasure stock transferred to employees

Information about treasure stock transferred to employees as follows:

Items	The date of board of directors approved	Buyback shares (In thousand share)	Transferred shares (In thousand share)	Adjustment due to capital reduction (In thousand share)	Shares not transferred yet (In thousand share)	Transferred price (in dollar) (Adjusted)
The 4th treasure stock transferred to employee Program	2018/7/26	8,000	7,952	(46)	2	33.69
The 5th treasure stock transferred to employee Program	2018/8/23	7,689	7,116	(473)	100	33.96

Information about treasure stock transferred to employees for the six months ended June 30, 2021s as follows:

The 4th Shares Buy Back Program			The 5th Shares Buy Back Program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2020/03/20	7,848	\$ 3.30	2019/05/07	4,651	\$ -
2021/04/07	104	181.90	2019/11/08	60	-
			2020/03/20	1,399	3.70
			2020/11/16	434	1.90
			2021/04/07	572	181.70
Total	7,952		Total	7,116	

c. Restricted stock for employees

The Company's shareholders' meeting resolved to issue restricted stocks for employees up to 6,000 thousand shares on June 20, 2020, and the issued price is NT\$10 per share. The restricted stocks plan was approved by Financial Supervisory Commission on August 12, 2020. The information of the issued resolved by board of directors is as follow:

Grant date	Fair value per share(in dollar)	Actual shares of issued(in thousand)
2021/04/07	\$ 205	5,749

After the employees were granted restricted stock, the employees will be vested in the stocks if they fulfill both service period and performance condition. The vesting condition are as follows:

- Upon service for two years. the shares vested in 50% to employees.
- Upon service for three years. the shares vested in 25% to employees.
- Upon service for four years. the shares vested in 25% to employees.

The constraints of restricted stock are as follows:

- a. Employees can not dispose, pledged, transferred, and give to others the granted shares until they are vested.
- b. The rights of restricted stock is same as ordinary share including attendance, propose, speak, voting right and so on.
- c. Stock dividends and cash dividends yielding from restricted stock will be distributed to employees in the current year, and will not be restricted.
- d. National employee should transfer the granted shares to trustee appointed by the Company immediately. Before they are vested, the restricted should be kept in trustee. Non-national employee' granted share should be kept by bank appointed by the Company.

The Company will buy back the restricted shares at issued price and write off the shares if employees do not fulfill the vesting condition.

Compensation cost of aforementioned share-based payments for the six months ended June 30, 2021 and 2020 was as follows:

	For the Six Months Ended June 30	
	2021	2020
Shares buyback programs	\$ 8,396	\$ 9,961
Restricted stock for employees	<u>116,221</u>	<u>-</u>
	<u>\$124,617</u>	<u>\$ 9,961</u>
Adjustment account:		
Capital surplus - employee stock options	\$ 8,396	\$ 9,961
Other equity - unearned employee compensation	<u>116,221</u>	<u>-</u>
	<u>\$124,617</u>	<u>\$ 9,961</u>

26. NON-CASH TRANSACTIONS

The cash dividends of 2019 resolved by the shareholder's meeting was NT\$150,000 thousand and was not distributed as of June 30, 2020. (Referring to Note 20)

27. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

The Company and its subsidiaries have lease contracts in relation to office, plant and part of office equipment, and they would expire by June, 2022. Those agreements are short-term leases and qualified for the recognition exemption to leases so the Company does not recognize right-of-use assets and lease liabilities for these leases. The committed payments for the short-term leases were \$9,284 thousand and \$9,721 thousand as of June 30, 2021 and 2020.

The lease payments recognized in profit or loss were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
lease payment	<u>\$ 8,422</u>	<u>\$ 8,973</u>	<u>\$ 16,952</u>	<u>\$ 17,716</u>

28. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The Group's management believes the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

June 30, 2021

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed ordinary shares	\$ 495,552	\$ -	\$ -	\$ 495,552
Private funds	-	-	62,345	62,345
Structured Investments	-	106,907	-	106,907
Total	<u>\$ 495,552</u>	<u>\$ 106,907</u>	<u>\$ 62,345</u>	<u>\$ 664,804</u>

Financial assets at FVTOCI

Investments in debt instruments

Fixed income bonds	<u>\$ -</u>	<u>\$ 240,529</u>	<u>\$ -</u>	<u>\$ 240,529</u>
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December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed ordinary shares	\$ 72,186	\$ -	\$ -	\$ 72,186
Private funds	-	-	52,579	52,579
Structured Investments	-	109,897	-	109,897
Total	<u>\$ 72,186</u>	<u>\$ 109,897</u>	<u>\$ 52,579</u>	<u>\$ 234,662</u>

Financial assets at FVTOCI

Investments in debt instruments

Fixed income bonds	<u>\$ -</u>	<u>\$ 247,974</u>	<u>\$ -</u>	<u>\$ 247,974</u>
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June 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed ordinary shares	\$ 11,016	\$ -	\$ -	\$ 11,016
Private funds	-	-	41,477	41,477
Total	<u>\$ 11,016</u>	<u>\$ -</u>	<u>\$ 41,477</u>	<u>\$ 52,493</u>

Financial assets at FVTOCI

Investments in debt instruments

Fixed income bonds	<u>\$ -</u>	<u>\$ 78,939</u>	<u>\$ -</u>	<u>\$ 78,939</u>
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There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2021 and 2020.

2) Reconciliation of Level 3 fair value measurements of financial instruments

<u>Financial assets at FVTPL</u>	For the Six Months Ended June 30	
	2021	2020
Balance, beginning of period	\$ 52,579	\$ 45,423
Purchases	9,179	1,028
Disposals	(181)	-
Recognized in profit or loss (other income or loss)	1,356	(4,678)
Effect of foreign exchange differences	(588)	(296)
Balance, end of period	<u>\$ 62,345</u>	<u>\$ 41,477</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

The fair values of foreign fixed income bonds are determined by quoted market prices provided by the independent third party. The fair values of structured investments are determined by quoted prices provided by the seller.

4) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

The fair values of non-publicly traded equity investments are mainly determined by using the market approach, with reference to the recent financing activities of investees or the market transaction prices and status of the similar instruments. The Group evaluated and selected the suitable valuation method with discretion, but the use of different valuation models or fair values may result in different valuation results.

c. Categories of financial instruments

	June 30, 2021	December 31, 2020	June 30, 2020
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	\$ 644,804	\$ 234,662	\$ 52,493
Amortized cost (Note 1)	10,309,321	7,203,983	5,695,838
Financial assets at FVTOCI			
Investments in debt instruments	240,529	247,974	78,939
<u>Financial liabilities</u>			
Amortized cost (Note 2)	4,454,419	3,782,549	2,977,602

1) The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other financial assets and refundable deposits (categorized in other non-current assets).

2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowing, trade payables, other payables, dividends payables and guaranteed deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, trade receivable, other financial assets, financial assets at FVTPL, financial assets at FVTOCI, trade and other payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations

of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk.

The board of directors is solely responsible for establishing and monitoring the framework of risk management of the Group. The chairman is authorized by the board of directors to develop and monitor the risk management policy of the Group with the operation center of the Group, and regularly reported the situation to the board of directors.

The Group's financial risk management policies are established for identifying and analyzing the financial risks to the Group, evaluating the impacts of the financial risks, and conducting the financial-risk aversion policies. The financial risk management policies are periodically reviewed to reflect changes in the market and the operations. The Group devotes to build a disciplined and constructive control environment through proper internal controls, such as training and establishing managerial principles and operation procedures in order to have all employees aware of their own roles and responsibilities.

The Group's management oversees the Group operation in compliance with financial risk management policies and reviews the appropriateness of risk management structure under supervision of the board of directors. Internal auditors, in assistance to the board of directors, perform periodical and exceptional reviews on the controls and procedures of financial risk management and report the results of review to the board of directors.

1) Market risk

The major financial risks from the Group's operations were foreign exchange risk (referred to a) and interest rate risk (referred to b).

a) Foreign exchange risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currency at the end of the reporting period are shown in Note 31.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar. The following table details the Group's sensitivity to a 5% appreciate and depreciate in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation value at the end of the reporting period by a 5% change in foreign currency rates. A positive number in below table indicates an increase in pre-tax profit or equity associated with a 5% depreciation of the New Taiwan Dollar against the U.S. dollar.

	USD Impact	
	For the Six Months Ended June 30	
	2021	2020
Profit or loss/ equity	<u>\$ 174,171</u> (i)	<u>\$ (11,260)</u> (i)

- i. This was mainly attributable to the outstanding balances of USD deposits, trade receivables, bank loans, trade payables, other payables, other current assets, other non-current assets, other current liabilities and other non-current liabilities.

b) Interest rate risk

The Group was exposed to interest rate risk primarily related to its investments in fixed-rate time deposits, bonds, floating-rate demand deposits and structured investments. The time deposits were at fixed interest rates, and bonds were at fixed rates or with guaranteed minimal interest rates and carried. Therefore, changes in interest rates would not affect estimated profit or loss regarding to the financial instruments above.

Financial assets exposed to interest rates at the end of the reporting period were as follows:

	June 30, 2021	December 31, 2020	June 30, 2020
Fair value interest rate risk			
Financial assets	<u>\$ 3,890,459</u>	<u>\$ 1,975,397</u>	<u>\$ 2,611,536</u>
Financial liabilities	<u>\$ 765,245</u>	<u>\$ 523,648</u>	<u>\$ -</u>
Cash flow interest rate risk			
Financial assets	<u>\$ 3,485,961</u>	<u>\$ 3,777,910</u>	<u>\$ 1,617,438</u>

Sensitivity analysis

The below sensitivity analysis was determined based on the Company's exposure to interest rates for non-derivative instruments as of the end of the reporting period. An increase or a decrease of 25 basis points was used when reporting interest rate risk internally to key management and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/ lower and all other variables were held constant, the Company's pre-tax profit for the six months ended June 30, 2021 and 2020 would increase/ decrease by NT\$4,357 thousand and NT\$2,022 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation could arise from the carrying amounts of the financial assets as recognized in the balance sheets.

The Company's major credit risk of trade receivables mainly came from its top 5 customers. Ongoing credit evaluation of the financial condition of the customers is performed.

As of June 30, 2021, trade receivables from top 5 customers are 58% of total trade receivables. The credit concentration risk of other trade receivables was insignificant.

Credit risk management for investments in debt instruments

The Company's investments in debt instruments are financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The Company's policy allows it only to invest in those with credit ratings equal to or higher than the investment grade and with low credit risk after the impairment assessment. Credit rating information is provided by independent rating institutions. The Company continuously tracks external rating information to monitor changes in credit risk of the invested debt instruments, and also examines other information such as the bond yield curve and material information concerning the debtors to assess whether the credit risk of the debt instrument investment has increased significantly after the original recognition.

The Company assesses the 12-month expected credit loss based on the probability of default and loss given default provided by external credit rating agencies. The current credit risk assessment policies and carrying amount of investments in debt instruments for each credit rating are as follows:

Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of June 30, 2021
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 240,529</u>

Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of December 31, 2020
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Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 247,974</u>
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Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of June 30, 2020
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Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 78,939</u>
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3) Liquidity risk

The Company manages its liquidity risk by monitoring and maintaining adequate cash and cash equivalents to fund its operations and mitigate the impacts of fluctuations in cash flows.

As of June 30, 2021, December 31, 2020, and June 30, 2020, the available unused short-term bank loan facilities were set out in (b) Financing credit line.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principal and interest.

June 30, 2021

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	\$ 3,076,491	\$ 612,484
Fixed interest rate liabilities	<u>765,444</u>	<u>-</u>
	<u>\$ 3,841,935</u>	<u>\$ 612,484</u>

December 31, 2020

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	\$ 2,768,322	\$ 490,361
Fixed interest rate liabilities	<u>523,866</u>	<u>-</u>
	<u>\$ 3,292,188</u>	<u>\$ 490,361</u>

June 30, 2020

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	<u>\$ 2,719,532</u>	<u>\$ 258,070</u>

b) Financing credit line

	June 30, 2021	December 31, 2020	June 30, 2020
Unsecured bank line of credit			
Amount used	\$ 631,214	\$ 495,665	\$ -
Amount unused	<u>768,786</u>	<u>204,335</u>	<u>800,000</u>
	<u>\$ 1,400,000</u>	<u>\$ 700,000</u>	<u>\$ 800,000</u>
Secured bank loans credits			
Amount used	\$ 185,245	\$ 43,648	\$ -
Amount unused	<u>246,015</u>	<u>392,832</u>	<u>-</u>
	<u>\$ 431,260</u>	<u>\$ 436,480</u>	<u>\$ -</u>

29. TRANSACTIONS WITH RELATED PARTIES

- a. Balances, transactions, revenue and expenses between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

b. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2021	2020	2021	2020
Long-term employee benefits	\$ (58)	\$ -	\$ 12,713	\$ 21,870
Short-term employee benefits	39,595	12,586	53,596	23,360
Post-employment benefits	135	135	261	270
Share-based payments	<u>19,489</u>	<u>1,383</u>	<u>20,189</u>	<u>2,160</u>
	<u>\$ 59,161</u>	<u>\$ 14,104</u>	<u>\$ 86,759</u>	<u>\$ 47,660</u>

30. PLEDGED ASSETS

The following assets were provided as collateral for import customs duties:

	June 30, 2021	December 31, 2020	June 30, 2020
Properties, plants and equipment – net of buildings	\$ 512,538	\$ 524,487	\$ -
Pledge deposits (categorized in other non-current assets)	<u>4,000</u>	<u>4,000</u>	<u>8,000</u>
	<u>\$ 516,538</u>	<u>\$ 528,487</u>	<u>\$ 8,000</u>

31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

June 30, 2021

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 252,432	27.86(USD:NTD)	\$ 7,032,755
USD	21,581		601,261
<u>Financial liabilities</u>			
Monetary items			
USD	119,305	27.86 (USD:NTD)	3,323,835
USD	29,676		826,765

December 31, 2020

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 147,429	28.48 (USD:TWD)	\$ 4,198,767
USD	2,459		70,018
RMB	12,369	6.5249 (USD:RMB))	53,988
<u>Financial liabilities</u>			
Monetary items			
USD	105,765	28.48 (USD: TWD)	3,012,178
USD	2,354		67,049

June 30, 2020

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 83,550	29.63 (USD: TWD)	\$ 2,475,574
USD	4,220		125,031
<u>Financial liabilities</u>			
Monetary items			
USD	89,496	29.63 (USD: TWD)	2,651,760
USD	5,874		174,054

32. SEGMENT INFORMATION

Segment information is provided to business decision makers to allocate resources and assess segment performance. The Company operates the business of the sales and development of human and machine interface devices related IC under a single operation unit. Thus, the information of separate operating segments is not applicable.