

Stock Code: 3545

This annual report is available at <https://mops.twse.com.tw>

The company discloses annual report information at <http://www.focaltech-electronics.com/>



FocalTech Systems Co., Ltd.

2022 Annual Report

Prepared by FocalTech Systems Co., Ltd.

Published on April 30, 2023

1. Spokesperson, Deputy Spokesperson
Name of Spokesperson: Wei-Chieh Chang
Title: CFO
Tel No.: (886)3-6661660
E-mail: ir@focaltech-electronics.com
Name of Deputy Spokesperson: Wei-Chieh Chang
Title: CFO
Tel No.: (886)3-6661660
E-mail: ir@focaltech-electronics.com
2. Address and Tel Number of Headquarters, Branches and Plant
Headquarters: 11F-1, No. 23, Huanke 1st Rd., Zhubei City, Hsinchu, Taiwan
Tel No.: (886)3-6661660
3. Appointment of a professional shareholder services agent: Handling stock transfer and shareholders' regular meeting affairs
Name: Agent Division, CTBC Bank
Address: 5F, No. 83, Sec. 1, Chongqing S. Rd., Zhongzheng District, Taipei City
Tel: (886)2-66365566
Website: www.ctbcbank.com
4. CPA for recent financial reports
Name of CPA: Yu-Hong Kuo Chih-Ming Shao
Name of Office: Deloitte & Touche
Address: 20F, No. 100, Songren Rd., Xinyi District, Taipei City
Tel: (886)2-27259988
Website: www.deloitte.com.tw
5. Website of Overseas Securities Exchange Office & the way to inquire into information of securities: None
6. Company Website: <http://www.focaltech-electronics.com/>

FocalTech Systems Co., Ltd.

2022 Annual Report

Contents

| | |
|--|-----------|
| I. Letter to Shareholders | 1 |
| II. Company Profile | 4 |
| 1. Company Introduction | 4 |
| 2. Development History | 4 |
| III. Corporate Governance Report | 7 |
| 1. Organization..... | 7 |
| 2. Profiles of Directors, Supervisors, President, Vice President, Deputy Vice President, Division Heads, and Branch Heads..... | 9 |
| 3. Implementation of Corporate Governance..... | 25 |
| 4. Disclosure of the CPAs' fee..... | 57 |
| 5. Changes of CPA:..... | 58 |
| 6. The chairman, president, chief financial or accounting manager of the Company who holds position in the business under the commissioned CPA firm or its affiliates in 1 year: None | 59 |
| 7. In the most recent year to the date this report was printed, directors, supervisors, managerial officers and the shareholders holding more than 10% of the shares in the transfer of shares and pledge of shares under lien, and any change thereof. | 59 |
| 8. Information on shareholders among the top 10 by proportion of shareholding who are related parties to one another or spouse, kindred within the 2nd degree of kinship | 62 |
| 9. Quantity of shareholdings of the same investee by the Company and Directors, Supervisors, Managial Officer, and direct or indirect subsidiaries in proportion to the combined holdings of all, and combined to calculate the proportion of overall shareholding. | 63 |
| IV. Capital Overview | 64 |
| 1. Capital and Shares..... | 64 |
| 2. Status of Corporate bond: None..... | 71 |
| 3. Status of preferred share: None..... | 71 |
| 4. Status of overseas depository receipt: None | 71 |
| 5. Status of employee stock options..... | 72 |
| 6. Description of new restricted employee share status shall include the following: | 74 |
| 7. Status regarding issuance of new shares in connection with mergers or acquisitions of other companies' shares: None. | 78 |

8. Status regarding implementation of the Company's capital allocation plans: N/A.....78

V. Operation Overview.....79

1. Scope of business.....79

2. Overview of Market, Production and Sales96

3. Information of employees.....104

4. Information on environmental protection expenditures.....104

5. Labor relations104

6. Information security management106

7. Material Contracts:.....109

VI. Financial Status110

1. Condensed Balance Sheets, Statements of Comprehensive Income, and CPA Audit Opinions for the Most Recent Five Years110

2. Financial Analysis for the Most Recent Five Years114

3. Audit Committee' Review Report on the Financial Statement of the most recent year.....118

4. The financial reports of the Company for the most recent years have been audited and attested by CPA.119

5. The individual financial reports of the Company for the most recent years have been audited and attested by CPAs.....119

6. In the case of any insolvency of the Company and its affiliates in the most recent year and up to the date of publication of the annual report, in the case of any insolvency, the effects on the financial position of the company shall be listed: None.....119

VII. Review of Financial Position, Financial Conditions, and Risk Matters120

1. Financial Position.....120

2. Financial Conditions120

3. Cash Flow121

4. Impact of Major Capital Expenditures on Financial Operations in the Most Recent Year:122

5. Policy for the Most Recent Fiscal Year on Investment in Other Companies, Main Reasons for Profits/Losses Resulting Therefrom, Plans for Improvement, and Investment Plans for the Coming Fiscal Year:122

6. Risk Analysis for the Most Recent Fiscal Year as well as the Current Fiscal Year up to the Date of Publication of the Annual Report.....122

7. Other Important Matters: None.....126

| | |
|--|------------|
| VIII. Special Disclosure | 127 |
| 1. Information regarding the Company's Affiliates..... | 127 |
| 2. Private placement of securities in the most recent year and up to the date of publication of the annual report: Not applicable | 130 |
| 3. Subsidiaries' holding or disposal of the Company's shares in the most recent year and up to the date of publication of the annual report: Not applicable | 130 |
| 4. Other necessary supplementary notes: None | 130 |
| IX. Any matter in the most recent year and up to the date of publication of the annual report which has a significant impact on shareholders' equity or securities prices as stipulated in subparagraph 2 of paragraph 2 of Article 36 of the Securities and Exchange Act: None.... | 131 |
| ATTACHMENT 1..... | 132 |
| ATTACHMENT 2..... | 188 |

I. Letter to Shareholders

Looking back on 2022, with the ‘pandemic bonus’ slowing, the Russo-Ukrainian War, high inflation, and other causes, the global economy entered a period of consolidation. In addition, the rapid rise of the US Consumer Price Index (CPI) caused the Federal Reserve (the Fed) to raise interest rates with an aim to curb inflation, which in turn affected the public’s purchasing power. With end-user demand weak, our customer orders shrank in number or were delayed, resulting in widespread excess inventories in downstream manufacturers. Consequently, inventory reductions became a major issue for all manufacturers; the industry faced unprecedented headwinds. Despite the turbulent times, FocalTech has not lost our direction in business operations. With timely responses in business strategy, long-term commitments to technology development, and years of deep-rooted customer relationships, FocalTech has been able to adjust quickly and minimize impacts during this challenging year.

As a result of the sharp downturn in demand in 2022, FocalTech’s annual revenue decreased a significant by 41% from the previous year, to NT\$12.95 billion. Due to the combination of high inventories and competitive pricing in the market, the net realizable value of some products was lower than cost and there were signs of inactive inventory. After thorough evaluation and judgment by the Company’s management team and the CPAs, and in accordance with IFRS 2, FocalTech recorded a loss of NT\$2.497 billion in Q3 2022 for inventory write-down and inactive inventory, resulting in a decline in gross profit margin to 9.9% and a gross profit of NT\$1.280 billion for the year 2022. Profitability also turned from 2021’s high point to a loss, with a net loss for 2022 of NT\$1.93 billion, or NT\$9.39 per share. In addition to the abovementioned inventory write-down and loss arising from inactive inventory, we also coordinated with customers and suppliers to revise some of the terms of our long-term agreements (LTAs). This will help to accelerate the speed of future inventory reductions, and improve both operational efficiency and financial health. This will be followed by releasing new products, allowing our overall operations to maintain growth momentum.

Although FocalTech's 2022 operational performance was not outstanding, we continued to invest in product development. Especially in our role as a key global supplier of human-machine interfaces for mobile devices, we continued to work on a variety of innovative technology applications and developments to enhance our R&D strengths. FocalTech spent NT\$2.54 billion on R&D in 2022, up more than 5% from 2021 and accounting for 19.6% of annual revenue. In 2022, FocalTech also applied for 49 new patents and obtained 70 patent certifications, continuing to uphold the realization of innovation and R&D value through practical action. Additionally, in order to recruit more top talents while enhancing current employees’ sense of belonging and cohesion, FocalTech purchased and moved in to our newly-purchased office building in Zhubei City's Chang Yih Hi-Tech Industrial Park in June 2022. Not only will this provide a more comfortable working environment for employees, but it will headaches from traffic congestion in Hsinchu Science Park and further enhance the efficiency of communication and R&D among employees.

In terms of product and technology deployment, FocalTech continues to develop the display, touch, and fingerprint product markets, staying on top of market trends and launching new products. With the development trends of display panels in mobile devices focusing on high screen-to-body ratios, low latency, and high refresh rates, FocalTech's products with inset screens and high refresh rates entered mass production in 2022 and were adopted by a large number of customers. With the number of AMOLED panels used in mobile devices increasing year by year, FocalTech's advanced AMOLED Integrated Driver Controller (IDC) technology has also been adopted by top-tier brands in smart wearable products. With the advantages of both low power consumption and high resolutions, FocalTech solves customers' pain points such as battery life and screen sleep modes. By providing the industry's most functional and new cost-saving solutions, we have won market praise. In the future, we look forward to extending our technologies to cellphone applications through our R&D and customer introduction experience. FocalTech has been working for many years in the field of automotive electronics; our products have won recognition and been introduced by many international manufacturers. With the explosive growth of electric vehicles and increased demand for in-vehicle display panels driven by smarter automobiles, drivers and touch controllers required for vehicles are also growing exponentially. In response to this market trend, we continue to develop products for automotive applications. In 2022, FocalTech's shipments of in-vehicle products were nearly double compared to the previous year, reaching nearly 6 million units (equivalent to 4 million vehicles). This is expected to continue growing in 2023 as well.

In addition to breakthroughs in display panel technology, we at FocalTech also maintain our leading position in touch products. With continuous innovation in technology, we continue to launch new AMOLED products. FocalTech also achieved excellent performance in high value-added applications, such as high-end medium and large sizes products in the commercial, automotive, and industrial control markets, as well as new applications for the IoT in 2022. FocalTech will continue to introduce products with excellent price-performance ratios to maintain our leadership position in the touch industry.

After years of hard work in developing fingerprint products, FocalTech has gradually attained good results. With the mass production of fingerprint products in end-user markets by top-tier cellphone and computer brands, our annual shipment volume has been increasing year by year. Furthermore, Microsoft started to enhance the security level of their biometric devices in 2022, creating a new opportunity for a fingerprint product supplier to re-connect with a wide variety of brand manufacturers. With years of research on high-security fingerprint recognition modules and experience in developing lightweight, high-recognition-rate algorithms, FocalTech is taking the performance of fingerprint recognition to the next level. As the technology matures and the cost decreases, the demand for fingerprint recognition solutions is gradually expanding into areas that require locks such as smart door locks and luggage. Therefore, FocalTech will conduct R&D aimed at this trend to meet the design needs of end product applications.

Looking ahead to 2023, although the macro-environment will still be affected by inflationary pressure, international geopolitical conflicts and other disruptions, with cyclical market inventory reductions and cellphone replacements, the market is expected to gradually shift back to the growth track. Cellphone manufacturers are also putting out a new generation of foldable cellphones; driven by improved specifications and more competitive prices, there is an opportunity for some wind to be put in the sails of a market that had been slumping due to inflation. We are confident that FocalTech will continue to advance in line with market trends and seize business opportunities. Through our long-term relationships with customers, we will continue to optimize cost structures in our existing product areas to enhance operational efficiency and profitability. Additionally, by introducing new products, we will balance our resources for more revenue and profitability, which will drive further improvement in overall operations. We expect far better performance in 2023 than in the previous year. More importantly, FocalTech will continue to uphold our core beliefs as a leading human-machine interface solution provider by bringing greater value to human-machine interface solution products, continuing to accumulate technology and intellectual property rights, maintaining our leading position in the industry, and continuing to create maximum value for shareholders in appreciation of their long term support and care.

Chairman and President: Genda Hu



II. Company Profile

1. Company Introduction

Founded in January 2006, the Company – which was formerly known as Sunshine Sports Tech Co., Ltd. – was renamed as FocalTech Systems Co., Ltd. on January 27, 2015. The Company is mainly engaged in the development and sales of Human-Machine Interface (HMI) solutions such as display drivers, touchscreens, and fingerprint recognition, with branch offices and customer support centers established in Taiwan, Mainland China, the United States, and South Korea.

FocalTech is dedicated to the development of HMI solutions to provide competitive chips for various electronic products, including capacitive touch IC, display driver chips, and fingerprint recognition chips. Additionally, the Company has established a solid foundation in the technical fields of IP & image processing algorithms; digital and analog signal processing; and power saving. Even more, FocalTech’s self-developed Super In-cell technology – unlike traditional, separated touch and display drivers solutions that require more than one IC – needs only a single Integrated Driver Controller (IDC) to drive the Touch and Display Driver Integration Panel. This simplifies what was a complex supply chain, and reduces electronic components required. This allows less complicated panel modules, thus saving production cost and providing better solutions for customers.

FocalTech observes a “customer-focused” code of conduct, and this has led to the formation of a tightly-knit sales and technical service network. Through this, we aim to provide timely and professional localized technical support services to customers at home and abroad, with the solid technical support to back up the billions of smart devices using FocalTech’s technology solutions worldwide.

2. Development History

| | |
|------|---|
| 2006 | Company founded. |
| | Issued 90,000,000 common shares to Sunplus Technology Co., Ltd. at a premium of NT\$12.22 per share to acquire the operations, assets, and liabilities of its business department for flat-panel display driver chips and channel decoders. |
| | Obtained ISO-9001 certification. |
| | Public offering approved. |
| 2007 | Listed on the Taiwan Stock Exchange, under stock code 3545. |
| 2008 | Obtained ISO-14001 certification. |
| | Obtained OHSAS-18001 certification. |
| 2009 | Ranked in “Top 5000 - The Largest Corporations in Taiwan” by China Credit Information Service, Ltd.; ranked 19 th in the IC design industry and ranked 48 th in net revenue among businesses in Hsinchu Science Park. |
| 2014 | Introduced GF all-ITO single-layer multi-point structure solution to reduce screen production difficulties, thus significantly improving mass production yields. |
| | Completed color space conversion function by integrating LCD driver IC, establishing a professional color management platform for smartphones. |
| | Self-developed triple image compression technology for use in system platforms. |

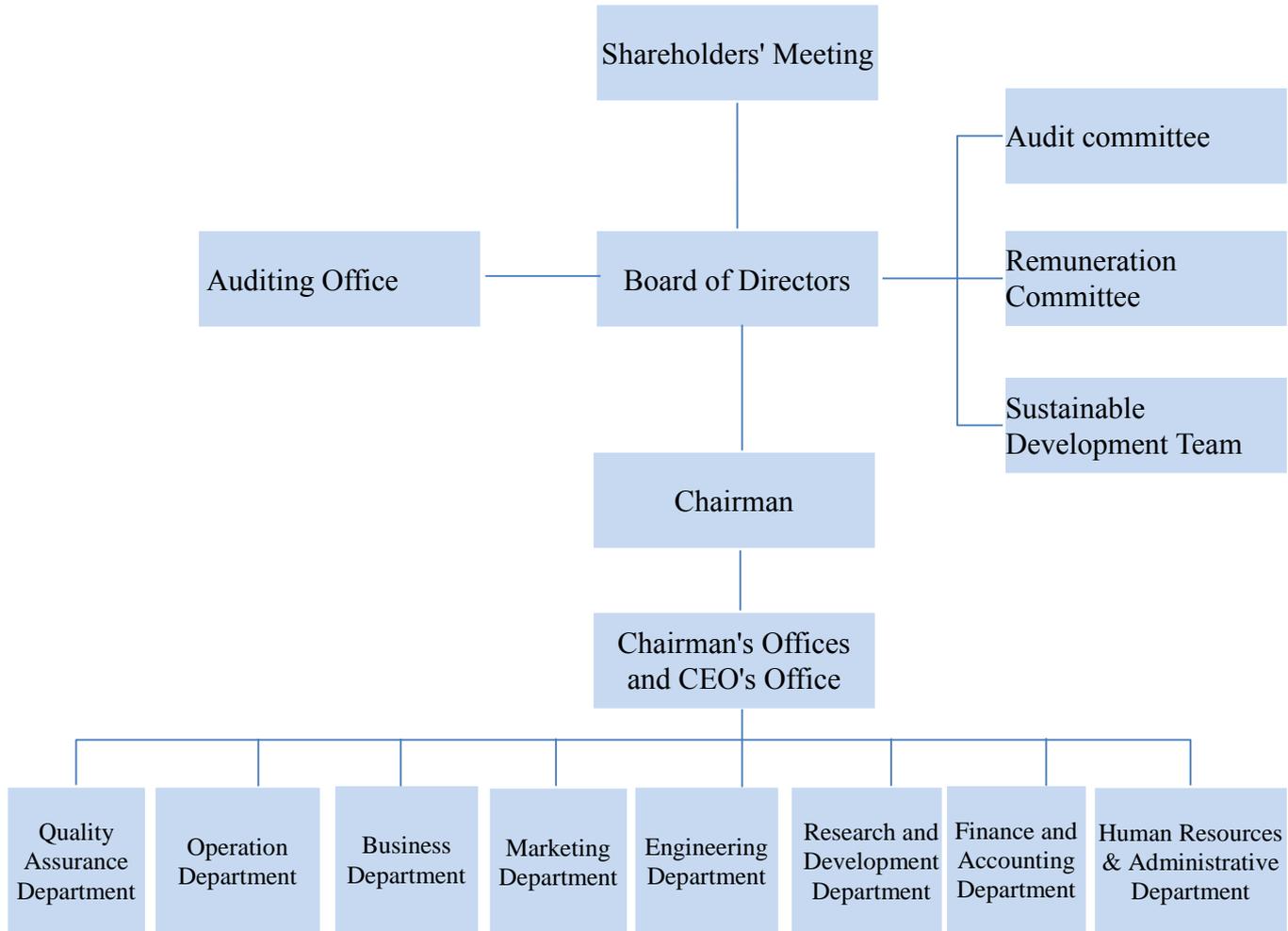
| | |
|--|---|
| 2015 | Merged and conducted share-swap with FocalTech Corporation, Ltd. Company renamed as FocalTech Systems Co. Ltd. |
| | Supplied materials for the world's first mobile phone using a-Si HD, in-cell touch panel combining IDC. |
| | Launched the world's first single-chip solution to support multi-touch and multi-force touch. |
| 2016 | Supplied the Super In-cell IDC for the world's smartphones using FHD low temperature poly-silicon (LTPS) LCD screen with In-cell IDC. |
| | Launched the industry's first WQHD LTPS Driver IC, meeting the high refresh rate demands of VR devices. |
| | Delivered over 400 million Touch ICs annually, becoming the world's largest Touch IC supplier. |
| 2017 | Launched the world's first IDC solution to support a-Si panels designed with reduced photomask layers, which successfully entered mass production. |
| | Launched FHD LTPS In-cell single-chip solution for COF production. |
| | Honored as the recipient of the Diamond Supplier Award by Tianma Microelectronics Co., Ltd. |
| 2018 | Successfully developed a touch solution for foldable phones. |
| | Product FT8201 was granted the 13 th "China Chip" Outstanding Technological and Innovative Product Award. |
| | Out-cell touch products successfully passed AEC-Q100 qualification. |
| | Successfully developed in-smartphone blood pressure monitoring technology. |
| 2019 | AMOLED display touch products were certified by Samsung Display Co., Ltd., which then went into mass production and were successfully delivered accordingly. |
| | AMOLED IDC wearables were approved by customers and introduced to other first-tier brand customers. |
| | Successfully developed ultra-narrow bezel MUX 6 for FHD panels and Dual Gate for HD panels with a 2-in-1 touch screen display solution. |
| | Realized an ultra-thin optical fingerprint solution for 5G smartphones. |
| 2020 | Successfully developed a side-mounted capacitive fingerprint solution. |
| | IDC High Frame Rate technology was introduced and the solution went into mass production. |
| | IDC went into mass production for the automotive factory-installed product market. |
| 2021 | Annual revenue reached a new high. |
| | Annual revenue and profit both reached new record highs. |
| | The "RhythmCam" app, which detects arrhythmias, was approved by the Ministry of Health and Welfare and won the 2021 National Innovation Award. |
| | World's narrowest side-mounted capacitive fingerprint solution successfully went into mass-production for the first time and was adopted by first-tier brand customers. |
| | First in the industry to successfully develop a curved and gradient-based capacitive fingerprint solution. |
| FocalTech Engineering Experiment Center passed the professional evaluation of the Guangdong Association for Science and Technology and was awarded the qualification of "Guangdong Engineering Technology Research Center of Touch and Display Integrated Chip Core Technology". | |

| | |
|------|--|
| | Developed new generation AMOLED wearable IDC to support POLED and LTPO and was adopted by first-tier brand customers. |
| | AMOLED touch IC shipments exceeded 100 million units in a single year. |
| | Included as a constituent stock of the MSCI index. |
| | Awarded the 2021 Best Financially Managed Semiconductor Company by the Global Semiconductor Alliance (GSA). |
| 2022 | Cumulative shipment of automotive IDC products reached 10 million units. |
| | Active stylus on Tablet IDC solution went into mass-production. |
| | FocalTech AMOLED IDC assisted OPPO to create the world's first LTPO screen smartwatch. |
| | The innovative VITOM Mobile Blood Pressure Monitoring Device obtained the Medical Device Manufacturing Licenses from the Ministry of Health and Welfare. |
| | New biomedical factory successfully obtained the ISO13485 and the Taiwan QMS quality system certification. |
| | The number of members registered in Taiwan on the "RhythmCam" app, which detects arrhythmias, exceeded 50,000. |
| | Awarded the 15th TCSA Corporate Sustainability Award-Gold Award in 2022. |
| | Awarded the Taiwan-iSports Enterprise Certification. |
| | Hsinchu office was relocated to its own office building in the Chang Yih Science and Industrial Park in Zhubei. |

III. Corporate Governance Report

1. Organization

(1) Organizational Structure



(2) Business of major departments

| Department | Major Business |
|----------------------------------|---|
| President's & Chairman's Offices | 1. Implements, coordinates, and sets the Company's operational goals, and directs and supervises the proper functioning of all departments. 2. Handles corporate legal affairs and business contract/agreement issues. |
| Auditing Office | Establishes the Company's internal control system, conducts audits of various operating cycles, and provides analysis and recommendations. |
| Quality Assurance | Manages the Company's quality control system, performs quality control, assists in handling customer complaints, and conducts prevention and rectification of quality defects. |
| Production | Manages quality, yield, and reliability for mass production, outsourced production scheduling, outsourcing affairs, and production-related procurement and warehousing. |
| Business | Handles product sales and customer service, and maintains customer relationships. |
| Marketing | Handles market planning and analysis and collects market information to facilitate the planning, analysis and launch of new products. |
| Engineering | Assists in firmware and software design, development, validation of products, and introduction of product applications for customers during the post-production stage. |
| Research and Development | Handles design, development, and improvement of products in the pre-production stage. |
| Finance and Accounting | Handles accounting, tax reporting, capital management, external statements, investor relations, and shareholders' meetings. |
| Human Resources & Administrative | Formulates and implements administrative rules and regulations related to general affairs and human resources. |

2. Profiles of Directors, Supervisors, President, Vice President, Deputy Vice President, Division Heads, and Branch Heads

(1) Directors and Supervisors

1. Profiles of Directors and Supervisors

April 1, 2023; Unit: share; %

| Title | Nationality or place of registration | Name | Gender Age | Election (Appointment) Date (note 1) | Term of Office | Initial Election Date | Shares at Election | | Current shareholding | | Current shareholding held by spouse & minor children | | Shareholding held through nominees | | Principal work experience and academic qualifications | Position(s) held concurrently in the company and/or in any other company | Other officer, directors or supervisors with a spousal or other 2nd degree of kinship | | | Remark (Note 3) |
|-------------|--------------------------------------|---|---------------|--------------------------------------|----------------|-----------------------|--------------------|----------------------|----------------------|----------------------|--|----------------------|------------------------------------|----------------------|--|--|---|--------------------------------------|----------|--|
| | | | | | | | Number of shares | Rate of shareholding | Number of shares | Rate of shareholding | Number of shares | Rate of shareholding | Number of shares | Rate of shareholding | | | Title | Name | Relation | |
| Chairman | U.S.A. | Genda Hu | Male 71-80 | June 20, 2020 | 3 years | Jan. 5, 2015 | 2,105,841 | 0.70 | 1,308,192 | 0.61 | 455,072 | 0.21 | 4,158,691 | 1.92 | Ph.D. in Electrical Engineering, Princeton University, USA/ IEEE Fellow, USA/ Served in American IBM, PMC-Sierra, Cypress/ Vice President of R & D and Marketing Department of TSMC/ Head of ERSO in ITRI/ Secretariat of Taiwan Semiconductor Industry Association | President, CEO of FocalTech Systems Co., Ltd. / CEO, Director, President, Secretary, Chairman, Chairman, President of FocalTech Corporation, Ltd./ CEO, Director, President, Secretary of FocalTech Systems, Inc./ CEO, Director, President, Secretary, Chairman of FocalTech Systems, Ltd./ Director of FocalTech Electronics, Ltd./ Chairman of FocalTech Electronics Co., Ltd./ Executive Director, President, CEO of FocalTech Systems (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd. Beijing Branch Director of FocalTech Smart Sensors, Ltd./ Manager of GWAA LLC: | Director | GWAA LLC Representative: Chenming Hu | Brothers | An appropriate candidate has not yet been designated for the position of President, however the Company has designated several vice presidents to assist in management. Additionally, the Board of Directors is composed of four independent directors, which accounts for half of the current number of directors. Only one of the directors serves as an employee or manager, which accounts for less than half of the directors. Therefore, the Chairman and the President are served by the same person, which does not affect the operation and decision making of the Company. |
| Director | U.S.A. | GWAA LLC | | June 20, 2020 | 3 years | June 10, 2015 | 5,940,047 | 1.98 | 4,158,691 | 1.92 | -- | -- | -- | -- | -- | FocalTech Smart Sensors, Ltd. : Director | -- | -- | -- | -- |
| | Taiwan | GWAA LLC Representative: Han-Ping Shieh | Male 61-70 | | | | -- | -- | -- | -- | -- | -- | -- | -- | -- | Ph.D., Department of Electrical and Computer Engineering, Carnegie Mellon University, USA/ IEEE/OAS/SID fellow/ Vice-President of University System of Taiwan / Vice President of National Chiao Tung University/ Dean of College of Electrical and Electrical Engineering, National Chiao Tung University/ Chairman of Society for Information Display/ Professor of DI+DOP, National Chiao Tung University/ Researcher of Research Center, American IBM T J Watson | Lifetime Chair Professor of National Chiao Tung University/ Outside Director of Silicon Motion Technology Corporation/ Independent Director of Key Ware Electronics Co., Ltd./ Independent Director of Dynapack International Technology Corporation/ Director of Ta Liang Technology Co., Ltd. Director of Coretronic Corp. | -- | -- | -- |
| Director | U.S.A. | GWAA LLC | | June 20, 2020 | 3 years | June 20, 2020 | 5,940,047 | 1.98 | 4,158,691 | 1.92 | -- | -- | -- | -- | -- | FocalTech Smart Sensors, Ltd. : Director | -- | -- | -- | -- |
| | U.S.A. | GWAA LLC Representative: Chenming Hu | Male 71-80 | | | | -- | -- | -- | -- | -- | -- | -- | -- | -- | Ph.D. in Electrical Engineering, University of California, Berkeley, USA/ Chairman of Celestry Design Technologies Inc/ CTO of TSMC/ Emeritus Professor, University of California, U.S.A. | Director of Ambarella, Inc. (AMBA)/ Director of ACM Research, Inc (ACMR)/ Adjunct Professor of University of California, Berkeley, USA/ Professor of National Chiao Tung University | Chairman | Genda Hu | Brother |
| Director | Taiwan | Acer Inc. | | June 9, 2022 | 1 year | June 9, 2022 | 7,537,688 | 3.48 | 8,732,688 | 4.04 | -- | -- | -- | -- | -- | President and CEO of Acer Inc. Other company: (note 4) | -- | -- | -- | -- |
| | Taiwan | Acer Inc. Representative: Chun-Sheng Chen | Male 61-70 | | | | -- | -- | -- | -- | -- | -- | -- | -- | -- | MBA, University of Missouri at Columbia(MU), U.S.A. / Global CEO of Executive Officer of Acer Inc./ Senior Vice President of Global Business and Marketing, TSMC/ Vice President of Corporate Development, TSMC/ Global Vice CEO of Business and Marketing, Intel Corporation | -- | -- | -- | -- |
| Independent | Taiwan | Chintay Shih | Male | June 20, 2020 | 3 years | Jan. 5, 2015 | -- | -- | -- | -- | -- | -- | -- | -- | Ph.D. in Electrical Engineering, Princeton University, | Independent Director of Vanguard International | -- | -- | -- | -- |

| Title | Nationality or place of registration | Name | Gender Age | Election (Appointment) Date (note 1) | Term of Office | Initial Election Date | Shares at Election | | Current shareholding | | Current shareholding held by spouse & minor children | | Shareholding held through nominees | | Principal work experience and academic qualifications | Position(s) held concurrently in the company and/or in any other company | Other officer, directors or supervisors with a spousal or other 2nd degree of kinship | | | Remark (Note 3) |
|----------------------|--------------------------------------|---------------|--------------|--------------------------------------|----------------|-----------------------|--------------------|-----------------------|----------------------|-----------------------|--|-----------------------|------------------------------------|-----------------------|---|---|---|-----------------------|-------|-----------------|
| | | | | | | | Number of shares | Rate of share-holding | Number of shares | Rate of share-holding | Number of shares | Rate of share-holding | Number of shares | Rate of share-holding | | | Number of shares | Rate of share-holding | Title | |
| Director | | | 71-80 | | | | | | | | | | | | USA/ Chairman of the III/ Dean of the Industrial Technology Research Institute/ Dean, School of Science and Technology Management, National Tsinghua University/ Chairman of Asia Pacific Intellectual Property Association/ Chairman of Monte Jade science & Technology Association of Taiwan/ Chairman of Chinese Institute of Engineers/ Chairman of Taiwan Semiconductor Industry Association/ Managing Director of Taiwan Electrical and Electronic Manufacturers' Association/ Chairman of Chinese Society for Management of Technology/ Chairman of Service Science Society of Taiwan/ CEO of Sun Yun-Suan Foundation/ Professor, School of Science and Technology Management, National Tsinghua University | Semiconductor Corporation/ Independent Director of Sercomm Corporation/ Independent Director of Taiwan Powder Technologies Co., Ltd./ Supervisor of TEN Incubation Corporation Director of Qualife System Technology Corp. | | | | |
| Independent Director | Taiwan | Chan-Jane Lin | Female 61-70 | June 20, 2020 | 3 years | Jan. 5, 2015 | - | - | - | - | - | - | - | - | PhD in Accounting, University of Maryland/ Acting Dean and Deputy Dean, School of Management, National Taiwan University/ Director of Department of Accounting, National Taiwan University/ Director of School of Professional Education and Continuing Studies, National Taiwan University | Professor, Department of Accounting, National Taiwan University/ Independent Director of Advantech Co., Ltd./ Supervisor of Securities and Futures Investors Protection Center | - | - | - | |
| Independent Director | Taiwan | Chang Xu | Male 71-80 | June 20, 2020 | 3 years | June 20, 2020 | - | - | - | - | - | - | - | - | PhD in Industrial Engineering, Purdue University, USA/ Master of Machinery of New York Institute of Technology/ Independent Director of Weihan Industrial Co., Ltd./ Director of Shuz Tung Machinery Industrial Co., Ltd./ Vice Director of MIRL, ITRI/ Director of Center for Measurement Standards, ITRI/ Managing Supervisor of Electronics Testing Center, Taiwan | Director of Mirle Co., Ltd./ Managing Director of Chinese Metrology Society/ Consultant of Center for Measurement Standards, ITRI | - | - | - | |
| Independent Director | Taiwan | Xuhui Xu | Male 51-60 | June 20, 2020 | 3 years | June 20, 2020 | - | - | - | - | - | - | - | - | Executives Program, Graduate School of Business Administration, NCCU/ Master of Business Administration, Tulane University Business School/ Chairman of Taiwan Air Cargo Contracting Co., Ltd./ Director of T3EX Global Holdings Corp./ Director of GGA Corp./ Supervisor of Central Taiwan Science Park Logistics Co., Ltd./ Supervisor of Worldwide GSA/ Independent Director of Sanfar Property Limited | Chairman of Taiwan Air Cargo Contracting Co., Ltd./ Director of T3EX Global Holdings Corp./ Supervisor of Central Taiwan Science Park Logistics Co., Ltd./ Supervisor of Worldwide GSA/ Independent Director of Sanfar Property Limited Director of Car Quality Automotive Co., Ltd. Independent Director of Chenfull International Co., Ltd. | - | - | - | |

Note 1: The Company approved Re-election of the 7th Directors at the shareholders' regular meeting held on June 20, 2020. The term of office of the directors is from June 20, 2020 to June 19, 2023.

Note 2: Since June 21, 2012, the Audit Committee has been responsible for the supervisory duties stipulated in the relevant laws and regulations.

Note 3: Where the chairman and the president or the person of an equivalent post (the highest-level managerial officer) are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness of, necessity of, and the measures adopted in response thereto (e.g., increasing the number of independent directors in addition to having more than half of the directors who are not employed as the Company's employees or managerial officers).

Note 4: Those who also hold a position at other companies are listed as follows:

| No. | Company Name | Title | No. | Company Name | Title |
|-----|---|----------------------|-----|--------------------------------------|----------|
| 1 | Mu Chen Investment Co., Ltd. | Chairman | 22 | ACER CLOUD TECHNOLOGY (TAIWAN) INC.) | Director |
| 2 | Mu Shih Investment Co., Ltd. | Chairman | 23 | Acer Computer (Shanghai) Inc. | Director |
| 3 | Powerchip Semiconductor Manufacturing Corp. | Independent Director | 24 | Acer Shuangzhi (Chongqing) Inc. | Director |

| | | | | | |
|----|---------------------------------------|----------|----|---|----------|
| 4 | ACER BEING COMMUNICATION INC. | Chairman | 25 | PECER BIO-MEDICAL TECHNOLOGY INCORPORATED | Director |
| 5 | ACER ITS INC. | Chairman | 26 | AOPEN INCORPORATED | Director |
| 6 | Acer AI Cloud Inc. | Chairman | 27 | Chongqing Hongyun Shuangzhi Equity Investment Fund Management Co., Ltd. | Director |
| 7 | ACER BEINGWARE HOLDING INC. | Chairman | 28 | MPS ENERGY INC. | Director |
| 8 | ACER E-ENABLING SERVICE BUSINESS INC. | Chairman | 29 | Acer Gaming Inc. | Director |
| 9 | WEBLINK INTERNATIONAL INC. | Chairman | 30 | Protrade Applied Materials Corp. | Director |
| 10 | XPLOVA INC. | Chairman | 31 | Acer America Corporation | Director |
| 11 | ACER DIGITAL SERVICE CO. | Chairman | 32 | Acer American Holdings Corp. | Director |
| 12 | Acer SoftCapital Incorporated | Chairman | 33 | Acer Asia Pacific Sdn Bhd | Director |
| 13 | Acer Asset Management Incorporated | Chairman | 34 | Acer Cloud Technology Inc. | Director |
| 14 | Acer Beverage Incorporated | Chairman | 35 | Acer Computer (Far East) Limited | Director |
| 15 | Altos Inc. (Beijing) | Director | 36 | Acer Europe SA | Director |
| 16 | Altos Inc. | Director | 37 | Acer European Holdings SA | Director |
| 17 | Acer (Chongqing) Inc. | Director | 38 | Acer Holdings International, Incorporated | Director |
| 18 | Acer AI Cloud Inc. | Director | 39 | DropZone (Hong Kong) Limited | Director |
| 19 | AcerPure Inc. | Director | 40 | DropZone Holding Limited | Director |
| 20 | Acer Gadget Inc. | Director | 41 | Acer SoftCapital Incorporated | Director |
| 21 | Acer Medical Inc. | Director | 42 | Boardwalk Capital Holdings Limited | Director |

(1) Major Shareholders of Corporate Shareholders

April 8, 2023

| Corporate shareholder Name | Major Shareholders of Corporate Shareholders | |
|----------------------------|---|----------------------|
| | Name | Rate of shareholding |
| GWAA LLC | Genda J. Hu | 100% |
| Acer Inc. | Cathay MSCI Taiwan ESG Sustainability High Dividend Yield ETF Fund under the custody of Taishin Bank | 7.64% |
| | Hung Rouan Investment Corp. | 2.42% |
| | VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS | 1.31% |
| | iShares ESG Aware MSCI EM ETF | 1.26% |
| | JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds | 1.23% |
| | Stan Shih | 1.15% |
| | Labor Pension Fund (The New Fund) - | 0.97% |
| | Acer GDR | 0.93% |
| | J.P. MORGAN SECURITIES PLC | 0.88% |
| Norges Bank | 0.86% | |

Where the major shareholder of the corporate shareholder is a juristic person, the major shareholder thereof

April 8, 2023

| Corporate shareholder Name | Major Shareholders of Corporate Shareholders | |
|-----------------------------|--|----------------------|
| | Name | Rate of shareholding |
| Hung Rouan Investment Corp. | Shih Hsuen Huei | 26.09% |
| | Carolyn Yeh | 20.13% |
| | Shih Hsuen Rouan | 17.25% |
| | Shih Hsuen Lin | 17.16% |
| | Shih Fang Cheng | 8.93% |
| | Yeh Ting Yu | 8.84% |
| | StanShih Foundation | 1.60% |

2. Disclosure of Professional Qualifications of Directors and Supervisors and Independence of Independent Directors

April 01, 2023

| Name | | Conditions | Professional qualification and experience | | Independency | | | | | | | | Number of public companies where the person holds the title as independent director | | | | |
|----------|---|--|--|---|--|---|-----|-----|-----|-----|-----|-----|---|--|--|---|---|
| | | | Principal majors and work experience(note 1) | Does not have the circumstances stipulated in Article 30 of the Company Act | Is not a spouse or a relative within the second degree of kinship as stipulated in Article 26-3, paragraphs 3 and 4 of the Securities and Exchange Act | Does not have the following circumstances stipulated in Article 3, paragraph 1, subparagraphs 1 to 8 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies (Note 2) | | | | | | | | The amount of remuneration received for services rendered to the Company or its affiliates in the past two years | Number and proportion of shares held in own name, spouse's name, or names of relatives within the second degree of kinship (or through nominees) | Does not have the circumstances stipulated in Article 27 of the Company Act | |
| | | | | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | | | | 8 |
| Chairman | Genda Hu | <p>【Professional expertise】 Experiences in operation and management of business and leadership decision-making; board of directors leadership; crisis handling and risk management; and semiconductor industry technology and market.</p> <p>【Qualification and work experience】 Ph.D. in Electrical Engineering, Princeton University, USA/ IEEE Fellow, USA / America IBM, PMC-Sierra, Cypress / Vice President of R & D and Marketing Department of TSMC/ Head of ERSO in ITRI, Secretariat of Taiwan Semiconductor Industry Association</p> | Yes | No | No | No | No | Yes | No | Yes | No | Yes | 0 | 5,921,955 2.74% | Yes | 0 | |
| Director | GWAA LLC Representative: Han-Ping Shieh | <p>【Professional expertise】 Experiences in display technology and micro-optical systems; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management.</p> <p>【Qualification and work experience】 Ph.D., Department of Electrical and Computer Engineering, Carnegie Mellon University, USA/ Lifetime Chair Professor of National Chiao Tung University/ IEEE/OSA/SID Fellow Former Vice-President of University System of Taiwan / Vice President of National Chiao Tung University/ Dean of College of Electrical and Electrical Engineering, National Chiao Tung University/ Chairman of Society for Information Display/ Professor of DI+DOP, National Chiao Tung University/ Researcher of Research Center, American IBM T J Watson</p> | Yes | Yes | Yes | Yes | Yes | No | Yes | Yes | Yes | 0 | 0 | No | 2 | | |
| Director | GWAA LLC Representative: Chenming Hu | <p>【Professional expertise】 Experiences in electric engineering and computer science; business operation leadership; leading the board of directors in operating decision-making; crisis handling and risk management; and semiconductor industry technology and market.</p> <p>【Qualification and work experience】 Ph.D. in Electrical Engineering, University of California, Berkeley, USA/ Adjunct Professor of University of California, Berkeley, USA/ Professor of National Chiao Tung University/ Former Chairman of Celestry Design Technologies Inc./ CTO of TSMC/ Emeritus Professor, University of California, U.S.A.</p> | Yes | No | Yes | Yes | Yes | No | No | Yes | Yes | Yes | 0 | 0 | No | 0 | |

| | | | | | | | | | | | | | | | | |
|----------------------|---|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|----|---|
| Director | Acer Inc. Representative: Chun-Sheng Chen | <p>【Professional expertise】 Experiences in information technology and financial services.</p> <p>【Qualification and work experience】 MBA, University of Missouri at Columbia(MU), U.S.A. President and CEO of Acer Inc. Global CEO and Executive Officer of Acer Inc./ Former Senior Vice President of Global Business and Marketing, TSMC/ Vice President of Corporate Development, TSMC/ Global Vice CEO of Business and Marketing, Intel Corporation</p> | Yes | Yes | Yes | Yes | Yes | Yes | No | Yes | Yes | Yes | 0 | 0 | No | 1 |
| Independent Director | Chintay Shih | <p>【Professional expertise】 Experiences in electrical engineering and industrial technology; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management.</p> <p>【Qualification and work experience】 Ph.D. in Electrical Engineering, Princeton University, USA, Former Chairman of the III/ Dean of the Industrial Technology Research Institute/ Dean, School of Science and Technology Management, National Tsinghua University/ Chairman of Asia Pacific Intellectual Property Association/ Chairman of Monte Jade science & Technology Association of Taiwan/ Chairman of Chinese Institute of Engineers/ Chairman of Taiwan Semiconductor Industry Association/ Managing Director of Taiwan Electrical and Electronic Manufacturers' Association/ Chairman of Chinese Society for Management of Technology/ Chairman of Service Science Society of Taiwan/ CEO of Sun Yun-Suan Foundation/</p> | Yes | 0 | 0 | Yes | 3 | |
| Independent Director | Chan-Jane Lin | <p>【Professional expertise】 Convener of the Company's Audit Committee. Expertise in accounting and financial management, operating decision-making management for the board of directors and functional committees, and financial industry, with experiences in computer and peripheral equipment industry and semiconductor related industry, and risk management. Extensive academic and industry experience, and is committed to promoting corporate governance in Taiwan.</p> <p>【Qualification and work experience】 PhD in Accounting and Master in MBA, University of Maryland, USA/ Bachelor, Accounting Section, Department of Business Administration, National Taiwan University/ Qualification of Senior Professional and Technical Examinations Regulations of CPA, R.O.C./ Currently a professor at the Department of Accounting, National Taiwan University/ Convener, Managing Supervisor, Taiwan Corporate Governance Association/ Supervisor of Securities and Futures Investors Protection Center/ Former independent director of Fubon Financial Holdings/ Independent Director of Fubon Life Insurance Co., Ltd./ Independent Director of Fubon Securities Co., Ltd./ Supervisor of Taiwan Financial Holdings Co., Ltd./ Director of Department of Accounting, National Taiwan University/ Director of School of Professional Education and Continuing Studies, National Taiwan University Acting Dean and Deputy Dean of School of Management; Director and Dean of Department of Accounting, National Taiwan University/ Assistant Professor, Department of Accounting, George Washington University</p> | Yes | 0 | 0 | Yes | 1 | | |
| Independent Director | Chang Xu | <p>【Professional expertise】 Experiences in electrical and industrial engineering technology; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management.</p> <p>【Qualification and work experience】 PhD in Industrial Engineering, Purdue University, USA/</p> | Yes | 0 | 0 | Yes | 0 | | |

| | | | | | | | | | | | | | | | | | | |
|----------------------|----------|---|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|---|---|-----|---|--|--|
| | | Former Managing Director of Chinese Metrology Society/ Consultant of Center for Measurement Standards, ITRI/ Managing Director of Chinese Metrology Society/ Consultant of Center for Measurement Standards, ITRI/ Independent Director of Weihai Industrial Co., Ltd./ Director of Shuz Tung Machinery Industrial Co., Ltd./ Vice Director of MIRL, ITRI/ Director of Center for Measurement Standards, ITRI/ Managing Supervisor of Electronics Testing Center, Taiwan | | | | | | | | | | | | | | | | |
| Independent Director | Xuhui Xu | <p>【Professional expertise】 Experiences in operation and management of business and leadership decision-making; board of directors leadership; crisis handling and risk management; and international freight forwarding management and market.</p> <p>【Qualification and work experience】 Executives Program, Graduate School of Business Administration, NCCU/ Master of Business Administration, Tulane University Business School/ Current Chairman of Taiwan Air Cargo Contracting Co., Ltd./ Director of T3EX Global Holdings Corp./ Director of GGA Corp./ Supervisor of Central Taiwan Science Park Logistics Co., Ltd./ Supervisor of Worldwide GSA/ Independent Director of Sanfar Property Limited</p> | Yes | 0 | 0 | Yes | 2 | | |

Note 1: Please refer to 2. Profiles of Directors, Supervisors, President, Executive Vice President, Deputy Executive Vice President, Division Heads, and Branch Heads, (1) Directors and Supervisors, 1. Profiles of Directors and Supervisors

Note 2: Whether the directors meet the independence requirements stipulated in Article 3, paragraph 1, subparagraphs 1 to 8 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies:

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or through nominees, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds five percent or more of the total number of issued shares of the Company, or that ranks among the top five in shareholdings, or designates its representative to serve as a director or supervisor of the company under Article 27(1) or (2) of the Company Act. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (6) Not a director, supervisor or employee of other company such that a majority of the company's director seats or voting shares are controlled by the same person. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (7) The chairman, president, or a person holding an equivalent position of the Company is not a director (or governor), supervisor, or employee of other company or institution, or are spouses. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (8) Not a director (or governor), supervisor, managerial officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company. (Not applicable in cases where the specified company or institution holds at least twenty percent but not exceeding fifty percent of the total number of issued shares of the Company, and the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)

3. Diversity and independence of the Board of Directors:

- (1) Diversity of the Board of Directors: The Company's diversity policy on the professions of board members is stipulated in the Corporate Governance Best Practice Principles. In the selection process, the Board of Directors consults various talented individuals and evaluates the diversity requirements of basic composition, professional qualifications, and industrial experience before nominating them to the shareholders meeting for election, in order to enhance the competency of the Board of Directors and achieve the objectives of corporate governance.

The current Board of Directors' basic composition in terms of gender, age, nationality, education, and personal experience is detailed in the "Profiles of Directors and Supervisors" list. The current Board of Directors consists of one female, two U.S. nationals, and the rest are with R.O.C. nationality. All of whom are above 50 years old and four of whom are above 70 years old, with expertise in finance and accounting, electrical engineering, semiconductors, in-process quality control, and international transportation, etc. In terms of competency, they are experienced in business operation and management, industry knowledge, international market, operational judgment, and finance and accounting analysis, etc. In the future, the Board will move towards a more diversified composition, with a future goal of adding at least one female director and one professional background in accounting or law to the Board.

- (2) Independence of the Board of Directors: Currently, there are four general directors, with one of whom serving as a managerial officer, in addition to four independent directors that account for 50% of the eight elected seats. Details of independence are listed in the "Independency" column in the table above. All of the independent directors have not served more than three terms and except that the Chairman, Mr. Genda Hu, and one of the directors, Chenming Hu (representative of GWAA LLC), are relatives within the second degree of kinship, there is no violation of independence requirements under Article 26-3, paragraphs 3 to 4 of the Securities and Exchange Act. Additionally, the independent directors are also in compliance with the independence requirements stipulated in Articles 27 and 30 of the Company Act as well as the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies.

(2) Profiles of President, Vice President, Deputy Vice President, Division Heads, and Branch Heads

April 1, 2023; Unit: share; %

| Title (note 1) | Nationality | Name | Gender | Election (Appointment) Date | Shareholding | | Shareholding held by spouse & minor children | | Shareholding held through nominees | | Principal work experience and academic qualifications (note 2) | Position(s) held concurrently in the company and/or in any other company | Managerial officer with a spousal or other 2nd degree of kinship | | | Remark (note 3) |
|---------------------------------------|-------------------|--------------------|--------|-----------------------------------|------------------|---------------------------|---|---------------------------|---------------------------------------|---------------------------|--|---|--|------|-------------------|--|
| | | | | | Number of Shares | Rate of share- holding | Number of Shares | Rate of share- holding | Number of Shares | Rate of share- holding | | | Position | Name | Relation- ship | |
| CEO and President | U.S.A. | Genda Hu | Male | Jan. 5, 2015 | 1,308,192 | 0.61 | 455,072 | 0.21 | 4,158,691 | 1.92 | Ph.D. in Electrical Engineering, Princeton University, USA, IEEE Fellow American IBM, PMC-Sierra, Cypress/ Vice President of R & D and Marketing Department of TSMC, Head of ERSO in ITRI, Secretariat of Taiwan Semiconductor Industry Association | CEO, Director, President, Secretary, Chairman, Chairman, President of FocalTech Corporation, Ltd./ CEO, Director, President, Secretary of FocalTech Systems, Inc./ CEO, Director, President, Secretary, Chairman of FocalTech Systems, Ltd./ Director of FocalTech Electronics, Ltd./ Chairman of FocalTech Electronics Co., Ltd./ Executive Director, President, CEO of FocalTech Systems (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd. Beijing Branch Director of FocalTech Smart Sensors, Ltd./ Manager of GWAA LLC/ | - | - | - | No suitable candidate has been appointed to the position of president of the Company. The Company has assigned a number of executive vice presidents to assist in the management of the Company. The Board of Directors includes four independent directors, who constitute half of the Board. Only one of the director is employee or managerial officer, no more than 1 / 2 of the number of directors. Therefore, the Chairman and the President are the same person, which does not affect the operations or decision making of the Company. |
| Senior Executive Vice President | Taiwan | Chieh-Sheng Lin | Male | Nov. 1, 2022 | - | - | - | - | - | - | Master of University of California, Santa Barbara (UCSB)/ Bachelor of Department of Electrical Engineering, National Taiwan University / President of IC MEDIA TECHNOLOGY CORPORATION/ President of Philips Semiconductors | None | - | - | - | |
| Senior Executive Vice President | Taiwan | Chiu-Lin Chen | Male | Nov. 11, 2022 | - | - | - | - | - | - | Ph. D. in Graduate Institute of Electrical Engineering, National Taiwan University / Bachelor of Department of Electrical Engineering, National Taiwan University/ Professor of Department of Electrical Engineering, National Taiwan University/ Visiting Professor of Stanford University/ Vice Director of Green Energy Institute, ITRI/ Independent Director of SYSTEM GENERAL LIMITED/ Independent Director of LIEN CHANG ELECTRONIC ENTERPRISE CO., LTD./ Independent Director of GIO OPTOELECTRONICS CORP./ Independent Director of MSTAR SEMICONDUCTOR, INC. | Independent Director of Advanced Power Electronics Corp./ Independent Director of Bestec Power Electronics co., L.T.D./ Adjunct Professor, Graduate Institute of Electronics Engineering, National Taiwan University | - | - | - | |
| Executive Vice President | Taiwan | Jui-Cheng Hsu | Male | Feb. 1, 2021 | 22,727 | 0.01 | - | - | - | - | Master of Electrical Engineering, National Tsing Hua University/ Manager of Sunplus Technology Co., Ltd./ Deputy Executive Vice President of Sunshine Sports Tech Co., Ltd. | Director of FocalTech Smart Sensors, Ltd.(Designated representative of FocalTech Systems Co., Ltd.) Director of Vitrio Technology Corporation | - | - | - | |
| Executive Vice President | Mainland China | Ching-Kai Chang | Male | Jan. 5, 2015 | - | - | - | - | 151,304 | 0.07 | Master of Microelectronics and Solid State Electronics, Peking University | Executive vice president of FocalTech Electronics (Shenzhen) Co., Ltd./ | - | - | - | |
| Executive Vice | Mainland | Wei-Ching | Male | Apr. 16, 2015 | - | - | - | - | 194,008 | 0.09 | Bachelor of Radio Technology, Chongqing | Executive vice president of FocalTech Electronics | - | - | - | |

| Title (note 1) | Nationality | Name | Gender | Election (Appointment) Date | Shareholding | | Shareholding held by spouse & minor children | | Shareholding held through nominees | | Principal work experience and academic qualifications (note 2) | Position(s) held concurrently in the company and/or in any other company | Managerial officer with a spousal or other 2nd degree of kinship | | | Remark (note 3) |
|--|-------------------|----------------------|--------|-----------------------------------|------------------|---------------------------|---|---------------------------|---------------------------------------|---------------------------|--|--|--|------|-------------------|--------------------|
| | | | | | Number of Shares | Rate of share- holding | Number of Shares | Rate of share- holding | Number of Shares | Rate of share- holding | | | Position | Name | Relation- ship | |
| President | China | Hou | | | | | | | | | University/ Manager of iSolution Technologies Ltd. (Shenzhen) | (Shenzhen) Co., Ltd./ Chairman and President of Hefei PineTech Electronics Co., Ltd. | | | | |
| Executive Vice President | Mainland China | Hsiao-Hsu Tu | Male | Apr. 11, 2016 | — | — | — | — | 306,522 | 0.14 | Bachelor, School of Computer Science & Technology, Huazhong University of Science and Technology/ Master degree of Zhejiang University, major in Computer Science and Technology Deputy Technical Manager of MediaTek Inc. (Shenzhen) | Executive vice president of FocalTech Electronics (Shenzhen) Co., Ltd. | — | — | — | |
| Executive Vice President | Taiwan | Pei-Tzu Wu | Male | Aug. 1, 2018 | 25,029 | 0.01 | — | — | — | — | Master of Institute of Mining, Metallurgy and Materials Science, National Cheng Kung University/ EMBA of National Chiao Tung University/ Deputy Executive Vice President of Cheertek Inc./ Deputy Executive Vice President of ILITEK/ Senior Manager of TSMC/ Executive vice presidents of Generalplus Technology Inc. | President of Ou Sheng Technology Company/ Executive Director of Pei Feng Management and Consulting Company/ President of Chengxin Care Association/ President of Chengxin Lohas Enterprise Co., Ltd. Director of FocalTech Smart Sensors, Ltd. (Designated representative of GWAA LLC) Director of Vitrio Technology Corporation Chairman of FocalTech Smart Sensors Co., Ltd. | — | — | — | |
| Business Executive Vice President | Mainland China | Ching-Suo Wang | Male | Jan. 5, 2015 | — | — | — | — | 70,002 | 0.03 | Santa Clara University, EMBA Business Deputy Executive Vice President, China Area, Cypress Semiconductor Corporation | Business Executive Vice President of FocalTech Electronics (Shenzhen) Co., Ltd. | — | — | — | |
| Marketing Executive Vice President | Mainland China | Lien-Kuo Wang | Male | Apr. 1, 2017 | — | — | — | — | 134,602 | 0.06 | Business Administration, International Business School, Peking | Business Executive Vice President of FocalTech Electronics (Shenzhen) Co., Ltd./ Director and Executive vice president of Hefei PineTech Electronics Co., Ltd. | — | — | — | |
| Business Assistant Executive Vice President | Mainland China | Te-Chih Kung | Male | Mar. 18, 2019 | — | — | — | — | 122,409 | 0.06 | Beijing Institute of Finance and Commerce Management/ Sales Director of Mobile semi/ Senior Sales Manager, Huabei Area, Chipnuts Technology Inc. | Business Assistant Executive Vice President of FocalTech Systems (Shenzhen) Co., Ltd. | — | — | — | |
| Senior Deputy Executive Vice President | Taiwan | Ching-Hsing Chang | Male | Feb. 8, 2021 | — | — | — | — | — | — | Bachelor of Department of Electronic Engineering, Southern Taiwan University/ Senior Business Manager of Solomon Technology Corporation | None | | | | |
| Deputy Executive Vice President | Taiwan | Po-Sheng Shih | Male | Jan. 16, 2021 | 12,602 | 0.01 | — | — | — | — | Ph. D. in Electronics Engineering, National Chiao Tung University/ Director of HannStar® Display Corporation/ Director of Innolux Corporation/ Executive vice president of CNTouch Inc. | None | — | — | — | |
| Deputy Executive Vice President | Taiwan | Hung-Jen Chien | Male | Sep. 8, 2021 | — | — | — | — | — | — | Master of Dept. of Electronic and Computer Engineering, National Taiwan University of Science and Technology/ R&D Engineer of Sunplus Technology Co., Ltd./ Manager of Sunshine Sports Tech Co., Ltd. | None | | | | |
| Deputy Executive Vice President | Taiwan | Chen Kuo | Male | Feb. 14, 2022 | — | — | — | — | — | — | Master of Materials Engineering, Auburn University/ Bachelor of Department of Metallurgy & Materials Engineering, National Cheng Kung University/ Director of Wafer Foundry NXP Semiconductors Taiwan Ltd./ Director of Wafer Testing, Micron Technology, Inc./ Director of Wafer Plant 5, Macronix International Co., Ltd. | None | — | — | — | |
| Deputy Executive Vice President | Taiwan | Hao-Chin Chao | Male | May 16, 2022 | — | — | — | — | — | — | Master, Graduate Institute of Human Resource Management, National Central University/ Special Assistant of Human Resources Department, ELITE MATERIAL CO., LTD./ Director of LITEON (Shanghai) Director of AUO | None | — | — | — | |
| Special | Taiwan | Chung-Hsiang | Male | May 16, 2022 | — | — | — | — | — | — | Master of Electrical Engineering, Columbia | None | — | — | — | |

| Title (note 1) | Nationality | Name | Gender | Election (Appointment) Date | Shareholding | | Shareholding held by spouse & minor children | | Shareholding held through nominees | | Principal work experience and academic qualifications (note 2) | Position(s) held concurrently in the company and/or in any other company | Managerial officer with a spousal or other 2nd degree of kinship | | | Remark (note 3) |
|---|-------------|--------------------|--------|-----------------------------------|------------------|---------------------------|---|---------------------------|---------------------------------------|---------------------------|--|---|--|------|-------------------|--------------------|
| | | | | | Number of Shares | Rate of share- holding | Number of Shares | Rate of share- holding | Number of Shares | Rate of share- holding | | | Position | Name | Relation- ship | |
| Assistant of Chairman | | Chiang | | | | | | | | | University, New York/ Department of Electronic Engineering, Fu Jen Catholic University/ Business Executive Vice President, AUO Crystal Corp./ Business Senior Director of AUO/ Business Director of DelSolar Co., Ltd./ Material Manager; Business Manager of Toppoly Optoelectronics Corp. Materials Manager, Institute of Electronics, ITRI | | | | | |
| Executive Vice President, CFO, Spokesperson and Corporate governance officer | Taiwan | Wei-Chieh Chang | Male | July 26, 2021 | — | — | — | — | — | — | Master of Business Administration, Baruch College, The City University of New York/ Chief Financial Officer, Good Way Technology Co., Ltd./ Chief Financial Officer, K.H.S. Musical Instrument Co., Ltd./ Chief Financial Officer of Lite-on / Financial and Accounting Manager of Tripod Technology Corporation/ Manager, Treasury and Capital Markets Division, The Hongkong and Shanghai Banking Corporation Limited | Supervisor of Vitrio Technology Corporation | — | — | — | |
| Accountant Officer | Taiwan | Pei-Chun Chen | Female | June 6, 2022 | — | — | — | — | — | — | Master in Business Administration, National Taiwan University/ Department of Accounting, Chinese Culture University/ Accounting Manager of INPAQ Technology/ Vice Manager of EY Taiwan | None | — | — | — | |

Note 1: Information on the president, executive vice president, deputy executive vice president, department and branch heads, and anyone whose position is equivalent to that of a president, executive vice president, or deputy executive vice president shall also be disclosed regardless of titles.

Note 2: As for experience relevant to the current position, the title and responsibilities for work experience at a certified public accounting firm or an affiliated company preceding the current position shall be specified.

Note 3: Where the chairman and the president or person of an equivalent post (the highest-level manager) are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness of, necessity of, and the measures adopted in response thereto

(3) Remuneration paid during the most recent year to directors, supervisors, president and vice presidents

1. Remuneration to general directors and independent directors

2022; Unit: NT\$ thousand; thousand shares; %

| Title | Name | Remuneration to Directors | | | | | | | | The sum of A, B, C and D and proportion to net profit after tax | | Remuneration to the capacity as employees | | | | | | | | The sum of A, B, C, D, E, F and G and proportion to net profit after tax | | Remuneration received from an invested company other than the company's subsidiary or parent company | | | | |
|----------------------|--|---------------------------|---|-------------|---|--|---|---------------------------------|---|---|---|---|---|-------------|---|--|---|---|---|--|---|--|--------|--------|--------|------|
| | | Remuneration (A) | | Pension(B) | | Remuneration to directors (C) (Note 1) | | Business execution expenses (D) | | | | Salaries, bonus and special disbursement(E) | | Pension (F) | | Remuneration to employees (G) (note 2) | | | | | | | | | | |
| | | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | | All companies mentioned in the financial statements | | The Company | All companies mentioned in the financial statements | | | | | |
| Chairman | Genda Hu | - | - | - | - | - | - | 60 | 60 | 60 | 60 | 0.00% | 0.00% | 34,138 | 35,380 | - | - | - | - | - | - | 34,198 | 35,440 | -1.79% | -1.85% | None |
| General Director | GWAA LLC | 960 | 960 | - | - | - | - | 60 | 60 | 1,020 | 1,020 | -0.05% | -0.05% | - | - | - | - | - | - | - | - | 1,020 | 1,020 | -0.05% | -0.05% | None |
| | Designated Representative: Han-Ping Shieh | | | | | | | | | | | | | | | | | | | | | | | | | |
| General Director | GWAA LLC | 960 | 960 | - | - | - | - | 60 | 60 | 1,020 | 1,020 | -0.05% | -0.05% | - | - | - | - | - | - | - | - | 1,020 | 1,020 | -0.05% | -0.05% | None |
| | Designated Representative: Chenming Hu | | | | | | | | | | | | | | | | | | | | | | | | | |
| General Director | Acer Inc. | 459 | 459 | - | - | - | - | 30 | 30 | 489 | 489 | -0.02% | -0.02% | - | - | - | - | - | - | - | - | 489 | 489 | -0.02% | -0.02% | None |
| | Designated Representative: Chun-Sheng Chen | | | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Chintay Shih | 960 | 960 | - | - | - | - | 130 | 130 | 1,090 | 1,090 | -0.06% | -0.06% | - | - | - | - | - | - | - | - | 1,090 | 1,090 | -0.06% | -0.06% | None |
| Independent Director | Chan-Jane Lin | 960 | 960 | - | - | - | - | 140 | 140 | 1,100 | 1,100 | -0.06% | -0.06% | - | - | - | - | - | - | - | - | 1,100 | 1,100 | -0.06% | -0.06% | None |
| Independent Director | Xuhui Xu | 960 | 960 | - | - | - | - | 100 | 100 | 1,060 | 1,060 | -0.06% | -0.06% | - | - | - | - | - | - | - | - | 1,060 | 1,060 | -0.06% | -0.06% | None |
| Independent Director | Chang Xu | 960 | 960 | - | - | - | - | 100 | 100 | 1,060 | 1,060 | -0.06% | -0.06% | - | - | - | - | - | - | - | - | 1,060 | 1,060 | -0.06% | -0.06% | None |

1. Specify the policy, system, standard and structure for remuneration of independent directors, and the relationship between the remuneration amount and their responsibilities, risks, and time commitments:
 The remuneration of the Company's independent directors is determined in accordance with the Rules for Setting Director Remuneration, as approved by the Board of Directors. The remuneration is divided into three parts: Remuneration, business execution expenses, and compensation. Remuneration and business execution expenses are paid in accordance with the Rules formulated; compensation is paid in accordance with the Articles of Incorporation, and is based on the evaluation results of each director's performance.
 The duties of independent directors are to assist the Board of Directors in performing and supervising the quality and integrity of the Company's accounting, auditing, financial reporting processes, and internal control systems. The Company's independent directors discuss Company proposals appropriately based on the virtue of their duties and expertise. Their remuneration is directly related to their meeting attendance status, training status, and performance evaluation.

2. Except as disclosed in the table above, remuneration received by the Company's directors for services rendered to all companies included in the financial statements (e.g., as non-employee consultants of the parent company/other company listed in the financial statement/invested companies) in the last year: None.

Note 1 and 2: On February 23, 2023, the Board of Directors approved that no employee compensation and director compensation is to be distributed due to loss of revenue in 2022.

2. Supervisor remuneration: Since June 21, 2012, the Audit Committee has been responsible for the supervisory duties stipulated in the relevant laws and regulations

3. President's and Executive Vice Presidents' Remuneration

2022; Unit: NT\$ thousand; thousand shares; %

| Title | Name | Salaries (A) | | Pension(B) | | Bonus and special disbursement (C) | | Remuneration to the employees (D) (Note 1) | | | | The sum of A, B, C and D and proportion to net profit after tax (%) | | Remuneration received from an invested company other than the company's subsidiary or parent company | | |
|--|--------------------------|--------------|---|-------------|---|------------------------------------|---|---|-------|---|-------|---|---|--|--------|---|
| | | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | | All companies mentioned in the financial statements | | The Company | All companies mentioned in the financial statements | | | |
| | | | | | | | | Cash | Stock | Cash | Stock | | | | | |
| CEO and President | Genda Hu | 18,453 | 28,760 | 378 | 378 | 117,837 | 124,488 | - | - | - | - | 136,668 | -7.15% | 153,626 | -8.03% | - |
| Senior Executive Vice President | Chieh-Sheng Lin (Note 2) | | | | | | | | | | | | | | | |
| Senior Executive Vice President | Chiu-Lin Chen (Note 3) | | | | | | | | | | | | | | | |
| Executive Vice President | Pei-Tzu Wu | | | | | | | | | | | | | | | |
| Executive Vice President | Jui-Cheng Hsu | | | | | | | | | | | | | | | |
| Executive Vice President | Hsiao-Hsu Tu | | | | | | | | | | | | | | | |
| Executive Vice President | Ching-Kai Chang | | | | | | | | | | | | | | | |
| Executive Vice President | Wei-Ching Hou | | | | | | | | | | | | | | | |
| Executive Vice President, CFO, Spokesperson and Corporate governance officer | Wei-Chieh Chang | | | | | | | | | | | | | | | |

Note 1: On February 23, 2023, the Board of Directors approved that no employee compensation and director compensation is to be distributed due to loss of revenue in 2022.

Note 2: Took office on November 1, 2022.

Note 3: Took office on November 11, 2022.

Classification of remuneration

| Classification of Remuneration paid to presidents and Executive Vice Presidents | Name of Presidents and Executive Vice Presidents | |
|---|--|--|
| | The Company | All companies mentioned in the financial statements E |
| Less than NT\$1,000,000 | | |
| NT\$1,000,000(inclusive) ~NT\$2,000,000(exclusive) | | |

| | | |
|---|--|---|
| NT\$2,000,000(inclusive) ~NT\$3,500,000(exclusive) | | |
| NT\$3,500,000(inclusive) ~NT\$5,000,000(exclusive) | | |
| NT\$5,000,000(inclusive) ~NT\$10,000,000(exclusive) | | |
| NT\$10,000,000(inclusive) ~NT\$15,000,000(exclusive) | Jui-Cheng Hsu; Hsiao-Hsu Tu; Wei-Ching Hou Ching-Kai Chang; Chieh-Sheng Lin; Pei-Tzu Wu; Chiu-Lin Chen | Jui-Cheng Hsu; Pei-Tzu Wu Ching-Kai Chang; Chieh-Sheng Lin; Chiu-Lin Chen |
| NT\$15,000,000(inclusive) ~NT\$30,000,000(exclusive) | Wei-Chieh Chang | Wei-Chieh Chang ; Hsiao-Hsu Tu; Wei-Ching Hou |
| NT\$30,000,000(inclusive) ~NT\$50,000,000(exclusive) | Genda Hu | Genda Hu |
| NT\$50,000,000(inclusive) ~NT\$100,000,000(exclusive) | | |
| Over NT\$100,000,000 | | |
| Total | 9 persons | 9 persons |

4. Remuneration paid to each of its top five management personnel for the company listed on the TWSE or the TPEX

2022; Unit: NT\$ thousand; thousand shares; %

| Title | Name | Salaries (A) | | Pension(B) | | Bonus and special disbursement (C) | | Remuneration to the employees (D) (Note 1) | | | | The sum of A, B, C and D and proportion to net profit after tax (%) | | Remuneration received from an invested company other than the company's subsidiary or parent company |
|--|-----------------|--------------|---|-------------|---|------------------------------------|---|---|-------|---|-------|---|---|--|
| | | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | All companies mentioned in the financial statements | The Company | | All companies mentioned in the financial statements | | The Company | All companies mentioned in the financial statements | |
| | | | | | | | | Cash | Stock | Cash | Stock | | | |
| CEO and President | Genda Hu | 5,729 | 6,971 | - | - | 28,469 | 28,469 | - | - | - | - | 34,198 -1.79% | 35,440 -1.85% | None |
| Executive Vice President, CFO, Spokesperson and Corporate governance officer | Wei-Chieh Chang | 3,320 | 3,320 | 108 | 108 | 15,437 | 15,437 | - | - | - | - | 18,865 -0.99% | 18,865 -0.99% | None |
| Executive Vice President | Hsiao-Hsu Tu | - | 2,955 | - | - | 12,991 | 15,903 | - | - | - | - | 12,991 -0.68% | 18,858 -0.99% | None |
| Executive Vice President | Wei-Ching Hou | - | 3,000 | - | - | 11,996 | 14,712 | - | - | - | - | 11,996 -0.63% | 17,712 -0.93% | None |
| Executive Vice President | Ching-Kai Chang | - | 3,110 | - | - | 10,418 | 11,442 | - | - | - | - | 10,418 -0.54% | 14,552 -0.76% | None |

Note 1: On February 23, 2023, the Board of Directors approved that no employee compensation and director compensation is to be distributed due to loss of revenue in 2022.

4. Names of and distribution to managerial officers distributing employee compensation
 On February 23, 2023, the Board of Directors approved that no employee compensation or director compensation is to be distributed due to loss of revenue in 2022.

December 31, 2022; Unit: NT\$ thousand; %

| | Title | Name | Stock | Cash | Total | Proportion of total to net profit after tax (%) |
|--|---|-------------------|-------|------|-------|---|
| Managerial officers | CEO and President | Genda Hu | | | | |
| | Senior Executive Vice President | Chieh-Sheng Lin | | | | |
| | Senior Executive Vice President | Chiu-Lin Chen | | | | |
| | Executive Vice President | Ching-Kai Chang | | | | |
| | Executive Vice President | Wei-Ching Hou | | | | |
| | Executive Vice President | Hsiao-Hsu Tu | | | | |
| | Executive Vice President | Jui-Cheng Hsu | | | | |
| | Executive Vice President | Pei-Tzu Wu | | | | |
| | Business Executive Vice President | Ching-Suo Wang | | | | |
| | Marketing Executive Vice President | Lien-Kuo Wang | | | | |
| | Business Assistant Executive Vice President | Te-Chih Kung | | | | |
| | Deputy Executive Vice President | Po-Sheng Shih | | | | |
| | Deputy Executive Vice President | Hung-Jen Chien | | | | |
| | Deputy Executive Vice President | Ching-Hsing Chang | | | | |
| | Deputy Executive Vice President | Cheng Kuo | | | | |
| | Deputy Executive Vice President | Hao-Chin Chao | | | | |
| Special Assistant of President | Chung-Hsiang Chiang | | | | | |
| Accountant Officer | Pei-Chun Chen | | | | | |
| Executive Vice President, CFO, Spokesperson and Corporate governance officer | Wei-Chieh Chang | | | | | |

(4) Separate comparison and description of total remuneration, as a proportion of net profit stated in the parent company only financial reports or individual financial reports, as paid by the Company and by each other company included in the consolidated financial statements during the past 2 fiscal years to directors, supervisors, presidents, and vice presidents, and analysis and description of remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure.

1. The proportion of net profit stated in the parent company only financial reports or individual financial reports, as paid by the Company and by each other company included in the consolidated financial statements during the past 2 fiscal years to directors, supervisors, presidents, and vice presidents:

| Item | 2022 | | 2021 | |
|---|---------------------------|-----------------------------|---------------------------|-----------------------------|
| | Individual remuneration % | Consolidated remuneration % | Individual remuneration % | Consolidated remuneration % |
| Director remuneration (Note 1) | -2.15% | -2.21% | 1.27% | 1.29% |
| Supervisor remuneration (Note 2) | — | — | — | — |
| Presidents/ vice presidents remuneration (Note 3) | -7.15% | -8.03% | 1.34% | 2.18% |

Note 1: Includes remuneration received by directors who are also Company employees.

Note 2: Since June 21, 2012, the Audit Committee has been responsible for the supervisory duties stipulated in the relevant laws and regulations.

Note 3: Includes remuneration received by presidents/executive vice presidents who are also Company directors

2. Remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure

- (1) The policy and standard for director remuneration distribution are in accordance with the Company's Articles of Incorporation and the Rules for Setting Director Remuneration, and are evaluated by the Remuneration Committee and recommended to the Board of Directors for approval. Director remuneration includes remuneration, business execution expenses and compensation, of which the total amount of compensation is distributed based on the Articles of Incorporation and is related to the operating profit. The individual compensation of directors is adjusted and positively correlated with the results of their performance evaluations, including the attendance rate for the "Participation in Company Operations" and the number of training hours required for "Election and Continuing Education of Directors".
- (2) The evaluation system and the amount of managerial officer remuneration are formulated, evaluated and approved by the Remuneration Committee. In addition to industry standards, the criteria also take into consideration both the short-term and long-term indicators. The short-term indicator evaluates the achievement rate of profitability targets, whereas the long-term indicator evaluates the establishment of long-term development capabilities, such as (1) new product and technology development results, (2) team building, and (3) corporate strategy and corporate governance performance. These indicators are evaluated by the Remuneration Committee and submitted to the Board of Directors for approval. The values of the equity and remuneration are related to the future stock price, which means that they share the risks with the Company in future operations.

- (3) The remuneration of directors and managerial officers is related to their operational performance. The business objectives and risk management are combined; when formulating strategies, layouts, and budgets each year, the Company takes into account the short-, medium- and long-term risks. All of these are tracked, treated with countermeasures, adjusted every year, and included in the evaluation of the Remuneration Committee.

3. Implementation of Corporate Governance

(1) The function of the Board

A total of 5 (A) board meetings were held in the past year. Director attendance is as follows:
2022

| Title | Name | Actual number of attendance (B) | Attend through proxy | Attendance rate (B/A)(%) | Remarks |
|--|--|---------------------------------|----------------------|--------------------------|---|
| Chairman | Genda Hu | 5 | 0 | 100% | Re-election Date re-elected: June 20, 2020 |
| Director | GWAA LLC Designated Representative: Han-Ping Shieh | 5 | 0 | 100% | |
| Director | GWAA LLC Designated Representative: Chenming Hu | 5 | 0 | 100% | Date newly assumed: June 20, 2020 |
| Director | Acer Inc. Designated Representative: Chun-Sheng Chen | 3 | 0 | 100% | Date newly assumed: June 9, 2022 |
| Independent Director | Chintay Shih | 4 | 1 | 80% | Re-election Date re-elected: June 20, 2020 |
| Independent Director | Chan-Jane Lin | 5 | 0 | 100% | |
| Independent Director | Chang Xu | 5 | 0 | 100% | Date newly assumed: June 20, 2020 |
| Independent Director | Xuhui Xu | 5 | 0 | 100% | |
| Other matters to be noted: | | | | | |
| <p>1. If any of the following is applied to the operation of the Board, specify the date and the session, the content of the motions, the opinions of all Independent Directors, and how the Company handled the opinions of the Independent Directors:</p> <p>(1) Items listed in Article 14-3 of the Securities and Exchange Act: The Company has set up an Audit Committee; refer to the Securities and Exchange Act Article 14-5 matters listed in Audit Committee Operations (1).</p> <p>(2) Except for the aforementioned matters, the resolutions reached by the Board of Directors with the objections or reservations of the independent directors documented or declared in writing: None</p> <p>2. Situations where the directors have personal interest conflicts to the proposal and are required to recuse themselves: Chairman recused themselves from participating in the discussion and voting on their remuneration, bonuses, transfer of treasury stock.</p> <p>3. Implementation status of Evaluation of the Board of Directors: Refer to table (1)-1 for details.</p> <p>4. The objective for fortifying the function of the Board in the current period and the most recent period and the evaluation of the state of accomplishment: The Board of Directors oversees the Company's sustainable development work; and the Company's 2021 CSR Report received the Corporate Sustainability Report TCSA Gold Award in 2022.</p> | | | | | |

(1)-1 Implementation status of Evaluation of the Board of Directors

| Evaluation Cycle | Evaluation Period | Evaluation Scope | Evaluation Method | Evaluation items |
|------------------|------------------------------|--|--|---|
| Annually | Jan. 1, 2022 - Dec. 31, 2022 | Members of the Board of Directors, functional committees, and individual directors | Internal self-evaluation by the Board of Directors and functional committees; self-evaluation by directors | <p>(1) Board of Directors performance evaluations:</p> <p>Participation in the Company's operations; improvement of the quality of board decisions, board composition, and structure; election and continuing education of directors; and internal controls.</p> <p>(2) Board members' performance self-evaluations:</p> <p>Alignment with the Company's goals and missions; awareness of the duties of a director; participation in the Company's operations; management of internal relationships and communications; directors' professionalism and continuing education; and internal controls.</p> <p>(3) Audit Committee performance evaluations:</p> <p>Participation in the Company's operations; awareness of audit committee duties; improvement of quality in audit committee decisions; makeup of the audit committee and election of its members; and internal controls.</p> <p>(4) Remuneration Committee performance evaluations:</p> <p>Participation in the Company's operations; awareness of Remuneration Committee duties; improvement of quality in Remuneration Committee decisions; makeup of the Remuneration Committee and election of its members; and internal controls.</p> |

| | | | | |
|-------------------|------------------------------|--------------------|---|---|
| Every three years | Apr. 1, 2020 ~ Mar. 31, 2021 | Board of Directors | Appointed Taiwan Corporate Governance Association for an evaluation | 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. Other matters such as board meetings and support systems |
|-------------------|------------------------------|--------------------|---|---|

(2) The function of Audit Committee

A total of 5 (A) Audit Committee meetings were held in the past year. The attendance of independent directors is as follows:

2022

| Title | Name | Actual number of attendance (B) | Attend through proxy | Attendance rate (%) (B/A)(Note) | Remarks |
|----------------------|---------------|---------------------------------|----------------------|----------------------------------|--|
| Independent Director | Chintay Shih | 5 | 0 | 100% | Re-election Date of Re-election: June 20, 2020 |
| Independent Director | Chan-Jane Lin | 5 | 0 | 100% | |
| Independent Director | Chang Xu | 5 | 0 | 100% | Date newly assumed: June 20, 2020 |
| Independent Director | Xuhui Xu | 5 | 0 | 100% | |

Other matters to be noted:

1. Annual highlights of the Company's Audit Committee:

(1) The purpose of the Audit Committee is to assist the Board of Directors in upholding quality and integrity in overseeing the Company's implementation of accounting, auditing, financial reporting processes, and financial controls. The Committee's primary purpose is to oversee the following matters:

- (1) The Company's financial statements is presented properly.
- (2) The hiring (dismissal), independence, and performance of the CPAs (certified public accountants).
- (3) Effective implementation of the Company's internal controls.
- (4) The Company's compliance with relevant laws and regulations.
- (5) Management of the Company's existing and potential risks.

(2) The Company's Audit Committee consists of all independent directors, and at least one meeting is held every quarter.

- (3) The CPAs explain the impact of the audit status, revision of Statement of Financial Accounting Standards (SFAS), and internal control issues on the Company to independent directors on a no less than quarterly basis at the Audit Committee meeting.
- (4) In addition to sending audit reports to independent directors for review on a regular basis, the audit unit communicates with independent directors and provides explanation to them on a no less than quarterly basis at the Audit Committee meeting.

2. For the operation of the Audit Committee in any of the following circumstances, specify the Audit Committee meeting date, the session, the content of the motions, the content of the dissenting or qualified opinion, or material recommendations made by independent directors, the resolutions of the Audit Committee and how the Company handled the opinions of the Audit Committee:

(1) The content of the particulars inscribed in Article 14-5 of the Securities and Exchange Act:

| Board Meeting | Content of the motions and Subsequent Handling | Securities and Exchange Act Article 14-5 matters | Resolutions not approved by the Audit Committee but approved by at least 2/3 of all directors |
|---|--|--|---|
| The 10th Board Meeting of the 7th Term Feb. 23, 2022 | 1. 2021 Financial Statement. | V | |
| | 2. Fund lending between subsidiaries. | V | |
| | 3. Evaluation of CPAs' reappointment and independence. | V | |
| | 4. 2021 Statement of Internal Control. | V | |
| | Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting. | | |
| | Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting. | | |
| The 11th Board Meeting of the 7th Term Apr. 25, 2022 | 1. 2022 Q1 Financial Statement. | | |
| | 2. Organizational restructuring transactions. | V | |
| | 3. Revision of the "Procedures for the Acquisition or Disposal of Assets". | V | |
| | Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting. | | |
| | Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting. | | |
| The 12th Board Meeting of the 7th Term June 21, 2022 | Change of Accountant Officer. | V | |
| | Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting. | | |
| | Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting. | | |
| The 13th Board Meeting of the 7th Term July 28, 2022 | 1. 2022 Q2 Financial Statement. | V | |
| | 2. 2022 Audit Fee. | V | |
| | Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting. | | |
| | Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting. | | |
| The 14th Board Meeting of | 2022 Q3 Financial Statement. | | |
| | Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting. | | |

| | | | |
|--|--|---|--|
| the 7th Term Nov. 11, 2022 | Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting. | | |
| The 15th Board Meeting of the 7th Term Feb. 23, 2023 | 1. 2022 Financial Statement. | V | |
| | 2. Fund lending between subsidiaries for the continuation of parent company. | V | |
| | 3. Evaluation of CPAs' reappointment and independence. | V | |
| | 4. 2023 Audit Fee. | V | |
| | 5. 2022 Statement of Internal Control. | V | |
| | Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting. | | |
| | Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting. | | |

(2) In addition to the aforementioned motions, other motions without approval by the Auditing Committee but passed by the Board with 2/3 of the Directors: None

3. The avoidance of the conflict of interest by the Independent Directors on related motions, specify the names of the Independent Directors, the content of the motions, the principle of the avoidance of the conflict of interest, and the participation in casting the ballots: None

4. Communications between independent directors, the Company's Chief Internal Auditor and CPAs (which shall include events, methods, and results of communications with regard to the Company's financial and business conditions):

(1) The Company's Chief Internal Auditor liaises with the Audit Committee members on the audit findings regularly, presents audit reports in the quarterly meeting of the Audit Committee, and communicates with the Audit Committee members individually every time at the end of the debate on the motions after the management team has left. In case of special situation, the Chief Internal Auditor reports to the Audit Committee members.

| Date of meeting | Communication item | Opinion of independent director |
|------------------|--|---------------------------------|
| Feb. 23, 2022 | 1. Report on 2021 Q4 internal control deficiencies | Agree and no objection |
| | 2. Report on 2021 Statement of Internal Control | Agree and no objection |
| Apr. 25, 2022 | Report on 2022 Q1 internal control deficiencies | Agree and no objection |
| July 28, 2022 | Report on 2022 Q2 internal control deficiencies | Agree and no objection |
| Nov. 11, 2022 | 1. Report on 2022 Q3 internal control deficiencies | Agree and no objection |
| | 2. 2023 Audit Plan | Agree and no objection |

(2) CPAs attend the Audit Committee meeting on a quarterly basis to report on auditing status and legally-mandated matters of note. Audit Committee members liaise with the CPAs at any time when they have any questions about financial and business conditions, and communicate with the CPAs individually every time at the end of the debate on the motions after the management team has left.

| Date of meeting | Communication item | Opinion of independent director |
|------------------|------------------------------------|---------------------------------|
| Feb. 23, 2022 | Significant risks audit report | Agree and no objection |
| | Digital audit check | Agree and no objection |
| Apr. 25, | Financial statement related issues | Agree and no |

| | | |
|---------------|---|------------------------|
| 2022 | | objection |
| July 28, 2022 | Financial statement related issues | Agree and no objection |
| Nov. 11, 2022 | Review results of 2022 Q3 Financial Statement | Agree and no objection |
| | Key audit matters | objection |

(3) Status of Corporate Governance as required for company, and any nonconformity to the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons thereof

| Items for evaluation | Implementation Status | | Summary | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons |
|---|-----------------------|----|---|--|
| | Yes | No | | |
| 1. Has the Company established and disclosed its corporate governance practices based on the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies? | ✓ | | The Company has set up Corporate Governance Best Practice Principles, which are disclosed on both the Company's website and the Market Observation Post System (MOPS) in accordance with the requirements. | None |
| 2. Equity structure and shareholders' equity | | | | Although the operation procedures are not specified, multiple channels have been established and are handled by dedicated personnel. |
| (1) Has the Company instituted an internal procedure for handling suggestions, questions, disputes of the shareholders and legal actions, and comply with the procedure properly? | ✓ | | (1) The Company has assigned dedicated staff and set up an e-mail address to properly handle shareholders' suggestions, questions, and disputes. But there is no expressly stipulated detailed operating procedures. | None |
| (2) Has the Company kept track on the major shareholders roster of the Company and the parties controlling these shareholders? | ✓ | | (2) The Company keeps track of the shareholding status of directors, managerial officers and major shareholders holding 10% or more of the shares. | None |
| (3) Has the Company established and implemented the risk control mechanism and firewall between the corporate headquarters and the affiliates? | ✓ | | (3) The Company has established a risk control mechanism by formulating various management rules and regulations for transactions with affiliated companies. | None |
| (4) Has the company adopted internal rules prohibiting company insiders from trading securities using information not disclosed to the market? | ✓ | | (4) To maintain the fairness of transactions in the security exchange market, the Company has established the Operation Procedures for Internet Material Information Disclosure and Prevention of Insider Trading, in accordance with the competent authorities' relevant regulations. The board meeting approved on November | None |

| Items for evaluation | Implementation Status | | Summary | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-----------------------|---------------------|---|---|---------------------------|-------------------|----------------------|--|--|--|--|------------------|--------|---------------------|--------------------------------|----------------------|---------------------------|-------------------|----------------------|----------|------|---|---|---|---|---|--|--|------|---|---|---|---|---|--|---|------|---|---|---|---|---|--|------|
| | Yes | No | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | 11, 2022 the addition of a directors' trading blackout period. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>3. Composition and Responsibilities of the Board of Directors</p> <p>(1) Has the Board established a diversity policy, specific management goals and implemented it accordingly?</p> | ✓ | | <p>(1) The Company's diversity policy is set forth in Article 20 of the Corporate Governance Best Practice Principles, and the diversity status of directors is evaluated at the time of election. In order to achieve the ideal goals of corporate governance, the Board of Directors as a whole should have the following competencies:</p> <p>(1) Ability to make operational judgments.</p> <p>(2) Ability to perform accounting and financial analysis.</p> <p>(3) Ability to conduct management administration.</p> <p>(4) Ability to conduct crisis management.</p> <p>(5) Knowledge of the industry.</p> <p>(6) An international market perspective.</p> <p>(7) Ability to lead.</p> <p>(8) Ability to make policy decisions.</p> <p>Current diversified composition of directors:</p> <p>1. The Board is composed of members with industrial and academic backgrounds. Four of the members are from the Ph. D. in Department of Electrical Engineering, Princeton University; Ph.D. in Electrical Engineering, University of California; Ph.D. in Department of Electrical, Computer Engineering, Carnegie Mellon University and MBA, University of Missouri at Columbia(MU), U.S.A..</p> <p>2. The independent directors possess professional backgrounds, skills, and industry experience. Two of the directors are from the Ph.D. in Department of Electrical Engineering, Princeton University, and Ph.D. in School of Industrial Engineering, Purdue University, respectively. The other two directors are from the Ph.D. in Accounting program at the University of Maryland, and the Master of Business Administration program at Freeman School of Business, Tulane University.</p> <p>3. The diversity policy of the Board of Directors is summarized below and is disclosed on the Company's website:</p> <table border="1" data-bbox="730 1890 1307 2072"> <thead> <tr> <th colspan="8">Core for diversification</th> </tr> <tr> <th>Name of Director</th> <th>Gender</th> <th>Business management</th> <th>Leadership and Decision-making</th> <th>Industrial knowledge</th> <th>International market view</th> <th>Crisis management</th> <th>Financial Accounting</th> </tr> </thead> <tbody> <tr> <td>Genda Hu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> <tr> <td>Designated representative of GWAALLC: Han-Ping Shieh</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> <tr> <td>Designated Representative of GWAALLC: Chenming Hu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> </tbody> </table> | Core for diversification | | | | | | | | Name of Director | Gender | Business management | Leadership and Decision-making | Industrial knowledge | International market view | Crisis management | Financial Accounting | Genda Hu | Male | v | v | v | v | v | | Designated representative of GWAALLC: Han-Ping Shieh | Male | v | v | v | v | v | | Designated Representative of GWAALLC: Chenming Hu | Male | v | v | v | v | v | | None |
| Core for diversification | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Name of Director | Gender | Business management | Leadership and Decision-making | Industrial knowledge | International market view | Crisis management | Financial Accounting | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Genda Hu | Male | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Designated representative of GWAALLC: Han-Ping Shieh | Male | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Designated Representative of GWAALLC: Chenming Hu | Male | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Items for evaluation | Implementation Status | | Summary | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-----------------------|----|---|---|------|---|---|---|---|---|---|--------------|------|---|---|---|---|---|---|---------------|--------|---|---|---|---|---|---|----------|------|---|---|---|---|---|---|----------|------|---|---|---|---|---|---|--|
| | Yes | No | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <table border="1"> <tr> <td>Designated representative of Acer Inc.: Chun-Sheng Chen</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> </tr> <tr> <td>Chintay Shih</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> </tr> <tr> <td>Chan-Jane Lin</td> <td>Female</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> </tr> <tr> <td>Chang Xu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> </tr> <tr> <td>Xuhui Xu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> </tr> </table> <p>4. The Company plans to bring in more diverse to the seats such as female members, as well as members who have expertise in law, finance and accounting in the future.</p> | Designated representative of Acer Inc.: Chun-Sheng Chen | Male | v | v | v | v | v | v | Chintay Shih | Male | v | v | v | v | v | v | Chan-Jane Lin | Female | v | v | v | v | v | v | Chang Xu | Male | v | v | v | v | v | v | Xuhui Xu | Male | v | v | v | v | v | v | |
| Designated representative of Acer Inc.: Chun-Sheng Chen | Male | v | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Chintay Shih | Male | v | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Chan-Jane Lin | Female | v | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Chang Xu | Male | v | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Xuhui Xu | Male | v | v | v | v | v | v | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (2) Further to the establishment of the Remuneration Committee and the Auditing Committee, has the Company voluntarily established other functional committees? | ✓ | | (2) Other than the Remuneration Committee and the Audit Committee, the Company has not established any other functional committees. | No other functional committees have currently been established | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (3) Has the Company established a methodology for evaluating the performance of its Board of Directors, performed evaluations on an annual basis, submitted the results of the performance evaluation to the Board, and used such as a reference for individual director remuneration and renomination? | ✓ | | (3) The Company conducts annual self-evaluation of the Board's performance in accordance with the Board of Directors Rules for Self-evaluation and Peer Evaluation. In addition, performance self-evaluation questionnaires are given to all members of the Board of Directors each year. Refer to (1)-1 Board of Directors' Evaluation under III. Corporate Governance Operations for the sections evaluated: The 2022 Annual Self-evaluation Questionnaire consisted of 40 questions in five major sections. Each director evaluated the Board's overall operation performance based on the 40 questions in the questionnaire, on a scale of 5 to 1. Evaluation results were all excellent (4.9) or above. The results of the performance evaluations from the attendance rate for the "Participation in Company Operations" and the number of training hours required for "Election and Continuing Education of Directors" are positively correlated with director compensation. The Company's Board of Directors is also evaluated by an external organization once every three years, with the most recent evaluation conducted by the Taiwan Corporate Governance Association in 2021. | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (4) Has the Company evaluated the independence of the commissioned certified public accountants regularly? | ✓ | | (4) The Company evaluates the independence of the appointed CPAs on an annual basis, in accordance with Article 29 of the Corporate Governance Best Practice | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Items for evaluation | Implementation Status | | Summary | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons | | | | | | | | | | | | | | | | | | | | | |
|--|-----------------------|----------------------------------|--|---|--------|----------------------------------|--|----|-----|--|----|-----|--|----|-----|---|----|-----|--|----|-----|--|----|-----|--|
| | Yes | No | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <p>Principles. Additionally, the Board of Directors formulated and completed the Report on Independence and Suitability Evaluation for Certified Public Accountants (as listed in the table below), Yu-Hong Kuo and Chih-Ming Shao, the Deloitte & Touche CPAs appointed by the Company, with reference to Article 47 of the Certified Public Accountant Act and the evaluations stated in No. 10, “Integrity, Objectivity, and Independence”, from the Bulletin on Norms for Certified Public Accountant Professional Ethics in the Republic of China. The Statement of Certified Public Accountant Independence issued by the CPAs was then evaluated, and was completed on November 11, 2022 by the Audit Committee and the Board of Directors. On February 23, 2023, the Audit Committee and the Board of Directors added “Audit Quality Indicators (AQIs)” to the evaluation report.</p> <p>Standards for Evaluating CPAs’ Independence and Competence</p> <table border="1"> <thead> <tr> <th>Point of evaluation</th> <th>Result</th> <th>Compliance with CPA Independence</th> </tr> </thead> <tbody> <tr> <td>1. CPA is employed by the Company to perform regular work receives a fixed salary or serves as a director or supervisor.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>2. CPA who once served as a director, supervisor, managerial officer, or officer of the Company has significant influence on the certification of documents/statements and has been dismissed for less than 2 years.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>3. The accounting firm and the Company are affiliates.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>4. CPA and Company responsible person/managerial officer are spouses, or relatives within the second degree of kinship.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>5. CPA, their spouse, or minor children has/have an investment or benefit-sharing relationship with the Company.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>6. CPA, their spouse, or minor child has/have fund lending with the Company.</td> <td>No</td> <td>Yes</td> </tr> </tbody> </table> | Point of evaluation | Result | Compliance with CPA Independence | 1. CPA is employed by the Company to perform regular work receives a fixed salary or serves as a director or supervisor. | No | Yes | 2. CPA who once served as a director, supervisor, managerial officer, or officer of the Company has significant influence on the certification of documents/statements and has been dismissed for less than 2 years. | No | Yes | 3. The accounting firm and the Company are affiliates. | No | Yes | 4. CPA and Company responsible person/managerial officer are spouses, or relatives within the second degree of kinship. | No | Yes | 5. CPA, their spouse, or minor children has/have an investment or benefit-sharing relationship with the Company. | No | Yes | 6. CPA, their spouse, or minor child has/have fund lending with the Company. | No | Yes | |
| Point of evaluation | Result | Compliance with CPA Independence | | | | | | | | | | | | | | | | | | | | | | | |
| 1. CPA is employed by the Company to perform regular work receives a fixed salary or serves as a director or supervisor. | No | Yes | | | | | | | | | | | | | | | | | | | | | | | |
| 2. CPA who once served as a director, supervisor, managerial officer, or officer of the Company has significant influence on the certification of documents/statements and has been dismissed for less than 2 years. | No | Yes | | | | | | | | | | | | | | | | | | | | | | | |
| 3. The accounting firm and the Company are affiliates. | No | Yes | | | | | | | | | | | | | | | | | | | | | | | |
| 4. CPA and Company responsible person/managerial officer are spouses, or relatives within the second degree of kinship. | No | Yes | | | | | | | | | | | | | | | | | | | | | | | |
| 5. CPA, their spouse, or minor children has/have an investment or benefit-sharing relationship with the Company. | No | Yes | | | | | | | | | | | | | | | | | | | | | | | |
| 6. CPA, their spouse, or minor child has/have fund lending with the Company. | No | Yes | | | | | | | | | | | | | | | | | | | | | | | |

| Items for evaluation | Implementation Status | | | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons | | | | | | | | | | | | | | | | | | |
|---|-----------------------|-----|--|---|----|-----|---|----|-----|---|----|-----|---|----|-----|--|----|-----|---|----|-----|--|
| | Yes | No | Summary | | | | | | | | | | | | | | | | | | | |
| | | | <table border="1"> <tr> <td>7. CPA has been continuously appointed to provide certification services for 7 years.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>8. The Company does not acquire the Statement of Independence issued by the CPA annually.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>9. The quality and timeliness of audit and tax services do not meet the requirements.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>10. The Company has been subject to litigation or correction by the competent authorities for financial reporting in the year under review.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>11. The accounting firm's size and reputation were significantly damaged in the year under review.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>12. Poor interaction between the CPA, management level, governance units, and the Chief Internal Auditor.</td> <td>No</td> <td>Yes</td> </tr> </table> | 7. CPA has been continuously appointed to provide certification services for 7 years. | No | Yes | 8. The Company does not acquire the Statement of Independence issued by the CPA annually. | No | Yes | 9. The quality and timeliness of audit and tax services do not meet the requirements. | No | Yes | 10. The Company has been subject to litigation or correction by the competent authorities for financial reporting in the year under review. | No | Yes | 11. The accounting firm's size and reputation were significantly damaged in the year under review. | No | Yes | 12. Poor interaction between the CPA, management level, governance units, and the Chief Internal Auditor. | No | Yes | |
| 7. CPA has been continuously appointed to provide certification services for 7 years. | No | Yes | | | | | | | | | | | | | | | | | | | | |
| 8. The Company does not acquire the Statement of Independence issued by the CPA annually. | No | Yes | | | | | | | | | | | | | | | | | | | | |
| 9. The quality and timeliness of audit and tax services do not meet the requirements. | No | Yes | | | | | | | | | | | | | | | | | | | | |
| 10. The Company has been subject to litigation or correction by the competent authorities for financial reporting in the year under review. | No | Yes | | | | | | | | | | | | | | | | | | | | |
| 11. The accounting firm's size and reputation were significantly damaged in the year under review. | No | Yes | | | | | | | | | | | | | | | | | | | | |
| 12. Poor interaction between the CPA, management level, governance units, and the Chief Internal Auditor. | No | Yes | | | | | | | | | | | | | | | | | | | | |
| | | | <p>AQIs evaluate five dimensions with 13 indicators</p> <p>Dimension 1: Professionalism CPAs' experience in auditing, training hours, turnover rate, and professional support</p> <p>Dimension 2: Quality Control CPAs' load, engagement in the audit, engagement quality control review (EQCR), and quality control support capability</p> <p>Dimension 3: Independence Non-audit service, customer familiarity</p> <p>Dimension 4: Supervision Deficiencies discovered by external inspection and disciplinary actions, and improvement instructed by letter from the competent authority</p> <p>Dimension 5: Innovation Capability Innovation planning or initiative</p> | | | | | | | | | | | | | | | | | | | |

| Items for evaluation | Implementation Status | | Summary | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons |
|--|-----------------------|----|--|---|
| | Yes | No | | |
| 4. Does the TWSE/TPEX Listed Company have an appropriate and appropriate number of corporate governance personnel, and has the Company designated a Corporate Governance Senior Officer to deal with corporate governance related affairs (including, but not limited to, providing directors and supervisors with information required for the execution of their duties; assisting directors and supervisors in complying with the laws and regulations; conducting board meeting and shareholders' meeting related matters; and preparing the minutes for board meetings and shareholders' meeting in accordance with the law, etc.)? | ✓ | | <p>(1) On November 6, 2020, the Company appointed a Corporate Governance Senior Office with the approval of the Board of Directors, and Mr. Wei-chieh Chang, who is also the Company's CFO, was appointed on October 28, 2021. He meets the eligibility criteria of the Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE/TPEX Listed Companies and the Board's Exercise of Powers in that he has more than three years of relevant work experience; and serves as the convener of the Corporate Governance Group (which was renamed the Sustainable Development Group by the Board of Directors on February 23, 2022) to assist directors and independent directors in complying with laws and regulations. This group consists of the Board of Directors' Secretary; Finance and Accounting Department; Auditing Department; Legal Affairs Department; and Investor Relations Department. All of these personnel have at least three years of experience in the management works of finance, stock affairs, or business affairs of public companies. Their primary duties include, but are not limited to:</p> <ol style="list-style-type: none"> 1. Proposing and implementing CSR policies, systems, and related management guidelines and specific promotion plans, and for reporting on such to the Board of Directors annually. 2. Implementing, coordinating, and planning ethical corporate policy promotion and relevant trainings, to ensure the effectiveness of implementation. 3. Assisting the Board of Directors and management in examining and evaluating the effectiveness of ethical corporate management practices, regularly assessing compliance with business processes, and reporting annually to the Board of Directors. 4. Providing directors, independent directors, and functional committees with information required for the execution of their duties; amending corporate governance regulations; and assisting directors in complying with laws and regulations. | None |

| Items for evaluation | Implementation Status | | Summary | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons |
|----------------------|-----------------------|----|---|---|
| | Yes | No | | |
| | | | <p>5. Conducting board meetings and shareholders' meetings in accordance with the Corporate Governance Best Practice Principles and corporate governance regulations.</p> <p>6. Pre-registering the date of shareholders' meetings; preparing notices, manuals, and minutes of meetings within the statutory period; and registering changes in the Articles of Incorporation and re-election of directors in accordance with laws and regulations.</p> <p>7. Maintaining investor relations, and establishing communications with institutional investors and general shareholders, in order to ensure that investors receive adequate information and that shareholder rights are well-protected.</p> <p>(2) The number of hours for continuing education for the Corporate Governance Senior Officer is shown in the table below.</p> <p>(3) The plans and implementation status of the Sustainable Development Group under the purview of the Board of Directors are reported every year. On February 23, 2023, the Board of Directors reported on the framework, goals and plans for sustainable development in 2023 as well as the implementation status in 2022.</p> | |

| Items for evaluation | Implementation Status | | | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons |
|---|-----------------------|----|---|---|
| | Yes | No | Summary | |
| 5. Has the Company established a communications channel and established a designated zone on its website for stakeholders (including, but not limited to, shareholders, employees, customers, and suppliers), and has the Company properly responded to all CSR issues such stakeholders are concerned with? | ✓ | | <p>(1) In pursuit of sustainable development, the Company has appointed a spokesman and an acting spokesman, and has established a designated stakeholder zone on its website. Stakeholders may contact the Company at any time by phone, letter, fax, or email with the information listed on the Company's website, in order to meet their needs and concerns, as well as to serve as a reference and basis for the Company's CSR and operations & development plans in the future.</p> <p>(2) Stakeholders include investors, employees, customers, and suppliers, with each having dedicated communication channels in addition to phone, postal mail, and email.</p> <p>(3) After receiving information, internal staff transfer it to the responsible departments for coordination as circumstances require. Together with relevant departments, they communicate, discuss, settle, and respond accordingly to solve the risks and opportunities of the Company's situation, and further enhance its competitiveness. All of the above are regulated in the Consultation and Communication Management Procedures.</p> | None |
| 6. Has the Company appointed a professional shareholder services agent to deal with shareholder affairs? | ✓ | | The Company has appointed a professional shareholder services agent (the Transfer Agency Department of CTBC Bank Co., Ltd.) to deal with shareholder affairs. | None |
| 7. Disclosures | | | | |
| (1) Has the Company established a website for the disclosure of Company's financial and business, and corporate governance? | ✓ | | (1) The Company has established a website (http:// www.focaltech-electronics.com/) that is maintained by a dedicated unit. In addition to the collation and disclosure of corporate information, the Unit also regularly discloses the Company's financial- and business-related information. | None |
| (2) Has the Company adopted other means of disclosures (e.g., the installation of a website in English language, appointment of designated persons for the gathering and disclosure of information, the proper implementation of the spokesman system, and the minutes of the investor conference on record posted on the website)? | ✓ | | (2) The Company has established a website in both English and Chinese, and has appointed a spokesman and an acting spokesman in accordance with their duties, who are responsible for disclosing the Company's information to the public and on the Company's website. | None |
| (3) Does the Company announce and report the annual financial report within two months after the end of the fiscal year? Does the Company announce and report the first, second, and third quarter financial reports and the monthly operating conditions well in advance of the required deadlines? | ✓ | | (3) The Annual Financial Report 2021 was announced within three months after February 24, 2022. Financial reports for the first, second, and third quarters of 2022, as well as monthly operating conditions, were all announced and reported within the statutory period. | None |

| Items for evaluation | Implementation Status | | | Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons |
|---|-----------------------|----|---|---|
| | Yes | No | Summary | |
| 8. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (including, but not limited to, employee rights and benefits, employee care, investor relations, supplier relations, stakeholder rights, status of directors' and supervisors' continuing education, implementation of risk management policies and risk assessment criteria, implementation of customer related policies, and purchase of liability insurance for directors and supervisors by the Company)? | ✓ | | <p>(1) Implementation of employee rights and benefits, and employee care: Refer to "V. Labor Relations" within Chapter 5. Operations Overview of this annual report.</p> <p>(2) Investor relations, supplier relations, and stakeholder rights: The Company discloses its financial, business, and corporate governance information on its website at all times, providing open and transparent information for free access by general employees, investors, suppliers, and stakeholders. Additionally, a dedicated channel has been set out on the corporate website for stakeholders to ask questions or express their needs.</p> <p>(3) Status of directors' continuing education: As shown in the table below.</p> <p>(4) Implementation of risk management policies and risk assessment criteria: Refer to "VI. Analysis and Evaluation of Risk Matters for the Most Recent Fiscal Year and Up to the Publication Date of the Annual Report" within Chapter 7. Review and Analysis of Financial Conditions, Performance, and Risk Matters of this annual report; and the second paragraph of the "Status of Sustainable Development, and Any Nonconformity to the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof".</p> <p>(5) Implementation of customer policy: We have established a dedicated customer service unit and an application engineering unit, to provide timely and optimal service to our customers.</p> <p>(6) Directors and Officers Liability Insurance: Liability insurance has been taken out for directors and managerial officers, and is disclosed on the Market Observation Post System (MOPS).</p> | None |
| <p>9. State of corrective action taken for responding to the results of the corporate governance assessment announced by Taiwan Stock Exchange Corporation in the Corporate Governance Center the most recent fiscal year, and the priority for improvement on issues pending further corrective action and related measures.</p> <p>(1) Improvements made:</p> <p>a. The Company was ranked 6%–20% among others in the annual evaluation for 2021.</p> <p>b. The annual financial report for 2021 was announced within 2 months of the end of the fiscal year.</p> <p>(2) Future enhancements:</p> <p>The presentation of CSR Report will be optimized, and the disclosure of the Company's compliance with the TCFD and SASB will be evaluated.</p> | | | | |

Further Studying Status of Directors in 2022:

| Title | Name | Date of Advanced study | Organized by | Course Name | Number of Hours |
|-----------------------------------|-----------------|------------------------|--|---|-----------------|
| Director | Genda Hu | Nov. 18, 2022 | Taiwan Corporate Governance Association | The Key Issues of M&A Integration in the Process of Corporate Mergers and Acquisitions | 3 |
| | | Dec. 20, 2022 | Taiwan Corporate Governance Association | Taking Precautionary Measures: The Importance of Corporate Risk Management | 3 |
| Corporate Director Representative | Han-Ping Shieh | June 8, 2022 | Accounting Research and Development Foundation | Improve Internal Control Performance with Robotic Process Automation (RPA) | 6 |
| Corporate Director Representative | Chenming Hu | Nov. 17, 2022 | Accounting Research and Development Foundation | Global Net Zero Emissions Impact and ESG Initiatives | 3 |
| | | Nov. 18, 2022 | Accounting Research and Development Foundation | Promoting Green Transformation: Towards Net Zero Carbon Emissions | 3 |
| Corporate Director Representative | Chun-Sheng Chen | Mar. 16, 2022 | Taiwan Corporate Governance Association | A New Order in Global Shipping and Logistics | 1.5 |
| | | May 5, 2022 | Taiwan Corporate Governance Association | How Business Leaders Lead the Way to Low Carbon ESG Transformation | 1.5 |
| | | Aug. 4, 2022 | Taiwan Corporate Governance Association | Tax and Securities Law Update | 1.5 |
| | | Aug. 18, 2022 | Taiwan Corporate Governance Association | Corporate Governance and Securities Regulations | 3 |
| Independent Director | Chan-Jane Lin | July 29, 2022 | Taiwan Corporate Governance Association | M&A Value Creation; Cross-Border M&A Transactions; M&A Integration Management | 3 |
| | | Oct. 19, 2022 | Taiwan Corporate Governance Association | Corporate Governance Summit: Enhancing Directors' Functions and Implementing Sustainable Corporate Governance | 6 |
| | | Oct. 28, 2022 | Taiwan Corporate Governance Association | Corporate ESG Sustainability Strategies and Risk Management Revolution in Response to New Global Trends | 3 |
| Independent Director | Chintay Shih | July 6, 2022 | Accounting Research and Development Foundation | The Latest Corporate Governance Policies and the Analysis of Corporate Governance Evaluation Practices | 3 |
| | | Sep. 30, 2022 | Taiwan Corporate Governance Association | Changes in the International Order and the Corresponding Corporate Governance Measures | 3 |

| | | | | | |
|----------------------|----------|---------------|---|--|---|
| Independent Director | Chang Xu | Nov. 10, 2022 | Taiwan Corporate Governance Association | Corporate Governance 3.0: A Blueprint for Sustainable Development | 3 |
| | | Dec. 21, 2022 | Taiwan Corporate Governance Association | Smart Manufacturing Trends and Applications of Digital Technology in Business Management | 3 |
| Independent Director | Xuhui Xu | July 21, 2022 | Securities & Futures Institute | Supply Chain Information Security Threat Hunt: An Innovative Opportunity in Taiwan | 3 |
| | | Oct. 5, 2022 | Corporate Operating and Sustainable Development Association | Digital Transformation, Looking to the Future, New Thinking on Risk Management | 3 |

Advanced Study Status of Corporate Governance Senior Officer in 2022:

| Title | Name | Date of Advanced Study | Organized by | Course Name | Number of Hours |
|------------------------------|-----------------|------------------------|--|---|-----------------|
| Corporate governance officer | Wei-Chieh Chang | Mar. 4, 2022 | Taiwan Corporate Governance Association | Annual Report Key Messages and Liability Analysis From the Perspectives of Directors and Supervisors | 3 |
| | | May 6, 2022 | Securities & Futures Institute | Advanced Seminar for Directors and Supervisors (including Independent Directors) and Corporate Governance Senior Officer: Global Risk Awareness-Opportunities and Challenges in the Next Decade | 3 |
| | | Feb. 25, 2022 | Securities & Futures Institute | Advanced Seminar for Directors and Supervisors (including Independent Directors) and Corporate Governance Senior Officer: Global Risk Awareness-Early Warning and Type Analysis of Corporate Financial Crises | 3 |
| | | July 6, 2022 | Accounting Research and Development Foundation | The Latest Corporate Governance Policies and the Analysis of Corporate Governance Evaluation Practices | 3 |
| | | May 30, 2022 | Accounting Research and Development Foundation | The Latest Development of IFRS Policy and Analysis of Compliance Issues on Financial Reporting/Regulatory Law in Taiwan | 3 |
| | | July 14, 2022 | Accounting Research and Development Foundation | “Information Security” and “Privacy Protection” Law Compliance and Fraud Prevention Practices | 3 |

(4) The operation of the Remuneration Committee

1. Information on the members of the Remuneration Committee

April 30, 2023

| By identity | Conditions Name | Years of service in the company | Professional qualification and experience Principal majors and experience (note 1) | Independency | | | | | | | | The amount of remuneration received for services rendered to the Company or its affiliates in the past two years | Number and proportion of shares held in own name, spouse's name, or names of relatives within the second degree of kinship (or names of third party) | Number of public companies where the members of the Remuneration Committee are also the members of the remuneration committees of these companies | |
|---------------------------------|--------------------|---------------------------------|--|--------------|-----|-----|-----|-----|-----|-----|-----|--|--|---|---|
| | | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | | | |
| Independent Director (Convener) | Chintay Shih | 8 | <p>【Professional expertise】 Experiences in electrical engineering and industrial technology; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management.</p> <p>【Qualification and work experience】 Ph.D. in Electrical Engineering, Princeton University, Former Chairman of the III/ Dean of the Industrial Technology Research Institute/ Dean, School of Science and Technology Management, National Tsinghua University/ Chairman of Asia Pacific Intellectual Property Association/ Chairman of Monte Jade science & Technology Association of Taiwan/ Chairman of Chinese Institute of Engineers/ Chairman of Taiwan Semiconductor Industry Association/ Managing Director of Taiwan Electrical and Electronic Manufacturers' Association/ Chairman of Chinese Society for Management of Technology/ Chairman of Service Science Society of Taiwan/ CEO of Sun Yun-Suan Foundation/</p> | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | 0 | 0 | 3 |
| Independent Director | Chan-Jane Lin | 8 | <p>【Professional expertise】 Convener of the Company's Audit Committee. Expertise in accounting and financial management, operating decision-making management for the board of directors and functional committees, and financial industry, with experiences in computer and peripheral equipment industry and semiconductor related industry, and risk management. Extensive academic and industry experience, and is committed to promoting corporate governance in Taiwan.</p> <p>【Qualification and work experience】 PhD in Accounting and Master in MBA, University of Maryland/ Bachelor, Accounting Section, Department of Business Administration, National Taiwan University/ Qualification of Senior Professional and Technical Examinations Regulations, R.O.C./ Currently a professor at the Department of Accounting, National Taiwan University/ Convener, Managing Supervisor, Taiwan Corporate Governance Association/ Supervisor of Securities and Futures Investors Protection Center/ Former independent director of Fubon Financial Holdings/ Independent Director of Fubon Life Insurance Co., Ltd./ Independent Director of Fubon Securities Co., Ltd./ Supervisor of Taiwan Financial Holdings Co., Ltd./ Director of Department of Accounting, National Taiwan University/ Director of School of Professional Education and Continuing Studies, National Taiwan University Acting Dean and Deputy Dean of School of Management; Director and Dean of Department of Accounting, National Taiwan University/ Assistant Professor, Department of Accounting, George Washington University</p> | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | 0 | 0 | 0 | |
| Independent member | Chun-Hao Lai | 2 | <p>【Professional expertise】 Experiences in operation and management of business and leadership decision-making; board of directors</p> | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | 0 | 0 | 3 | |

| | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | | <p>leadership; crisis handling and risk management; and semiconductor industry technology and market.</p> <p>【Qualification and work experience】 Master of Electrical Engineering, University of California, Santa Barbara/ Graduated from Department of Electrical Engineering, National Taiwan University/ Current Chairman of Skymizer Taiwan Inc. Independent Director of Truelight Corporation/ Independent Director of Silicon Optronics, Inc./ Independent Director of Andes Technology Corporation/ Director of GIGA SOLUTION TECH. CO., LTD./ Director of Wolley, Inc.(CA Inc.)/ Consultant of Global Unichip Corp. Consultant of M31 Technology Corporation Consultant of Xconn Technologies Former co-founder of ASICtronic Solutions (San Jose, CA)/ Manager of ASIC Business Unit / Director of Design Service Division of TSMC North America/ Director of New Customer Business Division of TSMC North America / President of Global Unichip Corp./</p> | | | | | | | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

Note 1: Please refer to 2. Profiles of Directors, Supervisors, President, Executive Vice President, Deputy Executive Vice President, Division Heads, and Branch Heads, (1) Directors and Supervisors, 1. Profiles of Directors and Supervisors for more details on the education and personal experience of Independent directors.

Note 2: The independency is described in accordance with Article 6, paragraph 1, subparagraph 1 to 8 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange:

- (1) Not an employee of the Company or its affiliated companies.
- (2) Not a director or supervisor of the Company or any of its affiliates. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (3) Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or through nominees, in an aggregate amount of 1% or more of the total number of issued shares of the Company or ranking in the top ten in holdings.
- (4) Not a manager in preceding subparagraph (1) or a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding subparagraph (2) and (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of issued shares of the Company, or that ranks among the top five in shareholdings, or designates its representative to serve as a director or supervisor of the Company under Article 27(1) or (2) of the Company Act. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (6) Not a director, supervisor or employee of other company such that a majority of the Company’s director seats or voting shares are controlled by the same person. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (7) The chairman, president, or a person holding an equivalent position of the Company is not a director (or governor), supervisor, or employee of other company or institution, or are spouses. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (8) Not a director (or governor), supervisor, managerial officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company. (Not applicable in cases where the specified company or institution holds at least twenty percent but not exceeding fifty percent of the total number of issued shares of the Company, and the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)

2. Information on Operations of Remuneration Committee

(1) The Remuneration Committee of the Company is consisted of 3 members.

(2) Term of office of the current members: The Company's Remuneration Committee was re-elected on August 7, 2020 for the period from August 7, 2020 to June 20, 2023. A total of 3 (A) Remuneration Committee meetings were held in the past year. The qualifications of the committee members and the attendance are as follows:

2022

| Title | Name | Actual number of attendance (B) | Attend through proxy | Attendance rate (B/A) (%) | Remarks |
|-----------|---------------|---------------------------------|----------------------|---------------------------|--|
| Convener | Chintay Shih | 3 | 0 | 100% | Re-election Date re-elected: Aug. 7, 2020 Date newly assumed: Aug. 7, 2020 |
| Committee | Chan-Jane Lin | 3 | 0 | 100% | |
| Committee | Chun-Hao Lai | 3 | 0 | 100% | |

Other matters to be noted:

- Where the Board may not take or revise the advice of the Remuneration Committee, specify the date and the session of the Board, the content of the motion, the resolution of the Board, and the response to the opinions of the Company towards the advice of the Remuneration Committee (if the resolution of the Board suggested better position of remuneration than the advice of the Remuneration Committee, specify the reasons and the variations): None
- Where members of the Remuneration Committee may have adverse opinions or qualified opinions in their resolutions on record or in written declaration: None

| Remuneration Committee | Content of the motion and Subsequent Handling |
|---|--|
| 4 th session of 5 th term of the Board Feb. 23, 2022 | 1. Amendment of certain provisions of the "Regulations Governing the Directors' Remuneration". |
| | 2. 2021 distribution of employee compensation and director compensation. Remuneration Committee resolution: Approved (as proposed) by all committee members who attended the meeting. |
| | Company handling of Remuneration Committee opinion: Approved (as proposed) by all directors who attended the meeting. |
| 5 th session of 5 th term of the Board Mar. 28, 2022 | 1. Evaluation of 2021 Managerial Officer Remuneration. |
| | 2. 2022 Manager Remuneration System. Remuneration Committee resolution: Approved (as proposed) by all committee members who attended the meeting. |
| | Company handling of Remuneration Committee opinion: Approved (as proposed) by all directors who attended the meeting. |
| 6 th session of 5 th term of the Board June 21, 2022 | 1. Operation procedures for employees to subscribe to treasury stock. |
| | 2. List of employees subscribing to treasury stock. |
| | 3. Manager retention bonus. Remuneration Committee resolution: Approved (as proposed) by all committee members who attended the meeting. |
| | Company handling of Remuneration Committee opinion: Approved (as proposed) by all directors who attended the meeting. |

(5) Member information and operation of the nomination committee: None

(6) Implementation status of the promotion of sustainable development, any variance from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reason for such variance

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons |
|---|---------------------------|----|---|---|
| | Yes | No | Summary | |
| 1. Has the Company established a governance framework to advocate sustainable development and set up a dedicated (part-time) unit, which is headed by a senior executive at the authorization of the Board and is supervised by the Board, to advocate sustainable development? | ✓ | | <p>1. On April 24, 2018, the Company established the Corporate Governance Group with the approval of the Board of Directors. On February 23, 2022, the Board of Directors renamed the Corporate Governance Group as the Sustainable Development Group, which falls under the purview of the Board of Directors. The Corporate Governance Senior Officer (who is also the Company's CFO) serves as the Convenor of the Sustainable Development Group and is responsible for the advocacy and implementation of all ESG related activities.</p> <p>2. The Sustainable Development Group reports the annual work plan and the results of the plan implementation to the Board of Directors every year. Different units, including finance and accounting, center for quality management, production and manufacturing, human resources and administration, audit office, are called upon based on the respective work program to discuss and complete the work.</p> <p>3. The 2022 annual plan includes: ESG Report participation in TCSA evaluation, ethical corporate management promotion announcement for employees, intellectual property rights education and training, information security enhancement measures and training, and disclosure of issues of concern for stakeholders.</p> <p>4. The aforementioned plan was successfully completed and reported to the Board of Directors on February 23, 2023. The ESG Report was awarded the 15th TCSA Corporate Sustainability Award - Gold Award in 2022.</p> <p>5. The Board of Directors reviews the development direction and objective appropriateness based on the annual plan reported by the Sustainable Development Group, and provides advice and guidance accordingly.</p> | None |
| 2. Does the Company conduct risk assessment on environmental, social and corporate governance issues related to the Company's operations, and has the Company established the relevant risk management policies or strategies based on the materiality principle? | ✓ | | <p>1. The Company has implemented risk assessment every year and reported to the Board of Directors since 2018; the Risk Management Policy and Procedures was established on July 29, 2021 with the approval of the Board of Directors.</p> <p>2. The Risk Management Group gathers representatives from functional units each year to evaluate and make preliminary screening based on the magnitude of risk factors affecting the Company directly or indirectly. Subsequently, the group judges and selects the major risks, compiles and analyzes the statistical results and reports them to the operation and management meeting. Then, the risk-related responsible unit reports on the countermeasures and submits them to the operation and management meeting for discussion and approval. Finally, the results are reported to the Board of Directors by the Chairman's Office.</p> <p>3. The risk assessment covers all companies in the Group, mainly for those in Taiwan and Mainland China. Risk assessment factors include social, environmental and corporate governance issues, such as talents, capital, products, markets, and environment.</p> <p>4. The Risk Management Group assessed the risks periodically on an annual basis and the main content assessed in 2022 are as follows:</p> | None |

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons |
|---|---------------------------|----|--|---|
| | Yes | No | Summary | |
| | | | <p>(1) Social Concern: Talent Retention and Nurturing Risks As an IC design company, we see our employees as an important asset. Therefore, we set up a talent training program every year, with appropriate development plans for personnel at different positions and levels. In 2022, there were a total of 3,717 participants (in Taiwan and Mainland China).</p> <p>(2) Environmental Sustainability: The Impact of Corporate Transformation</p> <p>A. The Company requires suppliers to comply with RoHS and REACH regulations so as to fulfill their social responsibility for environmental protection. New suppliers are required to conduct annual audits and reviews to meet the requirements of quality, cost, delivery, and CSR. The audit items include: quality system, environmental screening standards (including green product management and ISO 14001 Environmental Safety and Health Management System Verification), and social screening standards (ISO 45001 Occupational Safety and Health Management System verification). These criteria are included in the annual evaluation of suppliers. Those who fail to meet these requirements are provided with guidance for improvement. The percentage of suppliers achieving internal carbon reduction targets in 2022 was 86%.</p> <p>B. In recent years, the Company has continuously increased its localized (Mainland China) production to reduce carbon emissions from transportation.</p> <p>C. We performed carbon emissions self-inventory and promoted electricity reduction measures, which effectively reduced electricity consumption by 16% from September to December 2022 compared to the same period.</p> <p>(3) Corporate Governance: The Company attaches importance to corporate governance regulations and continuously strengthens the functions of the Board of Directors. The 2021 annual corporate governance evaluation results continued to rank among the top 6%–20%. The remaining information of the corporate governance performance is described in the “Status of Corporate Governance as Required for Company, and Any Nonconformity to the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons Thereof”.</p> <p>(4) Other risk assessment: Refer to “VI. Analysis and Evaluation of Risk Matters for the Most Recent Fiscal Year and Up to the Publication Date of the Annual Report” within Chapter 7. Review and Analysis of Financial Conditions, Performance, and Risk Matters of this annual report for details.</p> | |
| <p>3. Environmental Issues</p> <p>(1) Has the Company established an appropriate environmental management system in accordance with its industrial characteristics?</p> | ✓ | | <p>As an IC design company, the Company’s business operations have low impact on the surrounding environment. In accordance with the law and the premise of sustainable development, the Company has established environmental management systems and policies. Additionally, the Company has dedicated environmental safety personnel to plan, supervise, and implement environmental systems, and has been granted the ISO 14001 International Certification.</p> | None |

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons | | | | | | | | | | | | |
|---|--|--|--|---|---------------|-----------------|-------------|--|--|--|--|--|-----------------------|---|---|------|
| | Yes | No | Summary | | | | | | | | | | | | | |
| | | | <p>The external suppliers are selected from those who have been granted the ISO 14001 International Certification and have environmental responsibility. By complying with the environmental regulations of RoHS/REACH, these suppliers reduce pollutant emissions, establish proper disposal methods for waste materials, thereby providing customers with products that are free of toxic substances.</p> <p>In addition to the above, we have been granted the ISO 9001 and ISO 45001 certifications, and are planning to additionally introduce the ISO 14064 system in 2023.</p> | | | | | | | | | | | | | |
| (2) Has the Company made effort to enhance the efficient use of energy and used regenerated materials that have a low impact on the environment? | ✓ | | <p>As an IC design company with no manufacturing plants, the Company's business operations have low impact on the environment. Every year, the Company formulates energy conservation solutions so as to save energy and reduce carbon emissions. The achievements in 2022 are described as follows:</p> <ol style="list-style-type: none"> 1. Formulated the energy conservation plan, including air-conditioning/server room and air-conditioning. 2. Relocated to new office and invested NT\$7.4 million to improve energy saving efficiency, which includes a programmable logic controller (PLC) system, flat panel lights, and insulated windows. 3. With the use of a programmable logic controller (PLC) system, the air conditioner was automatically set back to the set temperature, which significantly reduced the electricity consumption by 16% from September to December 2022 compared to the same period in the previous year. | None | | | | | | | | | | | | |
| (3) Has the Company assessed the potential current and future risks and opportunities from climate change for the Company, and has the Company taken countermeasures to address the issues? | ✓ | | <p>Every year, the Company's Risk Management Group gathers the relevant units to evaluate the risk factors and countermeasures in accordance with the Risk Management Policy and Procedures. These items include the risks and opportunities brought by climate change and their countermeasures as follows, which are disclosed in the CSR Report:</p> <p>https://www.focaltech-electronics.com/zh-TW/download/index</p> <table border="1"> <thead> <tr> <th>Risk</th> <th>Opportunities</th> <th>Countermeasures</th> </tr> </thead> <tbody> <tr> <td>Market Risk</td> <td>Customers have a high demand for products with low energy consumption and low environmental impact, so we develop low carbon products to meet the market demand.</td> <td> <ol style="list-style-type: none"> 1. Proactively pay attention to the market trend and do market research for continuous development. 2. Develop products with features such as small size and low power consumption to meet the concept of sustainability. </td> </tr> <tr> <td>Extreme Climate Disasters (Increase in Product Cost)</td> <td>Improvement of resource efficiency; replacement of old equipment to improve resource efficiency and reduce environmental impact.</td> <td> <ol style="list-style-type: none"> 1. Reduce product cost 2. Build corporate image 3. Monitor and control energy consumption of equipment, and formulate old equipment replacement plan. 4. Develop/execute power saving plan. </td> </tr> <tr> <td>Policy and Legal Risk</td> <td>The government promotes the use of alternative energy through incentives.</td> <td>Participate in government green energy policy incentive programs.</td> </tr> </tbody> </table> | Risk | Opportunities | Countermeasures | Market Risk | Customers have a high demand for products with low energy consumption and low environmental impact, so we develop low carbon products to meet the market demand. | <ol style="list-style-type: none"> 1. Proactively pay attention to the market trend and do market research for continuous development. 2. Develop products with features such as small size and low power consumption to meet the concept of sustainability. | Extreme Climate Disasters (Increase in Product Cost) | Improvement of resource efficiency; replacement of old equipment to improve resource efficiency and reduce environmental impact. | <ol style="list-style-type: none"> 1. Reduce product cost 2. Build corporate image 3. Monitor and control energy consumption of equipment, and formulate old equipment replacement plan. 4. Develop/execute power saving plan. | Policy and Legal Risk | The government promotes the use of alternative energy through incentives. | Participate in government green energy policy incentive programs. | None |
| Risk | Opportunities | Countermeasures | | | | | | | | | | | | | | |
| Market Risk | Customers have a high demand for products with low energy consumption and low environmental impact, so we develop low carbon products to meet the market demand. | <ol style="list-style-type: none"> 1. Proactively pay attention to the market trend and do market research for continuous development. 2. Develop products with features such as small size and low power consumption to meet the concept of sustainability. | | | | | | | | | | | | | | |
| Extreme Climate Disasters (Increase in Product Cost) | Improvement of resource efficiency; replacement of old equipment to improve resource efficiency and reduce environmental impact. | <ol style="list-style-type: none"> 1. Reduce product cost 2. Build corporate image 3. Monitor and control energy consumption of equipment, and formulate old equipment replacement plan. 4. Develop/execute power saving plan. | | | | | | | | | | | | | | |
| Policy and Legal Risk | The government promotes the use of alternative energy through incentives. | Participate in government green energy policy incentive programs. | | | | | | | | | | | | | | |

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---------------------------|--------------|--|---|------------------|------|--|------|--|--------------|------------------|--------------|------------------|-------------------------|---------------------|--------|----|----|------|-------------------------|---------------------|-------|------|-------|------|-------------------|----|-------|-------|--------|----|-------|-------------|------|-------|------|-------|---------------|-------------|------|-------|------|-------|------|
| | Yes | No | Summary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (4) Has the Company compiled statistics on greenhouse gas emissions, water consumption, and total volume of waste materials for the past 2 years, and has the Company formulated policies for greenhouse gas reduction, water use reduction, and other waste management? | ✓ | | <p>The Company's statistics on greenhouse gas emissions, water consumption, and total volume of waste materials over the past 2 years are as follows (Taiwan):</p> <table border="1"> <thead> <tr> <th rowspan="2">Statistical Item</th> <th rowspan="2">Unit</th> <th colspan="2">2021</th> <th colspan="2">2022</th> </tr> <tr> <th>Total Volume</th> <th>Per-capita Usage</th> <th>Total Volume</th> <th>Per-capita Usage</th> </tr> </thead> <tbody> <tr> <td>Scope 1 – GHG Emissions</td> <td>Metric Tons of CO2e</td> <td>Note 1</td> <td>--</td> <td>88</td> <td>0.21</td> </tr> <tr> <td>Scope 2 – GHG Emissions</td> <td>Metric Tons of CO2e</td> <td>1,120</td> <td>2.58</td> <td>1,037</td> <td>2.47</td> </tr> <tr> <td>Water Consumption</td> <td>m3</td> <td>7,607</td> <td>17.53</td> <td>Note 2</td> <td>--</td> </tr> <tr> <td>Waste</td> <td>Metric Tons</td> <td>2.73</td> <td>0.006</td> <td>2.27</td> <td>0.005</td> </tr> <tr> <td>General Waste</td> <td>Metric Tons</td> <td>1.51</td> <td>0.003</td> <td>1.20</td> <td>0.003</td> </tr> </tbody> </table> <p>Note 1: Scope 1 GHG Emissions of 2021 and the Scope 3 GHG Emissions of each year are not included in the calculation, and are expected to be introduced to ISO14064 in 2023.</p> <p>Note 2: In mid-2022, we relocated to our new office in the new park. Since the park centrally managed water resources and payment settlement, we could not set up an individual meter for water supply, so full year data was not available.</p> <p>The Company's primary energy consumption is from electricity purchased externally. The 2022 annual energy saving and carbon reduction plan measures are as follows:</p> <ol style="list-style-type: none"> 1. PLC centralized control of temperature. 2. Adjustment of outdoor machine heat dissipation and air dissipation in the server room. 3. Change of the total heat exchanger. 4. Centralized extraction of heat source from the server room. <p>Implementation results: The total electricity saving from July to December 2022 was 16% less than the same period in the previous year. Proposed target: Reduce electricity consumption by 5% in 2023 compared to 2022.</p> | Statistical Item | Unit | 2021 | | 2022 | | Total Volume | Per-capita Usage | Total Volume | Per-capita Usage | Scope 1 – GHG Emissions | Metric Tons of CO2e | Note 1 | -- | 88 | 0.21 | Scope 2 – GHG Emissions | Metric Tons of CO2e | 1,120 | 2.58 | 1,037 | 2.47 | Water Consumption | m3 | 7,607 | 17.53 | Note 2 | -- | Waste | Metric Tons | 2.73 | 0.006 | 2.27 | 0.005 | General Waste | Metric Tons | 1.51 | 0.003 | 1.20 | 0.003 | None |
| Statistical Item | Unit | 2021 | | | | 2022 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Total Volume | Per-capita Usage | Total Volume | Per-capita Usage | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Scope 1 – GHG Emissions | Metric Tons of CO2e | Note 1 | -- | 88 | 0.21 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Scope 2 – GHG Emissions | Metric Tons of CO2e | 1,120 | 2.58 | 1,037 | 2.47 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Water Consumption | m3 | 7,607 | 17.53 | Note 2 | -- | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Waste | Metric Tons | 2.73 | 0.006 | 2.27 | 0.005 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| General Waste | Metric Tons | 1.51 | 0.003 | 1.20 | 0.003 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Social issues (1) Has the Company established related management policy and procedure in accordance with applicable legal rules and international conventions on human rights? | ✓ | | <p>With reference to international conventions such as the International Labor Organization (ILO) conventions and the UN Global Compact, the Company has established a Code of Human Rights, which is disclosed on the corporate website. The Company complies with labor-related laws and regulations, incorporates them in the relevant work rules and systems to protect employees' rights and benefits, and introduces them during the new employee training course every year.</p> <p>Suppliers management is evaluated using the RBA questionnaire and suppliers are required to comply with human rights regulations, with a completion rate of 100% for key suppliers.</p> | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (2) Has the Company established and implemented reasonable employee benefit measures (including | ✓ | | <p>Employee compensation: Compensation for the Company's new employees is certified in accordance with the Employee Compensation Criteria Guidelines, and employee promotion is handled annually in accordance with the Employee Promotion Management Guidelines. In addition to</p> | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons |
|--|---------------------------|----|---|---|
| | Yes | No | Summary | |
| compensation, leave, and other benefits), and are operational performance and results appropriately reflected in employee compensation? | | | <p>leave granted in accordance with the Labor Standards Act, the Company's leave policy allows an additional 7 days of flexible leave per year for employees. Apart from allocating more than 1% of the Company's profits to employees in accordance with the Articles of Incorporation, the Company also grants employees various types of bonuses and pay raises based on their rank, years of service, and contributions.</p> <p>Employee welfare measures: The Company has set up an Employee Welfare Committee, which allocates welfare funds every year according to the Articles of Incorporation, and plans and provides various benefits for employees, such as festive vouchers, festive activities, various subsidies, travel trips, and fun activities.</p> <p>Diversity and equality: The Company is an IC design technology company, thus most of the employees possess a background in science, both industry and academia. The Company has more male employees than female employees, with women accounting for 18% of all employees. Among them, female supervisors account for about 14.5% of all female employees, as well as 8.9% of supervisors of all gender. Nevertheless, all employees receive equal pay for equal work and have fair and equal opportunities for promotion and compensation assessment, regardless of their gender and age. The Company also hires three employees with physical disabilities, which is higher than that required by law. (Note: Taiwan area)</p> <p>Operational performance reflected in employee compensation: The "Employee Benefits (Salary) Information Disclosed in the Notes to the Financial Statements" disclosed on the Market Observation Post System (MOPS) indicates that the employee compensation is directly correlated to the Company's operational performance. The Company's earnings per share increased from NT\$3.97 in 2020 to NT\$30.23 in 2021, and the average salary of full-time employees who are not in supervisory positions increased by 33%. In 2022, due to the sudden drop in the general environment and market, the company's profit was loss, and the average and median salary decreased by 29% and 22% compared with 2021</p> | |
| (3) Has the Company provided a safe and healthy work environment for employees, and provided education on labor safety and health regularly? | ✓ | | <ol style="list-style-type: none"> As an IC design company, the Company's work environment is based on office areas. In addition, the Company appoints professional licensed industrial plant nursing personnel and employs occupational physicians to provide employees with regular psychological, medical, health consultation services, and annual health examinations that are better than those required by law. Other than that, the Company has established a dedicated team and personnel in accordance with the law to manage environmental safety and health management related matters. The Company has achieved the ISO 45001 Certification – an international standard for environmental and occupational health and safety management. Environmental safety operations: <ol style="list-style-type: none"> Perform operational environment monitoring semi-annually. Complete fire safety and prevention, and awareness-raising course in the second half of the year. Perform emergency evacuation drills annually. | None |

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons | | | | | | | | | | | | |
|--|---------------------------|----------------------|--|---|--------------|----------------------|-------------------------------------|----|-----|---------------------------------------|-----|-------|--|----|----|--|
| | Yes | No | Summary | | | | | | | | | | | | | |
| | | | <p>(4) Perform fire safety equipment inspection and repair annually.</p> <p>(5) Regularly perform safety inspections of building fire safety and evacuation facilities and equipment every two years.</p> <p>4. Courses held in 2022 (Taiwan area)</p> <table border="1"> <thead> <tr> <th>Course</th> <th>Participants</th> <th>Total training hours</th> </tr> </thead> <tbody> <tr> <td>Fire Safety and Evacuation Training</td> <td>86</td> <td>129</td> </tr> <tr> <td>Safety and Health On-the-job Training</td> <td>399</td> <td>1,197</td> </tr> <tr> <td>Safety and Health Training for New Employees</td> <td>13</td> <td>39</td> </tr> </tbody> </table> <p>5. The number of occupational accidents (excluding traffic accidents) of the employees of the Company, including its subsidiaries, for 2022 was 0.</p> | Course | Participants | Total training hours | Fire Safety and Evacuation Training | 86 | 129 | Safety and Health On-the-job Training | 399 | 1,197 | Safety and Health Training for New Employees | 13 | 39 | |
| Course | Participants | Total training hours | | | | | | | | | | | | | | |
| Fire Safety and Evacuation Training | 86 | 129 | | | | | | | | | | | | | | |
| Safety and Health On-the-job Training | 399 | 1,197 | | | | | | | | | | | | | | |
| Safety and Health Training for New Employees | 13 | 39 | | | | | | | | | | | | | | |
| (4) Has the Company established the training program for the effective planning of career development for employees? | ✓ | | <p>1. The Company provides a variety of educational and training programs, and internal and external professional education and training, to enhance employees' career skills. Additionally, the Company also encourages employees to assess their own interests, skills, values and goals, and communicate their career intentions to their managerial officers, in order to formulate their future career plans.</p> <p>2. In 2022, the Company, including its subsidiaries, provided training courses based on four main categories for employees: (Note: Taiwan area)</p> <p>(1) Business Operation and Management: These courses, targeted at mid- and senior-level management, aimed to cultivate both the participants' organizational and executive abilities, with 36 participants in total.</p> <p>(2) Professional Training: These courses targeted the R&D, marketing, and production and manufacturing staff whose positions are related to product research and development, design and manufacturing. These training courses were planned according to the professional knowledge and skills of each unit, and were divided into professional skills and common abilities categories to enhance employees' competitiveness in the workplace. A total of 52 sessions were held throughout the year, with 960 participants in total.</p> <p>(3) General Education Course: These courses, targeted at all employees of the Company, included information security education, industrial safety and environmental protection training, and fire safety drills. A total of 17 sessions were held throughout the year, with 991 participants in total.</p> <p>(4) New Employee Training: This course, targeted at new employees of the year, is required for employee onboarding. The course includes introductions to corporate culture, corporate products, ethical corporate management, and the personnel system. A total of 143 participants attended the course throughout the year.</p> <p>3. Refer to (2) Education and Training of Employees within 5. Labor Relations in this annual report for details on the number</p> | None | | | | | | | | | | | | |

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons |
|---|---------------------------|----|--|---|
| | Yes | No | Summary | |
| | | | of participants, hours and expenses of training courses throughout the year. | |
| (5) Does the Company comply with laws, regulations, and international standards when handling issues such as customer health and safety, customer privacy, and marketing and labeling of products and services? Has the Company established a policy and complaint procedure to protect consumer and customer rights and interests? | ✓ | | All of the Company's customers are corporate businesses; their information – including transaction prices and terms – is deemed to constitute a Company trade secret. Thus, all of this information is managed via computer information security & permissions. The Auditing Department conducts annual audits on information security, and signs a Client Confidentiality Agreement based on the level of technical and commercial secrets discussed during product development. The Company's products are marketed and labeled in accordance with the relevant laws and regulations, as well as international standards (ISO 9001, ISO 14001, ISO 45001). A dedicated hotline is set up on the corporate website to provide a channel for stakeholders to file complaints, which are handled and processed by dedicated personnel. | None |
| (6) Has the Company established a supplier management policy that requires suppliers to comply with regulations on environmental protection, occupational safety and health, and labor rights issues? Has the Company established an implementation method for such? | ✓ | | 1. The Company has established various regulations for suppliers to comply with in accordance with manufacturing processes, such as the Production Control Regulations, the Outsourcing Factory Management Regulations for the selection of new suppliers and regular audits; the Management Regulations for Hazardous Substances to the Environment, QSA, QPA, and RBA questionnaires, and on-site examinations. All of these regulations help the Company to ascertain the supplier's compliance with environmental protection, occupational safety and health, and labor rights. The Company selects qualified suppliers after a comprehensive evaluation is conducted. 2. In 2022, the Company worked with 28 suppliers, and 26 of them had achieved ISO 14001 Certification for environmental management system, accounting for 93% of the overall suppliers. Among them, the all 9 key suppliers had all achieved the Certification (100%). Additionally, 100% of raw materials used were sourced from smelters that are approved by the global sustainability initiative organization; 100% of suppliers complied with RoHS and REACH regulations; and 100% of manufacturing suppliers completed supplier system audits via QSA. 3. Items completed in 2022: 1. Signing of Supplier Integrity Pledge and Corporate Social Responsibility Pledge: Suppliers who signed the pledge reached 100%. 2. Completed system audits of 17 suppliers with production and manufacturing works. 3. Requiring suppliers other than fabs to comply with the Responsible Business Alliance (RBA) rules using questionnaires: The number of suppliers who obtained licenses or complied with the RBA rules on environmental protection, occupational safety and health, or labor rights reached 100%. 4. Requiring suppliers to save energy and reduce carbon emissions at their end: Suppliers who set their goals and achieved them reached 86%. | None |
| 5. Does the Company refer to international standards or guidelines in the preparation of its reports, such as Sustainability | ✓ | | The Company's 2021 Corporate Social Responsibility (CSR) Report was completed and disclosed on the Company's website in 2022. https://www.focaltech-electronics.com/zh-TW/download/index The Company's CSR Report obtained a third-party verification | None |

| Items for advocacy | Operation Status (Note 1) | | | Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons |
|--|---------------------------|----|-----------------------|---|
| | Yes | No | Summary | |
| Report/ESG Report, that disclose non-financial information? Has the Company obtained a third-party verification or assurance opinion on previously-disclosed reports? | | | from TUV NORD Taiwan. | |
| <p>6. If the Company has formulated its own Sustainable Development Best Practice Principles in accordance with the Sustainable Development Best Practice Principles for TWSR/GTSM Listed Companies, specify the differences between its implementation and the Principles formulated:</p> <p>The Company has not formulated its own Sustainable Development Best Practice Principles, but executed the affairs in accordance with Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and reported the Sustainable Development Plan implementation status to the Board of Directors on a regular basis. Other related issues, such as corporate governance, environmental protection, and employee rights and interests, have been implemented in accordance with the Company's internal systems and regulations. The Sustainable Development Plan and its implementation status are disclosed on the corporate website under the ESG-related information, as well as in the Corporate Social Responsibility (CSR) Report. https://www.focaltech-electronics.com/zh-TW/esg_overview/index</p> | | | | |
| <p>7. Other important information for understanding the Company's advocacy of sustainable development implementation:</p> <ol style="list-style-type: none"> 1. The achievements in 2021 are included in the Company's corporate governance performance, and the Company has been ranked in the top 6–20 among other companies for 4 years. 2. The Company's 2021 Annual CSR Report was awarded the TCSA Corporate Sustainability Award – Gold Award in 2022. 3. Cooperated with various colleges and universities, including National Tsing Hua University and National Yang Ming Chiao Tung University to jointly nurture semiconductor professionals in Taiwan and lead them into the semiconductor field, with about NT\$8.73 million invested. Our Senior Vice President gave lectures at the campus and our colleagues also worked with students on research projects. Additionally, we provided students with scholarship and internship opportunities. | | | | |

(7) Differences Between Implementation of Ethical Corporate Management and Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, Including Reasons For Such

| Items for evaluation | Implementation Status | | | Deviations from "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and reasons |
|--|----------------------------|----|---|--|
| | Yes | No | Summary | |
| <p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Has the Company established an ethical corporate management policy that has been approved by the Board of Directors, and clearly stated the ethical corporate management policy and practices, as well as the commitment of the Board of Directors and the top management to actively implementing the management in the Articles of Incorporation and external documents?</p> <p>(2) Has the Company established a mechanism to assess unethical conduct risks? Does that Company regularly analyze and evaluate the business activities within its scope of business that have a higher risk of unethical conduct? Has the Company accordingly formulated a plan to prevent unethical conduct, covering at a minimum the preventive measures for the acts mentioned in Article 7-2 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?</p> <p>(3) Whether the Company has stipulated the operating procedures, conduct guidelines, disciplinary actions against violations as well as grievance system in the plan to prevent unethical conducts, implemented the execution thereof, and regularly reviewed and revised the aforementioned plan?</p> | <p>✓</p> <p>✓</p> <p>✓</p> | | <p>(1) The Company's Board of Directors approved the Code of Business Conduct and Ethics on October 26, 2018. The Company's policies and practices on ethical corporate management are clearly stated on the Company's website and in external customer and supplier documents. Internally, the Company provides training to new employees annually, holds meetings from time to time to promote integrity and ethical conduct, and has adopted a whistleblowing system to demonstrate the commitment of the Board of Directors and management to actively implementing the ethical corporate management policy.</p> <p>(2) The Company has established an Internal Control System, Internal Audit System, Whistleblowing System, Employee Grievance System, and Code of Business Conduct and Ethics to prevent unethical conduct. Furthermore, in 2022, the number of mid- and senior-level management signing the Integrity Pledge reached 100%, while the remaining employees were requested to fill out the questionnaire with an aim to promote awareness, with a completion rate of 75%.</p> <p>(3) The Company has established the Code of Business Conduct and Ethics and the Whistleblowing System to provide clear guidelines and operation procedures for the conduct of directors, managerial officers, employees, appointees, and persons having substantial control over the Company, and to help Company customers, suppliers, external parties, and other stakeholders be more aware of the Company's ethical standards. As for confirmed cases of unethical conduct, disciplinary measures are taken against the violators; if necessary, legal action is also taken. Also, relevant departments are then instructed to review the Internal Control System and operation procedures.</p> | None |
| <p>2. The Materialization of Ethical Management</p> <p>(1) Has the Company evaluated the record on ethical practices of its counterparties, and has specified the clause of business ethic in the agreements binding the Company and its counterparties?</p> | <p>✓</p> | | <p>(1) The Company conducts credit evaluations before entering into transactions with important customers and credit trading, in order to avoid dealing with those who have a history of unethical conduct. Moreover, the Company requests the signing of the Integrity Pledge and</p> | None |

| Items for evaluation | Implementation Status | | | Deviations from "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and reasons |
|---|-----------------------|----|--|--|
| | Yes | No | Summary | |
| (2) Has the Company established a dedicated unit under the Board of Directors to promote ethical corporate management, and to report to the Board of Directors on a regular basis (at least once a year) regarding ethical corporate management policies and plans, in order to prevent unethical conduct and to monitor their implementation? | ✓ | | <p>the Corporate Social Responsibility Pledge by suppliers. In 2022, the number of suppliers signing such pledges reached 100%.</p> <p>(2) The Company's Board of Directors approved the Code of Business Conduct and Ethics on October 26, 2018. The Corporate Governance Group (which was renamed the Sustainable Development Group in 2022), which is under the purview of the Board of Directors, is responsible for the formulation and promotion of ethical corporate management policy. The Group's duties are as described above for the corporate governance operations, and the operation plan and implementation status are reported to the Board of Directors on an annual basis. The operation work for 2022 was reported to the Board of Directors on February 23, 2023.</p> | |
| (3) Has the Company mapped out the policy for the avoidance of the conflict of interest and has provided suitable channels for such purpose, and properly pursued the policy? | ✓ | | <p>(3) The Company has established the Operation Procedures for Internet Material Information Disclosure and Prevention of Insider Trading, the Whistleblowing System and employee grievance procedures to provide appropriate channels for those who have the need to file a complaint and with specific reasons for any illegal, abusive, or improper conduct related to official duties. The grievance channels are listed on the corporate website for access by both employees and outsiders.</p> | |
| (4) Has the Company established an effective accounting system and internal control system for the implementation of ethical corporate management? Has the internal auditing unit prepared an audit plan based on the assessment results for unethical conduct risks, and checked compliance with the unethical conduct prevention plan accordingly, or appointed a CPA to conduct the audit? | ✓ | | <p>(4) The Company has established an accounting system for accounting personnel to follow in the execution of their duties. Additionally, the Company has established an internal control system in accordance with laws and regulations along with actual operating circumstances. The Company also conducts audit-related work, and reports the audit results to Audit Committee and the Board of Directors on a regular basis.</p> | |
| (5) Has the Company organized internal and external training on ethical management? | ✓ | | <p>(5) The training of new employees regularly includes the promotion of ethical corporate management as well as industrial business conduct and ethics. Occasional training sessions are held for specific employees to enable them to clearly understand the Company's ethical corporate management philosophy and standards.</p> | |

| Items for evaluation | Implementation Status | | | Deviations from "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and reasons |
|--|----------------------------|----|--|--|
| | Yes | No | Summary | |
| <p>3. The reporting system of the Company in action</p> <p>(1) Has the Company established a reporting and reward system and the channels for facilitating the report on unethical practices, and has appointed designated personnel to handle the subject of reporting?</p> <p>(2) Has the Company created a standard operating procedure (SOP) for the investigation of reported matters, follow-up measures to be taken after the completion of the investigation, and relevant confidentiality mechanisms?</p> <p>(3) Has the Company taken protection measures to protect the informant from improper treatment after reporting on unethical practices?</p> | <p>✓</p> <p>✓</p> <p>✓</p> | | <p>(1) The Company has established a Whistleblowing System with a dedicated mailbox, in addition to a complaint filing channel on the Company's website. All reported matters are managed by the Audit Committee convener and the audit supervisor shall jointly receive and manage the reported matters, and handle them as confidential cases to protect the informant.</p> <p>(2) The Company has established a Whistleblowing System to manage reported matters, and all related documents and information are considered confidential; all employees involved in the handling of these matters are responsible for maintaining complete confidentiality.</p> <p>(3) The Company has a Whistleblowing System in place and is responsible for the protection of the confidentiality of whistleblowers, in order to prevent them from being subjected to improper treatment as a result of whistleblowing.</p> | None |
| <p>4. Enhancing Information Disclosure</p> <p>(1) Has the Company disclosed the content of Ethical Corporate Management Best Practice Principles and the result at its official website and MOPS?</p> | <p>✓</p> | | <p>(1) The Company has disclosed the Code of Business Conduct and Ethics on the Company website, where implementation plans and results are regularly disclosed.</p> | None |
| <p>5. If the Company has established performance of good-faith management best practice principles based on "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the principles and their implementation: None</p> | | | | |
| <p>6. Other vital information that helps to understand the practice of ethical management of the Company (e.g., the review and amendment to the Ethical Corporate Management Best Practice Principles of the Company): None</p> | | | | |

(8) If the Company has formulated a code of corporate governance and related regulations, the inquiry method shall be disclosed: The Company has formulated Corporate Governance Best Practice Principles and related regulations, which are publicly disclosed on the Company's website (https://www.focaltech-electronics.com/zh-TW/importent_regular/index) to regulate the ethical conduct of the Company's directors and all subordinate personnel.

(9) Other important information sufficient to improve understanding of how corporate governance works: none

(10) Implementation Status of Internal Control System

1. Internal Control System Statement



FocalTech Systems Co., Ltd.
Internal Control System Statement

Date: February 23, 2023

With regard to the 2022 internal control system, the Company declares the following based on the self-evaluation findings:

1. The Company is fully aware that establishing, implementing, and maintaining an internal control system are the responsibility of its Board of Directors and managerial officers. The Company has established such a system to provide reasonable assurance for attaining the aims of the effectiveness and efficiency of business operations (including profits, performance, safeguarding of asset security, etc.); reliability, timeliness, transparency of reporting; and compliance with the governing laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system provides assurance to the aforementioned aims only to a reasonable extent. Moreover, due to changes of environments and circumstances, the effectiveness of an internal control system may change accordingly. Nevertheless, the internal control system of the Company is equipped with a self-monitoring mechanism, and the Company takes corrective actions as soon as any fault is identified.
3. The Company determines the design and operating effectiveness of its internal control system in accordance with the determining factors provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as the “Regulations”). The internal control system determining factors specified in the Regulations divide an internal control system into five elements based on its management: 1. Control Environment, 2. Risk Assessment, 3. Control Operations, 4. Information and Communications, and 5. Monitoring. Each element further contains several items. Refer to the Regulations for the aforementioned items.
4. The Company has adopted the aforementioned internal control system determining factors to examine the design and operating effectiveness of its internal control system.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, the Company deems that the internal control system as of December 31, 2022 (including supervision and management of subsidiaries), which encompass internal controls for knowledge of the accomplishment degree of operating effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with the governing laws and regulations, are effectively designed and implemented, and reasonably assure accomplishment of the abovementioned aims.
6. This Statement constitutes the main content of the Company’s annual report and prospectus, and will be made public. Any wrongful act pertaining to falsification or concealment involving the above public declaration will be subjected to legal liabilities under Articles 20, 32, 171, and 174 of, and other regulations relating to, the Securities and Exchange Act.
7. This Statement was approved by the Board Meeting of the Company held on February 23, 2023, where none of the eight attending directors expressed dissenting opinions, and all consented to the content of this Statement.

FocalTech Systems Co., Ltd

Chairman: Genda Hu



Signature/Stamp

President: Genda Hu



Signature/Stamp

2. If a CPA is appointed to review the internal control system, the review report shall be disclosed: N/A.

(11) If there has been any legal penalty against the Company or its internal personnel, or any disciplinary penalty by the Company against its internal personnel for violation of the internal control system, during the most recent fiscal year or during the current fiscal year preceding the annual report publication date, where the result of such penalty may have a material effect on shareholder equity or securities prices, the penalty, the main shortcomings, and conditions for improvement shall be disclosed in the annual report: None.

(12) Major resolutions of the Shareholders' Meeting and the Board in the most recent year to the date this report was printed

1. Important Resolutions of the Board of Directors

| Date | Important Resolutions |
|---------------|---|
| Feb. 23, 2022 | Approved the 2021 Financial Statement. |
| | Approved the amount of director and employee compensation for 2021, and its distribution method and recipients. |
| | Convened the Company's 2022 annual shareholders regular meeting. |
| Apr. 25, 2022 | Approved the organizational restructuring transactions. |
| | Approved the director candidates name list nominated by the Board of Directors for the by-election. |
| | Approved the amendment to some provisions of the Articles of Incorporation. |
| | Approved the proposal for 2021 earnings distribution. |
| June 21, 2022 | Approved the treasury stock subscription operation procedures. |
| | Approved the treasury stock subscription name list. |
| | Approved the change of Accountant Officer. |
| July 28, 2022 | Approved the 2022 Q2 Financial Statement. |
| | Approved renewals and additions of the line of credit by bank. |
| Nov. 11, 2022 | Approved the 2022 Q3 Financial Statement. |
| | Approved the 2022 Q3 inventory valuation. |
| Feb. 23, 2023 | Approved the 2022 Financial Statement. |
| | Approved the amount of director and employee compensation for 2022, and its distribution method and recipients. |
| | Re-elected the Board of Directors at the end of its term. |
| | Convened the Company's 2023 annual shareholders regular meeting. |

2. Important Resolutions of Shareholders' Meeting and Implementation Status

| Date | Important Resolutions and Implementation Status Thereof |
|--------------|--|
| June 9, 2022 | 1. Recognition of 2021 Business Report and Financial Statement. Implementation Status: Resolution was adopted. |
| | 2. Recognition of 2021 Earnings Distribution Proposal. Implementation Status: August 3, 2022 was set as the Record Date, and August 24, 2022 was set as the Ex-dividend Date; cash distribution of approximately NT\$15.836 per share has been completed. |
| | 3. Approval of amendment to the Articles of Incorporation. Implementation Status: Resolution was adopted and implemented, and the change in registration was completed on July 25, 2022. |
| | 4. Approval of amendment to the Rules of Procedure for Shareholders Meetings. Implementation Status: Resolution was adopted and implemented. |
| | 5. Approval of amendment to the Procedures for the Acquisition or Disposal of Assets. Implementation Status: Resolution was adopted and implemented. |

(13) Adverse opinion from directors or supervisor over important resolution of the Board in the most recent year until the day the Annual Report was printed with records or written declaration, and the contents of such opinion: None

(14) In the most recent year to the date this report was printed, the information on the resignation and discharge to Chairman, President, accountant officer, chief financial officer, chief internal auditor, corporate governance officer and R&D officer :

April 30, 2023

| Title | Name | Date assumed | Date discharged | Reason of resignation or discharge |
|--------------------|-----------------|---------------|-----------------|------------------------------------|
| Accountant Officer | Ching-Ting Chiu | Oct. 28, 2021 | May 9, 2022 | Duty adjustment |

4. Disclosure of the CPAs' fee

(1) Fee information

Unit: NT\$ thousand

| Accounting Firm | Names of CPAs | Duration of Audit | Auditing fee | Non-Auditing fee | Total | Note |
|-------------------|-------------------------------|-------------------------------|--------------|------------------|-------|--|
| Deloitte & Touche | Chih-Ming Shao, Ming-Hsin Cho | Jan. 1, 2022 to Sep. 30, 2022 | 4,450 | 318 | 4,768 | Non-Audit fee- 1. The amount paid on behalf of the Company during the audit period: 258 2. Obsolete-inventory review fee: 60 |
| | Yu-Hong Kuo, Chih-Ming Shao | Oct. 1, 2022 to Dec. 31, 2022 | | | | |

- (2) If there is a change in the accounting firm, and the audit fees paid for the fiscal year in which the change took place are lower than those paid for the fiscal year immediately preceding the change, the amount and percentage of and reason for the reduction in audit fees shall be disclosed: N/A.
- (3) When the audit fees paid for the current fiscal year are lower than those paid for the immediately preceding fiscal year by 10% or more, the amount and percentage of and reason for the reduction in audit fees shall be disclosed: N/A.

5. Changes of CPA:

(1) Information on Predecessor CPA

| | | | |
|---|---|-----|------------------------------------|
| Date of Replacement | February 23, 2022 and November 11, 2022 | | |
| Reason for replacement and explanation | Accounting firm's internal adjustment | | |
| Whether the Company terminated or discontinued the engagement, or the CPA voluntarily ended the engagement or declined further engagement | The person involved | CPA | The Company |
| | Situation | | |
| | Voluntarily ended the engagement | N/A | N/A |
| Declined (Discontinued) further engagement | N/A | N/A | |
| The opinion and reason for the audit report issued by the CPA during the two most recent years containing expressions other than an unqualified opinion | None | | |
| Any disagreement between the CPA and the Company | Yes | | Accounting principles or practices |
| | | | Financial report disclosure |
| | | | Auditing scope or procedure |
| | | | Others |
| | No | ✓ | |
| | Explanation | | |
| Other disclosures (Matters related to Article 10, paragraph 6, items 1 (4) to (7) of the Regulations that shall be disclosed) | None | | |

(2) Information on the successor CPA

| | |
|--|--|
| Name of the accounting firm | Deloitte & Touche |
| Name of the CPA | Changed to CPA Chih-Ming Shao and CPA Ming-Hsing Cho on February 23, 2022. Changed to CPA Yu-Hong Kuo, CPA Chih-Ming Shao on November 11, 2022. |
| Date of engagement | February 23, 2022 and November 11, 2022 |
| The subjects discussed during the consultations as well as their results regarding the accounting treatment of or application or accounting principles to a specified transaction, or the type of audit opinion that might be rendered on the Company's financial report prior to the formal engagement of the successor CPA | None |
| Written views obtained from the successor CPA regarding the matters on which the Company did not agree with the former CPA | None |

(3) The content of the reply letter from the previous CPA regarding Article 10, paragraph 6, items 1 and 2 (3) of the Regulations: N/A

6. The chairman, president, chief financial or accounting manager of the Company who holds position in the business under the commissioned CPA firm or its affiliates in 1 year: None

7. In the most recent year to the date this report was printed, directors, supervisors, managerial officers and the shareholders holding more than 10% of the shares in the transfer of shares and pledge of shares under lien, and any change thereof.

(1) Changes in shareholdings:

Unit: Share

| Title | Name | 2022 | | As of April 1, 2023 | |
|------------------------|--|---|--|--------------------------------------|--|
| | | Increase (decrease) in No. of Shares (Note 3) | Increase (decrease) in No. of Pledged Shares | Increase (decrease) in No. of Shares | Increase (decrease) in No. of Pledged Shares |
| Director and President | Genda Hu | 248,027 (80,000) | 0 | 68,261 | 0 |
| Director | GWAALLC Representative: Han-Ping Shieh | 0 | 0 | 0 | 0 |
| Director | GWAALLC Representative: Chenming Hu | | | | |
| Director | Acer Incorporated Representative: Jun-Sheng Chen (Date assumed: | 0 | 0 | 0 | 0 |

| | June 9, 2022) | | | | |
|--|--|----------------------|---|---------------------|---|
| Independent Director | Chang Xu | 0 | 0 | 0 | 0 |
| Independent Director | Xuhui Xu | 0 | 0 | 0 | 0 |
| Independent Director | Chan-Jane Lin | 0 | 0 | 0 | 0 |
| Independent Director | Chintay Shih | 0 | 0 | 0 | 0 |
| Senior Vice President | Shih-Hui Cheng (Date discharged: November 7, 2022) | 30,000 (61,000) | 0 | 0 | 0 |
| Senior Vice President | Chieh-Sheng Lin (Date assumed: November 1, 2022) | 70,000 | 0 | 70,000 (140,000) | 0 |
| Senior Vice President | Chern-Lin Chen (Date assumed: November 11, 2022) | 70,000 | 0 | 70,000 (140,000) | 0 |
| Vice President | Ching-Kai Chang | 30,000 (63,653) | 0 | 0 | 0 |
| Vice President | Wei-Ching Hou | 30,000 (61,762) | 0 | 0 (17,000) | 0 |
| Vice President | Hsiao-Hsu Tu | 43,000 | 0 | 0 | 0 |
| Vice President | Jui-Cheng Hsu | 91,761 (92,000) | 0 | 21,003 | 0 |
| Vice President | Pei-Tzu Wu | 86,260 (152,005) | 0 | 21,003 | 0 |
| Vice President | Sung-Tsan Chiang (Date discharged: September 14, 2022) | 37,000 (37,000) | 0 | 0 | 0 |
| Marketing Vice President | Lien-Kuo Wang | 168,000 (152,409) | 0 | 0 (12,602) | 0 |
| Business Vice President | Ching-Suo Wang | 16,000 (32,555) | 0 | 0 | 0 |
| Business Assistant Vice President | Te-Chih Kung | 14,000 (17,502) | 0 | 0 | 0 |
| Vice President, CFO, Spokesperson and Corporate Governance Officer | Wei-Chieh Chang | 35,000 (35,000) | 0 | 30,000 (30,000) | 0 |

| | | | | | |
|------------------------------------|---|---------------------|---|--------------------|---|
| Senior Deputy Vice President | Ching-Hsing Chang | 22,000 (22,000) | 0 | 0 | 0 |
| Deputy Vice President | Chun-Fu Wang (Date discharged: November 30, 2022) | 44,005 (102,000) | 0 | 0 | 0 |
| Deputy Vice President | Cheng-Tao Chuang (Date discharged: January 31, 2023) | 61,556 (62,822) | 0 | 0 | 0 |
| Deputy Vice President | Po-Sheng Shih | 47,706 (47,706) | 0 | 12,602 | 0 |
| Deputy Vice President | Hung-Jen Chien | 54,154 (54,154) | 0 | 10,502 (10,502) | 0 |
| Deputy Vice President | Chen Kuo (Date assumed: February 14, 2022) | 30,000 (30,000) | 0 | 0 | 0 |
| Deputy Vice President | Hao-Chin Chao (Date assumed: May 16, 2022) | 30,000 (30,000) | 0 | 0 | 0 |
| Special Assistant to the President | Chung-Hsiang Chiang (Date assumed: May 16, 2022) | 24,000 (24,000) | 0 | 0 | 0 |
| Accountant Officer | Ching-Ting Chiu (Date discharged: May 9, 2022) | 0 | 0 | 0 | 0 |
| Accountant Officer | Pei-Chun Chen (Date assumed: June 6, 2022) | 0 | 0 | 0 | 0 |

Note 1: Since June 21, 2012, the Audit Committee has been responsible for the duties of a supervisor as stipulated in the laws and regulations.

Note 2: The shareholding changes are disclosed from the date of assumption of duty until the date of discharge.

- (2) Information on any transfer of equity interests by a director, supervisor, managerial officer, shareholder related party with a stake of more than 10 percent (where the counterparty in any such transfer of equity interests is a related party): None.
- (3) Information on any pledge of equity interests by a director, supervisor, managerial officer, shareholder related party with a stake of more than 10 percent (where the counterparty in any such pledge of equity interests is a related party): None.

8. Information on shareholders among the top 10 by proportion of shareholding who are related parties to one another or spouse, kindred within the 2nd degree of kinship

April 1, 2023; Unit: share; %

| Name | Own shareholdings | | Shares held by spouse & minor children | | Shareholdings under the title of a third party | | If there are related parties, spouses, or relatives within two degrees of kinship among the top 10 shareholders, give the names and affiliations of such shareholders | | Note |
|--|-------------------|-----------------------|--|-----------------------|--|-----------------------|---|----------|------|
| | Number of shares | Ratio of shareholding | Number of shares | Ratio of shareholding | Number of shares | Ratio of shareholding | Name | Relation | |
| Acer Incorporated | 8,732,688 | 4.04 | - | - | - | - | - | - | - |
| Responsible Person: Jun-Sheng Chen | - | - | - | - | - | - | - | - | - |
| CTBC Bank has been entrusted with the custody of a collective investment account for the transfer, subscription, and allotment of marketable securities for FocalTech Electronics, Ltd.'s Mainland China employees issued by FocalTech Systems Co., Ltd. | 4,765,198 | 2.20 | - | - | - | - | - | - | - |
| GWAALLC | 4,158,691 | 1.92 | - | - | - | - | - | - | - |
| Responsible Person: Genda Hu | 1,308,192 | 0.61 | 455,072 | 0.21 | - | - | - | - | - |
| CTBC Bank Trust Account in its Capacity as Trustee for Restricted Shares of FocalTech Systems Co., Ltd. Employees with Voting Rights and with Rights to Dividends | 3,190,000 | 1.48 | - | - | - | - | - | - | - |
| JPMorgan Chase Bank N.A., Taipei Branch in Custody of Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds | 2,760,482 | 1.28 | - | - | - | - | - | - | - |
| Employee shareholding trust asset account of FocalTech Systems Co., Ltd. under CTBC Bank | 2,680,485 | 1.24 | - | - | - | - | - | - | - |
| JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index fund, a series of Vanguard Star Funds | 2,549,403 | 1.18 | - | - | - | - | - | - | - |
| Citibank in custody of Copa and Betfair Investment Account | 1,593,000 | 0.74 | - | - | - | - | - | - | - |

| Name | Own shareholdings | | Shares held by spouse & minor children | | Shareholdings under the title of a third party | | If there are related parties, spouses, or relatives within two degrees of kinship among the top 10 shareholders, give the names and affiliations of such shareholders | | Note |
|------------|-------------------|-----------------------|--|-----------------------|--|-----------------------|---|----------------------------|------|
| | Number of shares | Ratio of shareholding | Number of shares | Ratio of shareholding | Number of shares | Ratio of shareholding | Name | Relation | |
| Te-Fu Chiu | 1,385,000 | 0.64 | - | - | - | - | - | - | - |
| Genda Hu | 1,308,192 | 0.61 | 455,072 | 0.21 | 4,158,691 | 1.92 | GWAA LLC | GWAALLC Responsible Person | - |

Note: Calculation of shareholding ratio refers to calculation of the ratio of shares held in own name, spouse's name, minor children's name(s), or names of third party.

9. Quantity of shareholdings of the same investee by the Company and Directors, Supervisors, Managial Officer, and direct or indirect subsidiaries in proportion to the combined holdings of all, and combined to calculate the proportion of overall shareholding.

Dec. 31, 2022; Unit: Share ; %

| Investee | Investment made by the Company | | Investment made by directors, supervisors, managerial official and direct or indirect subsidiaries | | Combined investment | |
|--|--------------------------------|-----------------------|--|-----------------------|---------------------|-----------------------|
| | Number of Shares | Ratio of shareholding | Number of Shares | Ratio of shareholding | Number of Shares | Ratio of shareholding |
| FocalTech Corporation, Ltd. | 5,491,200 | 100 | — | — | 5,491,200 | 100 |
| FocalTech Electronics, Ltd. | 2 | 100 | — | — | 2 | 100 |
| FocalTech Systems, Inc. | — | — | 100 | 100 | 100 | 100 |
| FocalTech Systems, Ltd. | — | — | 2 | 100 | 2 | 100 |
| FocalTech Electronics Co., Ltd. | — | — | 2,000,000 | 100 | 2,000,000 | 100 |
| FocalTech Electronics (Shanghai) Co., Ltd. | — | — | Note | 100 | Note | 100 |
| FocalTech Electronics (Shenzhen) Co., Ltd. | — | — | Note | 100 | Note | 100 |
| FocalTech Systems (Shenzhen) Co., Ltd. | — | — | Note | 100 | Note | 100 |
| FocalTech Smart Sensors Co., Ltd. | 1,591,914 | 9.14 | 10,180,237 | 58.45 | 11,772,151 | 67.59 |
| Hefei PineTech Electronics Co., Ltd. | — | — | Note | 100 | Note | 100 |
| FocalTech Smart Sensors, Ltd. | 3,000,000 | 9.14 | 19,188,050 | 58.45 | 22,188,050 | 67.59 |
| Vitrio Technology Corporation | 142,000 | 50 | — | — | 142,000 | 50 |

Note: The Company is a limited liability company, so there are no numbers for issued shares.

IV. Capital Overview

1. Capital and Shares

(1) Sources of Capital Stock

1. Formation process of Capital Stock

April 30, 2023; Unit: Thousand share; NT\$ thousand

| Period | Price at issuance | Authorized shares capital | | Paid in capital | | Remarks | | |
|-----------|-------------------|---------------------------|-----------|------------------|-----------|--|---|---|
| | | Number of Shares | Amount | Number of Shares | Amount | Sources of Capital Stock | Property other than cash is paid by subscribers | Other |
| Mar. 2019 | 12.2~17.24 | 500,000 | 5,000,000 | 298,743 | 2,987,432 | Common share transfer from employee stock options: 1,025,000 | — | Mar. 15, 2019- Zhu-shang-tzu No.1080007161 |
| May 2019 | 12.2~17.24 | 500,000 | 5,000,000 | 298,792 | 2,987,924 | Common share transfer from employee stock options: 492,000 | — | May 22, 2019- Zhu-shang-tzu No.1080014570 |
| Aug. 2019 | 12.2~13.68 | 500,000 | 5,000,000 | 299,439 | 2,994,394 | Common share transfer from employee stock options: 6,470,000 | — | Aug. 23, 2019- Zhu-shang-tzu No.1080024643 |
| Dec. 2019 | 12.2 | 500,000 | 5,000,000 | 299,486 | 2,994,857 | Common share transfer from employee stock options: 463,000 | — | Dec. 2, 2019- Zhu-shang-tzu No.1080034877 |
| Feb. 2020 | 12.2~17.24 | 500,000 | 5,000,000 | 299,676 | 2,996,759 | Common share transfer from employee stock options: 1,903,000 | — | Feb. 25, 2020- Zhu-shang-tzu No.1090005750 |
| May 2020 | 4.2~28.3 | 500,000 | 5,000,000 | 299,907 | 2,999,069 | Common share transfer from employee stock options: 2,310,000 | — | May 27, 2020- Zhu-shang-tzu No.1090014602 |
| Aug. 2020 | 12.2~24.51 | 500,000 | 5,000,000 | 299,995 | 2,999,949 | Common share transfer from employee stock options: 880,000 | — | Aug. 19, 2020- Zhu-shang-tzu No.1090023661 |
| Sep. 2020 | 10 | 500,000 | 5,000,000 | 210,023 | 2,100,228 | Cash reduction common share : 899,721,000 | — | Sep. 14, 2020- Zhu-shang-tzu No.1090026694 |
| Nov. 2020 | 12.2~24.51 | 500,000 | 5,000,000 | 210,046 | 2,100,456 | Common share transfer from employee stock options: 228,000 | — | Nov. 24, 2020- Zhu-shang-tzu No.1090033305 |
| Mar. 2021 | 15.9~36.8 | 500,000 | 5,000,000 | 210,353 | 2,103,532 | Common share transfer from employee stock options: 3,076,000 | — | Mar. 3, 2021- Zhu-shang-tzu No.1100005620 |
| Apr. 2021 | 10 | 500,000 | 5,000,000 | 216,102 | 2,161,022 | Common share from issuing of new restricted employee shares:57,490,000 | — | May 3, 2021- Zhu-shang-tzu No. 1100012259 |
| May 2021 | 15.9~36.8 | 500,000 | 5,000,000 | 216,277 | 2,162,769 | Common share transfer from employee stock options: 1,747,000 | — | May 20, 2021- Zhu-shang-tzu No. 1100014308 |
| Aug. 2021 | 10 | 500,000 | 5,000,000 | 216,513 | 2,165,129 | Common share from issuing of new restricted employee shares:2,360,000 | — | Aug. 4, 2021- Zhu-shang-tzu No. 1100021939 |
| Aug. 2021 | 15.9~36.8 | 500,000 | 5,000,000 | 216,592 | 2,165,921 | Common share transfer from employee stock options: 792,000 | — | Aug. 18, 2021- Zhu-shang-tzu No. 1100023341 |
| Nov. 2021 | 15.9~36.8 | 500,000 | 5,000,000 | 216,510 | 2,165,097 | Common share transfer from employee stock options: 694,000 Common share from cancellation of new restricted employee shares:1,400,000 | — | Nov. 18, 2021- Zhu-shang-tzu No. 1100034139 |

| Period | Price at issuance | Authorized shares capital | | Paid in capital | | Remarks | | |
|-----------|-------------------|---------------------------|-----------|------------------|-----------|---|---|---|
| | | Number of Shares | Amount | Number of Shares | Amount | Sources of Capital Stock | Property other than cash is paid by subscribers | Other |
| | | | | | | Common share from cancellation of treasury shares: 119,000 | | |
| Mar. 2022 | 15.9~36.8 | 500,000 | 5,000,000 | 216,237 | 2,162,367 | Common share transfer from employee stock options: 530,000 Common share from cancellation of new restricted employee shares: 326,000 | — | Mar. 18, 2022- Zhu-shang-tzu No. 1110009309 |
| May 2022 | 15.9~36.8 | 500,000 | 5,000,000 | 216,435 | 2,164,347 | Common share transfer from employee stock options: 2,140,000 Common share from cancellation of new restricted employee shares: 160,000 | — | May 19, 2022-Zhu-shang-tzu No. 1110015567 |
| Oct. 2022 | 36.17 | 500,000 | 5,000,000 | 216,362 | 2,163,617 | Common share transfer from employee stock options: 90,000 Common share from cancellation of new restricted employee shares: 820,000 | — | Oct. 4, 2022-Ching-shou-shang-tzu No. 11101161400 |
| Dec. 2022 | 36.17 | 500,000 | 5,000,000 | 216,238 | 2,162,377 | Common share transfer from employee stock options: 200,000 Common share from cancellation of new restricted employee shares: 1,440,000 | — | Dec. 23, 2022- Ching-shou-shang-tzu No. 11101228830 |
| Mar. 2023 | 12.8 | 500,000 | 5,000,000 | 216,111 | 2,161,107 | Common share transfer from employee stock options: 190,000 Common share from cancellation of new restricted employee shares: 1,460,000 | — | Mar. 27, 2023- Ching-shou-shang-tzu No. 11230044310 |
| May. 2023 | 12.8~29.68 | 500,000 | 5,000,000 | 215,977 | 2,159,770 | Common share transfer from employee stock options: 464,000 Common share from cancellation of new restricted employee shares: 1,800,000 | — | The employee stock options have been exercised in 2023Q1, but the change registration have not been completed. It is expected to be completed in May, 2023. |

2. Type of Stock

Apr. 30, 2023; Unit: shares

| Type of Stock | Authorized Capital Stock | | | Remarks |
|---------------|--------------------------|----------------|-------------|---------------|
| | Outstanding shares | Unissued stock | Total | |
| common shares | 215,977,049 | 284,022,951 | 500,000,000 | Listed shares |

(2) Composition of Shareholders

April 1, 2023; Unit: Share

| Quantity \ Composition of Shareholders | Government Apparatus | Financial Institution | Other Juridical person | Individual | Foreign Institution and Foreigner | Total |
|--|----------------------|-----------------------|------------------------|-------------|-----------------------------------|-------------|
| Number of persons | — | 4 | 285 | 70,297 | 168 | 70,754 |
| Shareholding (Shares) | — | 6,339,704 | 15,142,088 | 160,089,320 | 34,585,937 | 216,157,049 |
| Ratio of Shareholding (%) | — | 2.93 | 7.00 | 74.07 | 16.00 | 100.00 |

Note: The above information is the shareholding information recorded as of the final day for share transfer prior to the publication date of the annual report.

(3) Shareholding Distribution Status

1. Common Share Distribution Status

April 1, 2023 ; Unit: Share

| Holding share classification | No. of Shareholders | Shareholding | Ratio of Shareholding |
|------------------------------|---------------------|--------------|-----------------------|
| 1 to 999 | 26,192 | 2,929,326 | 1.36% |
| 1,000 to 5,000 | 38,952 | 73,054,898 | 33.80% |
| 5,001 to 10,000 | 3,421 | 26,358,063 | 12.19% |
| 10,001 to 15,000 | 874 | 11,118,168 | 5.14% |
| 15,001 to 20,000 | 500 | 9,222,985 | 4.27% |
| 20,001 to 30,000 | 337 | 8,585,319 | 3.97% |
| 30,001 to 40,000 | 132 | 4,738,679 | 2.19% |
| 40,001 to 50,000 | 91 | 4,281,573 | 1.98% |
| 50,001 to 100,000 | 137 | 9,677,606 | 4.48% |
| 100,001 to 200,000 | 58 | 8,094,930 | 3.74% |
| 200,001 to 400,000 | 23 | 6,308,036 | 2.92% |
| 400,001 to 600,000 | 12 | 5,798,395 | 2.68% |
| 600,001 to 800,000 | 8 | 5,472,842 | 2.53% |
| 800,001 to 1,000,000 | 3 | 2,699,311 | 1.25% |
| 1,000,001 and above | 14 | 37,816,918 | 17.50% |
| Total | 70,754 | 216,157,049 | 100.00% |

Note: The above information is the shareholding information recorded as of the final day for share transfer prior to the publication date of the annual report.

2. Preferred Share Distribution Status: N/A.

(4) List of Major Shareholders

If there are fewer than ten shareholders with a stake of five percent or greater, the names of shareholders, their numbers of shares, and the stake held by each shareholder ranking in the top ten in terms of shareholding percentage shall be listed:

April 1, 2023 ; Unit: Share

| Name of major shareholder | Shares | Shareholding | Ratio of shareholding |
|--|--------|--------------|-----------------------|
| Acer Incorporated | | 8,732,688 | 4.04 |
| CTBC Bank has been entrusted with the custody of a collective investment account for the transfer, subscription, and allotment of marketable securities for FocalTech Electronics, Ltd.'s Mainland China employees issued by FocalTech Systems Co., Ltd. | | 4,765,198 | 2.20 |
| GWAALLC | | 4,158,691 | 1.92 |
| CTBC Bank Trust Account in its Capacity as Trustee for Restricted Shares of FocalTech Systems Co., Ltd. Employees with Voting Rights and with Rights to Dividends | | 3,190,000 | 1.48 |
| JPMorgan Chase Bank N.A., Taipei Branch in Custody of Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds | | 2,760,482 | 1.28 |
| Employee shareholding trust asset account of FocalTech Systems Co., Ltd. under CTBC Bank | | 2,680,485 | 1.24 |
| JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index fund, a series of Vanguard Star Funds | | 2,549,403 | 1.18 |
| Citibank in custody of Copa and Betfair Investment Account | | 1,593,000 | 0.74 |
| Te-Fu Chiu | | 1,385,000 | 0.64 |
| Genda Hu | | 1,308,192 | 0.61 |

(5) Information on market price, net value, earnings and dividends per share in the most two year

Unit: NT\$; Thousand shares

| Item/Year | | 2021 | 2022 | As of April 30, 2023 |
|-------------------------------|-----------------------------------|---------|----------|----------------------|
| Market Price Per Share | The Highest | 298 | 178 | 92.6 |
| | The Lowest | 79.2 | 56.4 | 58.6 |
| | Average | 173.4 | 100.78 | 74.66 |
| Net Value Per Share | Before distribution | 63.01 | 40.58 | — |
| | After distribution | 47.29 | (note 1) | — |
| Earnings per share | Weighted average shares | 202,208 | 203,701 | — |
| | Earnings per share (Note 7) | 30.23 | (9.39) | — |
| Dividend Per Share | Cash dividends | 15.71 | (note 1) | — |
| | Stock dividend distribution | — | — | — |
| | | — | — | — |
| | Retained Dividends | — | — | — |
| Return on Investment Analysis | Price-to-Earnings Ratio (Note 2) | 5.74 | (91.39) | — |
| | Price-to-Dividend Ratio (Note 3) | 11.04 | (note 1) | — |
| | Cash Dividend Yield Rate (Note 4) | 9.06% | (note 1) | — |

Note 1: To be finalized upon the resolution of the shareholders' meeting.

Note 2: Price-to-Earnings Ratio = Average Share Price of the Year / Earnings per Share

Note 3: Price-to-Dividend Ratio = Average Share Price of the Year / Cash Dividend per Share

Note 4: Cash Dividend Yield Rate = Cash Dividend per Share / Average Share Price of the Year

Note 5: The Company has not made any stock dividend distribution that is subject to retroactive adjustment.

(6) Dividend Policy and Implementation Status

1. Dividend policy as regulated in the Articles of Incorporation

If the Company reports a profit at the end of the fiscal year, after paying taxes in accordance with the law, the Company shall make up for the accumulated deficit from previous years, then set aside 10% of such earnings as legal reserve. However, when the legal reserve has amounted to the Company's paid-in capital, the Company needs not set aside the legal reserve, and instead set aside or reverse the remaining special reserve as required by laws and regulations. If there is any remaining balance, the Board of Directors shall prepare a proposal for earnings distribution together with the unappropriated retained earnings. The proposal shall be submitted to the shareholders' meeting for resolution, and the dividends shall then be distributed to shareholders.

The Company's dividend policy is to distribute not less than 10% of the annual earnings as dividends to shareholders in accordance with the Company's current and future development plans, taking into account the investment environment, capital requirements, domestic and international competition, and the interests of shareholders. Dividends may be distributed to shareholders in cash or in shares, with cash dividends of not less than 10% of the total dividends. However, cash dividends of less than NT\$0.50 per share may not be distributed.

2. Status of the proposed dividend distribution at this shareholders' meeting

The Company's undistributed earnings at the beginning of the 2022 fiscal year were NT\$2,101,583,420. For the 2022 fiscal year, the Company recorded a net after-tax loss of NT\$1,912,038,385, undertook a remeasurement of the defined benefit plans of NT\$6,866,493, and the restricted stock cash dividend of NT\$434,030 was transferred to retained earnings. Additionally, after reversing the special reserve of NT\$211,479,163, the undistributed earnings at the end of the 2022 fiscal year were NT\$408,324,721. The Company decided not to distribute dividends in consideration of its subsequent operating needs.

At the board meeting held on April 7, 2023, the Company proposed to distribute the capital reserve of the income derived from the issuance of new shares at a premium of NT\$108,000,000 in accordance with Article 241 of the Company Act, in the amount of approximately NT\$0.5 per share, based on the shares held in the shareholders' register as of the record date of cash distribution from capital surplus. The Chairman is authorized to set the cash distribution Record Date, Ex-Dividend Date and subsequent related matters upon the approval of shareholders regular meeting.

(7) Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders meeting: There was no stock dividend distribution proposed at this shareholders meeting, and thus this is not applicable.

(8) Employee, director and supervisor compensation

1. The percentage or scope of employee, director, and supervisor compensation in the Articles of Incorporation

2. Basis for estimating the employee, director, and supervisor compensation amount, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy (if any) between the actual distributed amount and the estimated figure, for the current period:

The Company allocates no less than 1% and no more than 1.5% of the pretax income before deducting the amount of employee and director compensation, as employee and director compensation respectively for the fiscal year. The Company recorded a net before-tax loss for the 2022 fiscal year, and thus employee compensation and director compensation were not estimated. If there is any discrepancy between the estimated figure and the actual distributed amount approved by the Board of Directors, it will be recorded as profit or loss in the following fiscal year.

3. Differences between the proposal for 2022 approved by the Board of Directors and actual distribution of employee bonus, director and supervisor compensation for the previous fiscal year, and the recognized employee bonus and director and supervisor compensation, reasons and the handling thereof:

Unit: NT\$

| Item | Earning distribution of 2021 | Earning distribution of 2022 |
|---|--|--|
| | Proposed distribution approved by the board of directors | Proposed distribution approved by the board of directors |
| Remuneration of Directors and Supervisors | 30,000,000 | — |
| Remuneration of employee — cash | 316,729,995 | — |
| Remuneration of employee — shares | — | — |

| | | |
|--|------|------|
| Percentage of Employee Compensation Distributed in Shares as Proportion of the Total Individual or Individual Financial Reports' After-tax Net Income and the Total Employee Compensation for the Period | — | — |
| Discrepancy between recognized and estimated figures, and reasons and handling thereof | None | None |

(9) Repurchase of Company shares

1 Repurchase of the shares by the Company (exercised)

April 30, 2023

| Term of Repurchase | First | Second | Third | Fourth | Fifth | Sixth |
|---|--|--|--|--|--|--|
| Purpose of Repurchase | Transfer shares to employees | Transfer shares to employees |
| Period of Repurchase | Sep. 3, 2015 to Nov. 2, 2015 | Apr. 29, 2016 to June 28, 2016 | May 15, 2017 to July 14, 2017 | July 27, 2018 to Sep. 26, 2018 | Aug. 24, 2018 to Oct. 23, 2018 | April 6, 2022 to April 19, 2022 |
| Price Range of the Shares to Be Repurchased | NT\$17.01 to NT\$35.13 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases. | NT\$19.67 to NT\$42.94 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases. | NT\$21.98 to NT\$56.79 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases. | NT\$17.68 to NT\$39.65 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases. | NT\$17.22 to NT\$37.26 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases. | NT\$103 to NT\$231 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases. |
| Type(s) and Numbers of Shares Repurchased | Common share: 0 share | Common share: 5,000,000 shares | Common share: 6,808,000 shares | Common share: 8,000,000 shares | Common share: 7,689,000 shares | Common share: 4,000,000 shares |
| Monetary Amount of Shares Repurchased | NT\$0 | NT\$132,625,675 | NT\$245,812,665 | NT\$192,810,452 | NT\$192,095,557 | NT\$507,620,748 |
| Ratio of Shares Repurchased to Shares Planned to be Repurchased (%) | 0.00% | 100.00% | 85.10% | 100.00% | 96.11% | 100% |
| Number of Shares Canceled and Transferred | Common share: 0 share | Common share: 5,000,000 shares | Common share: 6,808,000 shares | Common share: 8,000,000 shares | Common share: 7,689,000 shares | Common share: 2,715,000 shares |

| | | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------------|
| Cumulative Number of Shares Held by the Company | Common share: 0 shares | Common share: 1,285,000 shares |
| Proportion of Company's Cumulative Number of Shares Held to Total Shares Issued (%) | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.59% |

2 Repurchase of the shares by the Company (still under execution):None

2. Status of Corporate bond: None
3. Status of preferred share: None
4. Status of overseas depository receipt: None

5. Status of employee stock options

(1) Status of employee stock options issued by the Company that have not yet matured

April 1, 2023

| Type of employee stock options Issued | Stock options from former FocalTech employees by inheritance (Note 1) | Fourth (Period) employee stock options Issuance | | | | | | | | |
|---|--|--|----------|--|---------|-----|---------|-----|---------|------|
| Date of Effective Registration from the Competent Authority and total Number of Units | Oct. 27, 2014 11,697,976 | July 6, 2015 2,800,000 | | | | | | | | |
| Issue (Execution) Date | Oct. 27, 2014 | Sep. 2, 2015 | | | | | | | | |
| Number of Units Issued | 11,697,976 | 2,800,000 | | | | | | | | |
| Number of Units Still available | 0 | 0 | | | | | | | | |
| Proportion of Subscribable Shares to Total Issued Shares | 5.41% | 1.30% | | | | | | | | |
| Subscription Period | April 29, 2010 to June 24, 2023 | September 2, 2015 to September 2, 2025 | | | | | | | | |
| Exercise Method | New Common Share | New Common Share | | | | | | | | |
| Duration and Percentage in which Subscription is Restricted (%) | (1) From the beginning of the vesting period to the end of one-year service period, employees receive 25% share warrants. For every six months thereafter, they receive 12.5% share warrants. (2) The share warrants are exercised in accordance with their performance status. | <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Duration</th> <th style="text-align: left;">Percentage of Exercisable Shareholding</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2 years</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">3 years</td> <td style="text-align: center;">75%</td> </tr> <tr> <td style="text-align: center;">4 years</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table> | Duration | Percentage of Exercisable Shareholding | 2 years | 50% | 3 years | 75% | 4 years | 100% |
| Duration | Percentage of Exercisable Shareholding | | | | | | | | | |
| 2 years | 50% | | | | | | | | | |
| 3 years | 75% | | | | | | | | | |
| 4 years | 100% | | | | | | | | | |
| Number of Shares that Have Been Obtained Through Exercise of Subscription Rights | 9,002,576 | 1,776,750 | | | | | | | | |
| Amount of Shares Subscribed | 142,518 thousand | 23,199 thousand | | | | | | | | |
| Number of Unsubscribed Shares | 0 | 63,000 | | | | | | | | |
| Subscription Price Per Share of Unsubscribed Shares | NT\$0 | NT\$12.8 | | | | | | | | |
| Proportion of Unsubscribed Shares to Total Issued Shares (%) | 0.00% | 0.03% | | | | | | | | |
| Effect on Shareholders' Equity | There is no significant effect on share dilution for existing common shareholders. | There is no significant effect on share dilution for existing common shareholders. | | | | | | | | |

Note 1: Regarding share warrants from the former FocalTech employees by inheritance, in accordance with the merger agreement, the number of subscribable shares for each FocalTech share warrant is adjusted to the original number multiplied by the 4.8 conversion ratio, and the subscription price per share (rounding to two decimal places) is adjusted to the original subscription price divided by the 4.8 conversion ratio.

(2) Names and subscription status of managerial officers who have obtained employee share warrants and of the top ten employees in terms of the number of shares to which they have subscription rights through employee share warrants acquired, cumulative as of annual report publication date

1. Managerial officers who have obtained employee share warrants

April 1, 2023; Unit: NT\$, shares

| Title | Name | Number of Subscribable Shares Acquired | Percentage of Subscribable Shares Acquired to Total Issued Shares | Exercised | | | | Not exercised | | | |
|---|-----------------------|--|---|-------------------------------|------------------------------|-------------------------------|--|-------------------------------|------------------------------|-------------------------------|--|
| | | | | Number of Subscribable Shares | Price of Subscribable Shares | Amount of Subscribable Shares | Percentage of Subscribable Shares to Total Issued Shares | Number of Subscribable Shares | Price of Subscribable Shares | Amount of Subscribable Shares | Percentage of Subscribable Shares to Total Issued Shares |
| CEO and President | Genda Hu | 1,640,000 | 0.76% | 1,640,000 | NT\$1.63~ NT\$22.04 | 16,894,000 | 0.76% | 0 | NT\$0 | 0,000 | 0.00% |
| Executive Vice President | Ching-Kai Chang | | | | | | | | | | |
| Executive Vice President | Wei-Ching Hou | | | | | | | | | | |
| Executive Vice President | Hsiao-Hsu Tu | | | | | | | | | | |
| Marketing Executive Vice President | Lien-Kuo Wang | | | | | | | | | | |
| Business Assistant Executive Vice President | Te-Chih Kung | | | | | | | | | | |
| Deputy Executive Vice President | Chun-Fu Wang (note 1) | | | | | | | | | | |

Note 1: He resigned on November 30, 2022.

2. Names of the ten employees holding employee subscription warrants authorizing purchase of the most shares

April 1, 2023; Unit: NT\$, shares

| Title | Name | Number of Subscribable Shares Acquired | Proportion of Subscribable Shares Acquired to Total Issued Shares | Exercised | | | | Not exercised | | | |
|---------------------------|--------------------------|--|---|-------------------------------|------------------------------|-------------------------------|--|-------------------------------|------------------------------|-------------------------------|--|
| | | | | Number of Subscribable Shares | Price of Subscribable Shares | Amount of Subscribable Shares | Proportion of Subscribable Shares to Total Issued Shares | Number of Subscribable Shares | Price of Subscribable Shares | Amount of Subscribable Shares | Proportion of Subscribable Shares to Total Issued Shares |
| Vice General Supervisor | Chuan Ting | 1,244,892 | 0.58% | 1,244,892 | NT\$1.75~ NT\$36.8 | 18,786,000 | 0.58% | 0 | NT\$0 | 0 | 0.00% |
| Vice General Supervisor | Chin-Cheng Tien (note 1) | | | | | | | | | | |
| Senior General Supervisor | Ta-Chun Wu | | | | | | | | | | |
| Senior Manager | Hua Lee | | | | | | | | | | |
| Senior Manager | Chen-Wei Lee | | | | | | | | | | |
| Manager | Shen Lee (note 2) | | | | | | | | | | |
| Vice General Supervisor | Chien-Chung Lu | | | | | | | | | | |
| Director | Kuan-Hua Liao (note 3) | | | | | | | | | | |
| Senior General Supervisor | Hsin-Hsi Chiang | | | | | | | | | | |
| Vice General Supervisor | Wen-Yung Lung | | | | | | | | | | |

Note 1: Chin-Cheng Tien resigned on May 13, 2022.

Note 2: Shen Lee resigned on March 31, 2022.

Note 3: Kuan-Hua Liao resigned on August 25, 2022.

6. Description of new restricted employee share status shall include the following:

(1) Status of new restricted employee shares issued by the Company that are not yet mature:

April 1, 2023

| | |
|--|---|
| Type of New Restricted Employee Shares Issued | Third (period) issuance new restricted employee shares |
| Date of Effective Registration from the Competent Authority and Total Number of Shares | August 12, 2020 6,000,000 shares |
| Issue Date | April 20, 2021 and July 29, 2021 |
| Number of New Restricted Employee Shares Issued | 5,985,000 shares |
| Number of New Restricted Employee Shares Issued still available | 0 shares |
| Issue Price | NT\$10 per share |
| Proportion of New Restricted Employee Shares Issued to Total Issued Shares | 2.77% |
| Vesting Conditions of New Restricted Employee Shares | <p>The proportion of shares subject to the vesting conditions (namely, that employees are still in service, have served in good faith, and have not violated the Company's labor contract, work regulations, or the Company's employee management regulations), after the end of each of the following vesting periods from the date of new restricted employee share allotment, are as follows:</p> <p>2 years of service after share allotment: 50% of the number of allotted shares.</p> <p>3 years of service after share allotment: 25% of the number of allotted shares.</p> <p>4 years of service after share allotment: 25% of the number of allotted shares.</p> |
| Restricted Rights of New Restricted Employee Shares | <p>1. Prior to the fulfillment of the vesting conditions set forth in the preceding Article, employees shall not sell, pledge, transfer, give to others, create, or otherwise dispose of the new restricted employee shares allotted under this Regulation.</p> |

| | |
|---|---|
| | <p>2. The rights to attend, propose, speak, vote, and elect at shareholders' meetings of new restricted employee shares issued under this Regulation shall be the same as those of the Company's issued common shares until the vesting conditions set forth in the preceding Article are met, and shall be exercised in accordance with the Trust Deed or other custodian methods as otherwise determined by the Company.</p> <p>3. Before the new restricted employee shares issued under this Regulation meet the vesting conditions set forth in the preceding Article, the allotment of shares (including dividends of common shares and reserve transferred to capital increase) and dividends (including cash dividends and cash allotment of capital reserves) derived from such new shares will not be subject to the same restrictions as the new restricted employee shares issued in the year.</p> <p>4. If the new restricted employee shares are issued to an employee who is an ROC national, the employee shall deliver the shares to a trustee institution designated by the Company for safekeeping immediately after being granted, and shall continue to deliver the shares to the trustee institution for safekeeping until the fulfillment of the vesting conditions, unless otherwise specified in this Regulation. If the granted employee is a national of another country, the granted shares shall be held in trust of the Company appointed for that purpose.</p> |
| Custody Status of New Restricted Employee Shares | All shares are held in trust |
| Measures to be Taken when Employees Have Not Met the Vesting Conditions After Being Granted or Subscribing New Shares | The shares allotted were bought back by the Company at the original issue price and were canceled. |

| | |
|---|--|
| Number of New Restricted Employee Shares that Have Been Redeemed or Bought Back | 1,034,000 shares |
| Number of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Been Released | 0 share |
| Number of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Not Been Released | 4,951,000 shares |
| Proportion of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Not Been Released to the Total Issued Shares (%) | 2.29% |
| Effect on Shareholders' Equity | There is no significant effect on share dilution for existing common shareholders. |

- (2) Names and acquisition status of managerial officers who have acquired new restricted employee shares, and of the top ten employees in terms of the number of new restricted employee shares acquired, cumulative as of the publication date of the annual report:

1. Names and acquisition status of managerial officers who have acquired new restricted employee shares

April 1, 2023

| Title | Name | Number of New Restricted Employee Shares Acquired | Proportion of New Restricted Employee Shares Acquired to Total Issued Shares | Restrictions on Rights Released | | | | Restrictions on Rights Not Released | | | |
|--|---------------------------|---|--|---|-------------|--------------|--|---|-------------|--------------|--|
| | | | | Number of Shares in which the Restrictions on Rights Have Been Released | Issue Price | Issue Amount | Proportion of Shares in which the Restrictions on Rights Have Been Released to the Total Issued Shares | Number of Shares in which the Restrictions on Rights Have Not Been Released | Issue Price | Issue Amount | Proportion of Shares in which the Restrictions on Rights Have Not Been Released to the Total Issued Shares |
| CEO and President | Genda Hu | | | | | | | | | | |
| Executive Vice President, CFO, Spokesperson and Corporate governance officer | Wei-Chieh Chang | | | | | | | | | | |
| Senior Executive Vice President | Shih-Hui Cheng (note 1) | | | | | | | | | | |
| Executive Vice President | Wei-Ching Hou | | | | | | | | | | |
| Executive Vice President | Jui-Cheng Hsu | | | | | | | | | | |
| Executive Vice President | Sung-Tsan Chiang (note 2) | | | | | | | | | | |
| Executive Vice President | Pei-Tzu Wu | | | | | | | | | | |
| Executive Vice President | Hsiao-Hsu Tu | | | | | | | | | | |
| Business Executive Vice President | Ching-Suo Wang | 1,268,000 | 0.59% | 0 | 0 | 0 | 0 | 1,100,000 | NT\$10 | 11,000,000 | 0.51% |
| Marketing Executive Vice President | Lien-Kuo Wang | | | | | | | | | | |
| Business Assistant Executive Vice President | Te-Chih Kung | | | | | | | | | | |
| Senior Deputy Executive Vice President | Ching-Hsing Chang | | | | | | | | | | |
| Deputy Executive Vice President | Cheng-Tao Chuang (note 3) | | | | | | | | | | |
| Deputy Executive Vice President | Po-Sheng Shih | | | | | | | | | | |
| Deputy Executive Vice President | Hung-Jen Chien | | | | | | | | | | |
| Special Assistant of President | Chung-Hsiang Chiang | | | | | | | | | | |

Note 1: Shih-Hui Cheng resigned on November 7, 2022.

Note 2: Sung-Tsan Chiang resigned on September 14, 2022.

Note 3: Cheng-Tao Chuang resigned on January 31, 2023.

2. Names and acquisition status of the top ten employees in terms of the number of new restricted employee shares acquired

April 1, 2023

| Title | Name | Number of New Restricted Employee Shares Acquired | Proportion of New Restricted Employee Shares Acquired to Total Issued Shares | Restrictions on Rights Released | | | | Restrictions on Rights Not Released | | | |
|---------------------------------------|--------------------------|---|--|---|-------------|--------------|--|---|-------------|--------------|---|
| | | | | Number of Shares in which the Restrictions on Rights Have Been Released | Issue Price | Issue Amount | Proportion of Shares in which the Restrictions on Rights Have Been Released to the Total Issued Shares | Number of Shares in which the Restrictions on Rights Have Not Been Released | Issue Price | Issue Amount | Proportion of Shares in which the Restrictions on Rights Have Not Been Released to the Total Issued Shares (note 4) |
| Tech. Deputy Executive Vice President | Yun-Hua Wang | 506,000 | 0.23% | 0 | 0 | 0 | 0 | 450,000 | NT\$10 | 4,500,000 | 0.21% |
| Senior General Supervisor | Ta-Chun Wu | | | | | | | | | | |
| Director | Chiung-Ju Chou | | | | | | | | | | |
| Senior Director | Chen-Pang Kung | | | | | | | | | | |
| Senior Director | Wei-Chih Chang | | | | | | | | | | |
| Tech. Deputy Executive Vice President | Chun-Chin Huang | | | | | | | | | | |
| Director | Wei-Chang Huang (note 1) | | | | | | | | | | |
| General Supervisor | Chun-Chiao Liu | | | | | | | | | | |
| General Supervisor | Kuo-Chieh Liu | | | | | | | | | | |
| Vice Director | Pei-Hung Hsiao | | | | | | | | | | |

Note 1: He resigned on January 11, 2023.

7. Status regarding issuance of new shares in connection with mergers or acquisitions of other companies' shares: None.

8. Status regarding implementation of the Company's capital allocation plans: N/A.

V. Operation Overview

1. Scope of business

1. Major businesses

The development and sales of display driver, touch, and fingerprint recognition human-machine interface solutions, including the design, manufacturing, consulting and services of the software and hardware required by the aforementioned solutions.

2. Proportion of operation (2021) : 100% for human-machine interface application IC

3. Current products (services) of the company

- (1) Integrated driver controller (IDC)
- (2) TFT-LCD panel driver IC
- (3) Capacitive touch IC
- (4) Fingerprint recognition IC and module
- (5) AMOLED panel driver IC
- (6) Automotive and industrial control IC
- (7) NB touch pad

4. New products or technologies to be developed by the company

(1) Integrated driver controller (IDC)

- A. IDC products that support FHD (900RGB x 2100) resolution.
- B. Develop die-size shrink a-Si COG ultra-narrow bezel products (sinking bump on the bottom)
- C. High frame rate applies IDC technology
- D. Develop IDC IC with multi-channel active stylus
- E. IDC product development for notebook computer panel applications

(2) TFT-LCD panel driver IC

- A. Development of IC for special-purpose panels (such as digital cameras and other special-purpose electronic products)
- B. Special driver IC for transparent display

(3) Capacitive touch IC

- A. Development of TFT panel capacitive active stylus technology
- B. Development of TFT panel ultra-fine tip passive stylus IC development
- C. Development of AMOLED panel touch technology with multi-finger high touch reporting rate
- D. Development of the finger and pen touch integration technology for flexible panel.

- (4) Fingerprint recognition IC and module
 - A. Development of high-security capacitive fingerprint recognition IC (Match on Chip, MOC).
 - B. Development of lightweight high-recognition capacitive algorithm.
 - C. 2.5D and 3D fake fingerprint anti-counterfeiting algorithm for capacitive and optical fingerprint recognition IC.
 - D. Automobile capacitive fingerprint recognition IC.
 - E. High-sensitivity optical fingerprint recognition IC and corresponding optical collimator and lens.
- (5) AMOLED panel driver IC
 - A. Display driver IC solution that supports the outer screen of foldable phones.
 - B. Driver Controller (IDC) that supports LTPO dynamic frame rate adjustment.
 - C. Development of high-resolution Demura and De-Burn In solutions as well as the Cascade information processing technology.
- (6) Automotive and industrial control ICs
 - A. Development and promotion of IDC ICs for cars
 - B. Highly reliable circuit architecture
 - C. Development of ICs that support the cascaded architecture for large-size automotive panel applications
- (7) Human-machine interface module for notebook computer
 - A. Development of touchpad technology that integrates touch and fingerprint recognition
- (8) Physiological Monitoring Technology
 - A. Development of intelligent cloud system platform for the detection of multi-functional physiological signals.
 - B. Technology development of non-binding, small-sized (blood pressure, heartbeat, oxygen saturation, arrhythmia, and EKG) measurement devices.

2. Industry Overview

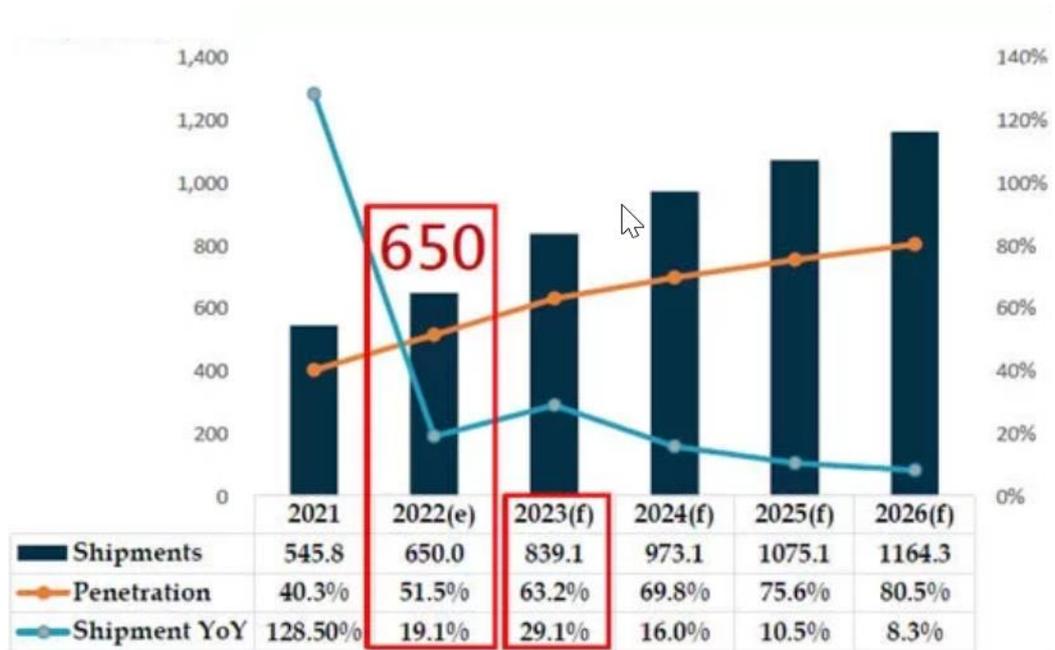
1. Current status and development of human-machine interface related industries

With the advancement of communication technology, human-machine interface technology and applications will continue to expand, which bring more added value. Currently, 5G technology is ready and getting popular, which will generate substantial growth for applications such as portable mobile devices, automobiles, and industrial controls.

According to the research report of the Market Intelligence & Consulting Institute (MIC), since 5G technology penetrated over 50% of the cell phone market in 2022, it promoted the transformation of the digital society. Therefore, it is estimated that the 5G market size will increase year over year. After the popularization of 5G technology, it will provide larger and faster communication bandwidth for portable mobile devices and Internet of Things (IoT) applications, thereby offering more business opportunities for the industry.

Figure 5-1: The five-year forecast for the global 5G smartphone market size

Unit: million units



Source: MIC, October 2022

Based on the current market demand for portable mobile devices, it is estimated that the first wave of demand for 5G devices in 2020 came from the replacement of 4G. The market size of smartphones is about US\$ 11.3 billion, and that of tablets is US\$ 860 million. From the perspective of the demand for Internet of Things (IoT), currently, the development of the Internet of Vehicles is relatively fast. Since IoV services are provided by mobile communication access modules, the faster the transmission of data, the greater the demand of consumers in in-vehicle display and human-machine interface.

- (1) Current status of the portable mobile device panel driver IC and touch IC industries:

Portable mobile devices include mobile phones, notebook computers, tablets, among which smartphones are the majority. Due to the advancement of the aforementioned industry, the growth in the demand of smartphone panels has been significantly promoted. Furthermore, the requirements for panels are different from those in the past, they are incorporated not just for making call, but bringing new functions for multimedia. In addition, the development of mobile phone displays has been directed towards large screen size and high resolution. To enhance user experience for consumers, the technical specifications of products are improved continuously. In 2021, the development of mobile phones has started to direct towards high frame rate, AR/VR, AI and foldable etc with an aim to add fuel to the supply chain to open up new business opportunities.

Consumers continue to expect mobile phones display to be larger, thinner, and bezel-free. Therefore, full-screen mobile phones have become the current trend. However, the requirement for full-screen display has reduced the frame design space for mobile phones, allowing integrated IC to become the mainstream. The integration of in-cell panels can enhance the

added value of products, provide complete product solutions to brand customers, and help simplify the complex supply chain of traditional mobile phone assembly. Therefore, the IDC IC integrated with touch IC and display driver is quickly accepted by the TFT panel supply chain. With the maturity of the technology, TFT panel yield as well as production capacity is promoted to benefit the panel price, accelerating the penetration rate of IDC.

In 2022, in order to hold a higher market share and increase the screen frame rate, all mobile phone manufacturers adopted the IDC solution for TFT display smartphones.

Other than TFT in-cell display technology, smartphones adopting AMOLED panels have risen as the mainstream in the market. With the increasing production capacity of POLED, the cost is gradually decreasing, thus the number of mobile phones adopting flexible AMOLED panels has exceeded those adopting rigid AMOLED. In addition, with the improvement of technology, more and more brand manufacturers have begun to promote foldable AMOLED mobile phones.

The technology of touch-function-adopting AMOLED panels must evolve to meet the needs of higher report rate and foldable devices.

According to the analysis report of the market report agency, Omdia Touch Panel Market Tracker, the proportion of TFT in-cell touch panels in the overall smartphone market has remained at around 50% since 2021, whereas the smartphone market share of the AMOLED on-cell touch panels is expected to increase year by year, and it increased to 43.8% in 2022. On the other hand, the percentage of traditional out-cell capacitive touch display was reduced to less than 6%.

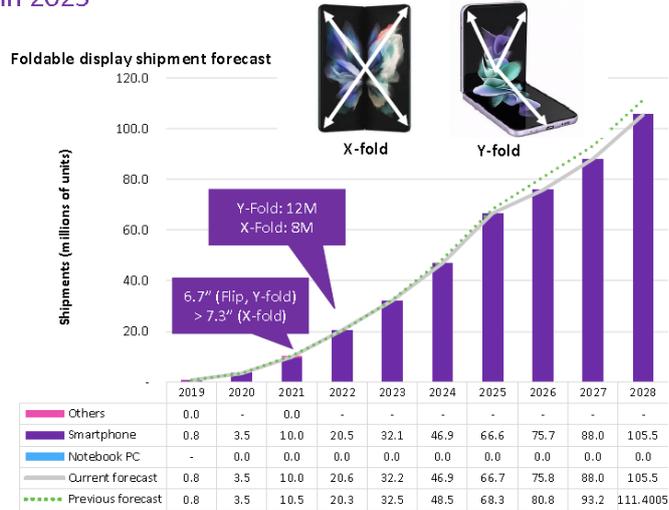
Figure 5-2: Percentage of various touch screen technologies adopted by mobile phone display

| Mobile phone: Major technology | | | | | | |
|--------------------------------|-------|-------|-------|-------|-------|-------|
| Module size | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| In-cell TFT LCD | 33.0% | 43.5% | 50.7% | 50.5% | 50.5% | 50.5% |
| On-cell AMOLED | 23.5% | 30.0% | 33.9% | 37.9% | 43.8% | 46.6% |
| P. Capacitive | 42.3% | 25.7% | 14.9% | 11.5% | 5.7% | 2.9% |

Source: Omdia Touch Panel Market Tracker report, Q1 of 2022

Figure 5-3: Mobile phone shipment forecast using foldable AMOLED display

Foldable OLED shipments double in 2022 to over 67M in 2025

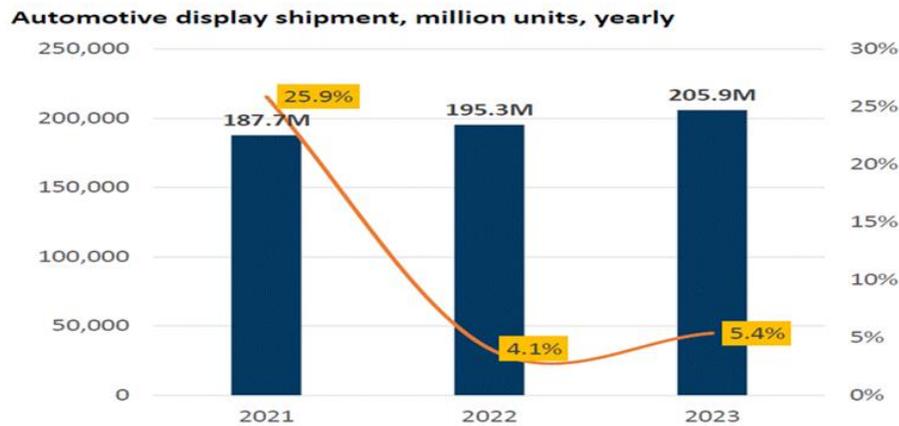


Source: Omdia Top 10 Display Topics, Q1 of 2022

In addition to smartphones, touch and display-related technologies have gradually expanded to the automotive industry. The shipment status of the automotive market is based on two main factors, the first being the number of automobiles sold for the year, and the second being the number of panels used in automobile cabin, with the shipment volume being the result of multiplying these two main factors.

The number of display panel shipments in the automotive industry in 2021 was affected by the Covid-19 outbreak, resulting in a decrease to 188 million units for the year. Initially, a rapid increase in the number of display panel shipments was expected for 2022. However, due to the emergence of new COVID-19 variants, shipments only grew by 4.1% and failed to exceed the standard of 200 million units. The estimated number of display panel shipments for 2023 is about 206 million, with an expected growth rate of 5.4%.

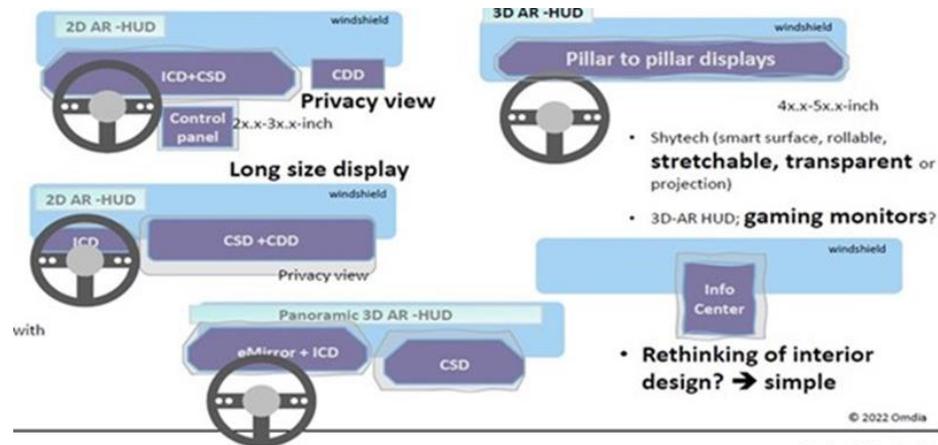
Figure 5-4: Automotive display panel shipment forecast



Source: Source: Omdia Touch Panel Market Tracker Report, Q1 of 2023

In order to welcome the era of electric vehicles (EV), an automobile will be equipped with multiple display screens; therefore, the growth in demand for automotive display panels will be higher than that of the main body of the automobile. Figure 5-5 shows that the display screens in automobiles will become bigger in size or increase in number. The current development trend of smart cockpit as well as that of the dashboard and center console is to develop a horizontal wide screen, about 20" to 30", or to expand the single center console to between 12.3" and 18". After 2025, the single screen will be enlarged to 50" to 55", and LTDI solutions will be developed in the future to meet the application of pillar-to-pillar display.

Figure 5-5: Automobile smart cockpit types



As for devices such as tablets, notebooks, and wearables, human-machine interface function, such as active stylus-related needs, will also be added in the future to provide a better user experience. A highly integrated IDC active stylus solution combined with a higher frame rate display solution can make the module architecture lighter and more compact, which helps to control the cost of the module, further accelerating the introduction and adoption of more devices.

(2) Fingerprint recognition IC industry:

Biometric identification is mainly used in devices for consumer electronics (smartphones, notebook computers, wearable devices, smart cards, smart homes, etc.), industry (automotive, office access, medical, retail, finance, etc.), and homeland security (government, security, military departments, etc.). The popularization of mobile internet applications led to the rapid growth of 5G, as well as the arrival of the electronic transaction era, making the risk of using traditional password authentication higher. The application of biometric authentication using personal biometric characteristics can effectively solve the problem of security authentication. Therefore, related technologies have been developed rapidly in recent years.

Biometric authentication is mainly based on fingerprint recognition technology, which has been developed rapidly since its adoption by Apple's iPhone 5S, making fingerprint unlocking the standard feature of smartphones. After mobile payments such as Apple Pay, Google Pay and Mi Pay were launched, the importance of fingerprint recognition IC that enhances the security of mobile payments has been highlighted.

Fingerprint recognition technology can be divided into optical, capacitive and ultrasonic types. Since capacitive fingerprint recognition is well developed, products based on such technology have the largest number of shipments. The technology is mainly used in mobile phones with TFT panels. However, after 2018, mobile phone displays have entered the full-screen era due to the increasing screen-to-body ratio, making the traditional "Home button + capacitive" fingerprint recognition unable to meet the needs. For this reason, optical and ultrasonic fingerprint recognition technologies have been developed, and are mainly used for in-display fingerprint mobile phones. Compared with ultrasonic fingerprint recognition, optical in-display fingerprint recognition has cost advantage. Moreover, the technology is well developed, allowing it to surpass ultrasonic fingerprint recognition in terms of applications. Currently, optical in-display fingerprint recognition has been commercially used by mobile phone brand manufacturers. Nevertheless, the application of optical fingerprint recognition to smartphones is only feasible when combined with OLED display. So far, there is no in-display fingerprint recognition available for TFT LCD panel.

Ultrasonic fingerprint is more advantageous in terms of security and accuracy. However, it has a higher cost with a lower yield rate, so it is priced higher and mainly used in high-end mobile phones currently. Since Samsung Galaxy S series and VIVO IQOO series mobile phones using ultrasonic fingerprint get great market feedback, it is expected that various terminal manufacturers will start to adopt ultrasonic fingerprint in high-end models. With the rapid growth in the number of shipments for ultrasonic fingerprint modules, the cost will drop accordingly. Also, ultrasonic fingerprint is expected to become a standard feature for high-end flagship models in the future.

Microsoft has been upgrading the security level of biometric devices since 2022. In the early stages, the Microsoft system adopted the Match on Host (MOH) method, i.e., the fingerprint module collects fingerprints and sends the image information to the host computer, and then the host computer performs fingerprint recognition and other related operations. Recently, Microsoft has shifted to the Match on Chip (MOC) method, i.e., the fingerprint module needs to be equipped with a microcontroller unit (MCU) that can perform fingerprint recognition and other calculations to calculate the collected fingerprint image information, and subsequently only the recognition results are sent to the host computer, thus significantly improving the overall security of the system. Since Microsoft's new demand involves significant changes in hardware and software, it creates a new opportunity for fingerprint product suppliers to enter each brand.

Additionally, as the technology matures and the cost decreases, there is a growing demand for fingerprint recognition solutions in areas such as smart door locks and luggage lockers that require keys.

(3) Industry for physiological monitoring products:

The continuing spread of COVID-19 variant has boosted the demand for medical equipment. Pandemic prevention materials, rapid screening reagents, medical equipment for disease diagnosis, such as thermometers, ear thermometers, physiological monitoring devices, pandemic prevention robots, and remote health monitoring devices, have all gained tremendous attention. Furthermore, the aging trend of the world's population will also increase the demand for medical equipment for chronic disease monitoring, such as sphygmomanometers and glucometers. In addition to cancer, cardiovascular-related diseases have always been the major concerns for people, causing the demand for electrocardiogram (EKG) and other cardiovascular-related monitoring devices to increase. To ensure the safety of public health and pandemic prevention, medical services may be carried out in the form of distance diagnosis, telemedicine, and in-home medical treatment, which will increase the demand for personalized medical equipment and services. On top of that, more and more people prefer to work from home, and people are aware of the importance for health monitoring, which is expected to promote the diversity and growth of the physiological detection industry, such as wearable, portable or in-home physiological monitoring devices.

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

IC industry chain can be divided into:

A : Upstream: IC design (design house)

B : Middle-stream: Mask and foundry/IDM

C : Downstream: Bumping, wire bonding, testing and package

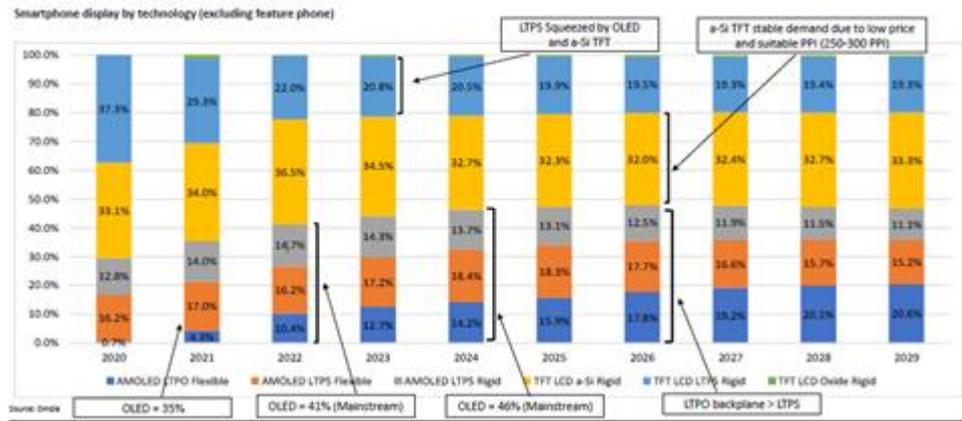
The IC industrial structure is consisted of designing, masking, wafer fabrication (foundry/IDM), gold bumping, and packaging and testing. IC design companies do not have their own production equipment. Therefore, their wafer fabrication is conducted by professional wafer foundries and followed by processes including gold bumping, wire bonding, packaging, and complete IC functional tests after preliminary inspection based on the types of products. The package of driver ICs is different from regular ICs. In the past, most of the driver ICs for small- and medium-sized panels were carried out based on the COG approach. In recent years, due to the increasing popularity of the full-screen display, the driver ICs for some panels have been carried out based on the COF approach.

3. Market trend of the Company's products

(1) Driver IC and touch IC for portable mobile device panels:

In 2022, the market share of AMOLED accounted to 41%, of which POLED accounted for 26.6%. In response to the threat of AMOLED, TFT panel manufacturers will continue to increase the frame rate or adopt the LTPS Mux6 technology to make TFT panels more competitive compared with AMOLED.

Figure 5-6: Estimated shipments of OLED panels for mobile phones



Source: Omdia Top 10 Display Topics, Q4 of 2022

With the increased AMOLED production capacity and the improved yield rate of panel manufacturers in Mainland China, AMOLED has taken over the market share of TFT LCD. AMOLED has several advantages including compact, lightweight, self-emitting display (without the need of backlight), high color saturation, wide viewing angle, high contrast, fast response time, low energy consumption, and the possibility to realize flexible display, many of which are difficult to achieve with TFT LCD panels. As a result, the development of AMOLED driver and touch related technologies as well as products will become particularly important and urgent.

The display panels for tablets and notebooks have not been significantly shifted from TFT LCD to AMOLED. However, the pandemic has increased the demand for working or learning from home, thus stylus will become a standard feature for panels in the future.

The trends of using AMOLED DDIC or future integration IC in the aforementioned handheld mobile devices is clear, and the demand for their power saving and display specifications is gradually increasing. For this reason, advanced process miniaturization will be adopted to reduce IC dimension and power consumption. Additionally, this has driven IC suppliers to direct towards more advanced processes for wafer fabrication (i.e., 40-nm and 28-nm processes).

AMOLED driver ICs used in smart wearable devices, such as high-end smart watches and smart bracelets, place more emphasis on power consumption and the number of peripheral components. Since such devices are smaller in size, the internal space left for placing components becomes limited, thus fewer components will be more ideal in terms of device structure. Hence, reducing the size of display panel peripheral IC has become a new technology requirement, and the IDC IC – an integration of display driver IC and touch IC – has become a new driving force in the display driver IC market.

The Company’s AMOLED wearable IDC solution features power saving, high ESD resistance, and few peripheral components. Such an IC integrates the driver display and touch functions, which uses one less FPC compared to the two-IC solution. Not only does it reduce the number of FPC layers, but also the cost due to the reduced components in the device

structure. Moreover, the IC supports AMOLED LTPO, which can further reduce power consumption.

(2) Fingerprint recognition IC:

As far as technology is concerned, 3D face recognition and fingerprint recognition dominate the biometrics market.

3D face recognition: The evaluation of FRR (False Rejection Rate) and FAR (False Acceptance Rate) showed promising results in 3D face recognition, but the current 3D structured light face recognition module still requires the use of IRGS Camera+DOT Projector or CIS TOF, resulting in problems such as higher costs and few applications. That is to say, 3D face recognition can only compete with the fingerprint recognition market when there is room for cost reduction in the future. Moreover, due to the COVID-19 pandemic, people are wearing masks in many occasions, which further affects the performance of face recognition.

Fingerprint recognition: This technology will continue to dominate the biometrics recognition market with its advantages of stable performance, rapid response, lower cost, and well-developed technology. The majority of the fingerprint recognition technology market is made up of side-mounted capacitive fingerprint solution, optical in-display fingerprint solution, and ultrasonic in-display fingerprint solution.

Side-mounted capacitive fingerprint solution: The side-mounted capacitive fingerprint solution is low cost, integrated with the power switch key, and takes up little space in the whole phone. With the continuous evolution of the algorithm, it has become the mainstream solution for cell phones.

Optical in-display fingerprint solution: It is easy to operate, highly adaptable to various environment, conforming with the traditional operation habits of users, and compatible with flexible/rigid OLED display. Additionally, it continues to win the favor of intermediate-level and high-end mobile phones.

Ultrasonic in-display fingerprint solution: It does not require much detail on the fingerprints and is able to recognize the fingerprints even if they are stained or wet when using. Also, ultrasonic fingerprint recognition draws the fingerprint details in 3D image, thus the fingerprint pattern generated is safer and more accurate. However, for its higher cost and lower yield rate, it is more often applied to high-end flagship models.

(3) Physiological monitoring products:

In 2017, the U.S. Food and Drug Administration (FDA) launched the Software Precertification (Pre-Cert) Pilot Program, and joined hands with brands such as Apple, Fitbit, and Samsung to simplify the regulatory process so as to enable the certification of smart bracelets/watches with electrocardiogram (EKG) and oxygen saturation detection functions. Taiwan's FDA has also taken international trends into consideration and established the Medical Devices Act. Starting from 2021, products whose functions do not involve medical purposes such as diagnosis and treatment of specific diseases are treated as health enhancement products, and no further application is required. However, if the functions such as EKG, sleep quality, oxygen saturation, and stress index are medically certified, their data

will offer higher reference value and provide supplementary information for medical professionals. By getting the basic physiological data measured and synchronized with the cloud service, chronic disease/rural patients will be able to provide medical personnel with real-time symptoms and a basis for diagnosis. Together with mobile medical devices, the medical act of hospital visits will be simplified by implementing telemedicine/mobile medical practice.

In Taiwan market, the surge of pandemic between 2019 and 2022, as well as the issue of “happy hypoxia”, led to the preclusive buying of oximeters, smart watches/bracelets with oxygen saturation detection function, etc., which indirectly created consumer demand.

4. Product Competition

(1) Driver IC and touch IC for portable mobile device panels:

For smartphone application, there are two types of TFT panels, namely a-Si and LTPS. Currently, both of them have adopted the in-cell solution of IDC. HD (1280x720) a-Si and FHD (1920x1080) LTPS are the two major panel specifications. The Company is one of the earliest to develop the IDC technology, with its products covering various resolutions including HD, FHD and QHD for both a-Si and LTPS panels. The major competitors in this field include Synopsys, Novatek, Himax Technologies, and Ilitek.

In addition to smartphone application, the FocalTech’s IDC solution for TFT in-cell tablets is currently in the leading position in terms of technology. Since the Company has exclusive technologies and substantial production capacity as well as experience, it becomes one of the most important suppliers for the market in 2021. It is expected that the shipments will continue to grow in the future. Moreover, the Company has also incorporated the active stylus function into tablets to continue its leading position in this application.

For AMOLED panels, currently, Samsung has the largest shipment, but its market share in 2022 dropped to 70% of the total AMOLED panel shipments around the world. With the increase in shipments from panel manufacturers in Mainland China, the Company will be more proactive in developing AMOLED driver ICs in cooperation with them. For touch IC, FocalTech is one of the few manufacturers around the world who are capable of mass-producing on-cell touch ICs. The Company has entered into the Korean and China supply chain, which will definitely benefit the Company’s revenue and profitability with the increase of production capacity of AMOLED panel in China.

Besides smartphones and tablets, the Company also applied the display driver IC, touch IC and other human-machine interface solutions to wearable and automotive devices. In addition to achieving compact and light-weight structure demanded by the market, it also helps to control the overall panel module costs, meeting the expected prices of the market.

(2) Fingerprint recognition IC:

Since 2018, fingerprint recognition IC manufacturers have been intensively investing in technology R&D, resulting in the successful development of the in-display fingerprint recognition technology. Currently, major suppliers of capacitive fingerprint recognition sensors include FocalTech, FPC, Goodix, and EgisTec, while the major supplier of ultrasonic in-display fingerprint recognition sensor is Qualcomm. The in-display optical fingerprint recognition technology is dominated by manufacturers such as Goodix, EgisTec, Silead, and Jiiov.

The Company has also been actively engaged in the development of optical in-display fingerprint recognition IC, optical components and lightweight algorithms, and ultrasonic fingerprint recognition IC. In addition to the current mainstream lens technology, FocalTech has also invested in the development of ultra-thin optical in-display fingerprint recognition technology and ultrasonic fingerprint recognition IC, in order to provide solutions for full-screen display and to compete in the market of fingerprint recognition.

(3) Physiological monitoring products:

With regard to mobile blood pressure detection devices, manufacturers have increased investment mainly in the development of health watches, with continuous monitoring of blood pressure changes as the main feature. Huawei, Fitbit, Samsung, and ASUS have all launched related products. Additionally, in the measurement of arrhythmia, there are technologies that adopt the principle of EKG in mobile EKG devices, smartphone cameras, and artificial intelligence to monitor the users' conditions. Furthermore, these products have all been licensed as medical devices, and can provide doctors with professional analysis and diagnosis.

Since 2019, the Company has started to develop physiological monitoring products that can be applied to mobile phones. Among them, a quick screening software for arrhythmias, Rhythm Cam, was developed in collaboration with National Taiwan University Hospital after conducting clinical trials. In 2021, the software was registered and licensed as a medical device by the Ministry of Health and Welfare. Currently, the Company has started to carry out a large-scale community screening together with National Taiwan University Hospital using this software. The software will be a tool for early detection of heart diseases in Taiwan using an app, and is the pioneer in Asia. Apart from that, the Company has developed VITOM, a mini portable, wireless, and cuffless heart rate and blood pressure monitoring module and product with medical-grade accuracy, which was registered and licensed as a medical device by the Ministry of Health and Welfare in 2022. The product allows users to measure their medical-grade physiological data at any time and anywhere, making blood pressure measurement simple and easy. In the future, an EKG measurement function will be added to the product.

(3) Technology and R&D status

1. Most-recent-year R&D expenses calculated up to the date of release of this annual report

Unit: NT\$ thousand

| Item | 2021 | 2022 |
|---------------------------|------------|------------|
| R&D expenses (A) | 2,409,274 | 2,536,509 |
| Net operating revenue (B) | 21,991,497 | 12,949,902 |
| (A)/(B) | 10.96% | 19.59% |

2. Successfully developed technologies or products

After years of effort in R&D and the idea to deliver innovative and leading technological services to customers, FocalTech has gradually established a number of technological achievements that lead in the industry. These achievements are summarized in the following table:

(1).TFT-LCD driver IC:

| R&D items or products | Applications |
|---------------------------------|---------------------------------------|
| Dynamic Contrast Ratio (DCR) | TV, Monitor, Mobile phone |
| Dynamic Gamma Control (DGC) | TV, Monitor, Mobile phone |
| Black Frame Insertion (BFI) | TV, Monitor, Mobile phone |
| Generation III Overdriving (OD) | TV, Monitor, Mobile phone |
| Color Tracking | TV, Monitor, Mobile phone |
| Tcon supporting 120Hz FHD | TV |
| 170MHz LVDS interface | TV, Monitor |
| MIPI-DSI interface | Mobile phone, Tablet |
| MDDI interface | Mobile phone |
| eDP interface | Tablet, NB |
| C-PHY interface | Mobile phone |
| Dynamic backlight control | Mobile phone |
| 12-bit color depth processing | Mobile phone |
| Ambient light sensor control | Mobile phone |
| Automatic adaptive power system | Mobile phone, NB |
| Multi-channel source driver | Monitor, NB |
| Cascade source driver | UMPC, Digital Photo Frame, Tablet, NB |
| Adaptive Image Enhancement(AIE) | NB, Tablet , Mobile Phone |
| CleverColor | Mobile Phone, NB, Tablet |
| White Adjustment (WA) | Mobile Phone, Tablet |

(2) Capacitive touch IC:

| R&D items or products | Applications |
|--|--------------------------|
| Double area Trangle Pattern | Mobile phone |
| Single Layer Sensor for Mutual-cap (SLM) | Mobile phone, Tablet |
| Single Chip for 15.6 inch panel | Mobile phone, Tablet, NB |
| One Glass solution (OGS) | Mobile phone, Tablet, NB |
| Oncell touch | Mobile phone, Tablet |
| Wake-up Gesture (WG) | Mobile phone, Tablet |
| Single Layer Sensor on cell | Mobile phone, Tablet |
| Integrated Driver Control (IDC) | Mobile phone |
| Auto-Celebration | Mobile phone, Tablet, NB |
| Full-Screen Common-mode Scanning | Mobile phone, Tablet, NB |
| Frame Touch | Mobile phone |
| Proximity Sensing | Mobile phone |
| Narrow Board Sensor | Mobile phone, Tablet |
| All ITO Sensor Pattern | Mobile phone |
| Force Engine | Mobile phone |
| Two Pressure Touch Detect | Mobile phone |
| Water proof system | Mobile phone, Tablet, NB |
| High Reporting Rate Detection | AMOLED mobile phone |

(3) Integrated touch and display driver IC:

| R&D items or products | Applications |
|--|-----------------------|
| A-Si Dual Gate COG/COF HD IC solution | Mobile phone |
| A-Si Single Gate COG HD IC solution | Mobile phone |
| LTPS MUX 1:6 FHD COG/COF IDC IC solution | Mobile phone |
| LTPS MUX 1:3 FHD COG/COF IDC IC solution | Mobile phone |
| A-Si Cascade IDC IC solution | Tablet |
| A-Si Automotive IDC IC solution | Automotive |
| LTPS Automotive IDC IC solution | Automotive |
| LTPS NB IDC IC solution | NB |
| AMOLED LTPO Wearable IDC IC solution | Wearable |
| High Frame Rate Solution | Mobile phone , Tablet |
| A-Si HD Sinking narrow frame COG IC solution | Mobile phone |
| LTPS FHD CPHY/DPHY IDC IC solution | Mobile phone |
| Active stylus IDCIC solution | Tablet |

(4)Fingerprint recognition IC:

| R&D items or products | Applications |
|--|--------------|
| Coated capacitive fingerprint recognition IC | Mobile phone |
| Ceramic cover, glass cover capacitive fingerprint recognition IC | Mobile phone |
| Active narrow side-mounted capacitive (including flat and curved surface) fingerprint recognition IC | Mobile phone |
| Active capacitive fingerprint recognition IC (MOC) | NB |
| Optical in-display fingerprint recognition IC | Mobile phone |
| Development of lens, collimator optics and algorithms | Mobile phone |
| Ultrasonic in-display fingerprint recognition IC | Mobile phone |
| Automotive active capacitive fingerprint recognition IC | Automotive |

(5) AMOLED driver IC:

| R&D items or products | Applications |
|---|------------------------|
| Global and Local Auto current limit (ACL) | Mobile phone, Wearable |
| Always on Display (AOD) | Mobile phone, Wearable |
| Dynamic ELVSS | Mobile phone, Wearable |
| SPR Compensation | Mobile phone, Wearable |
| Dynamic Gamma Control | Mobile phone, Wearable |
| Demura | Mobile phone, Wearable |
| IR Drop | Mobile phone, Wearable |
| Partial Area Gamma | Mobile phone, Wearable |
| DeBurnIn | Mobile phone |
| Camera Under Panel (CUP) | Mobile phone |

(6) Physiological monitoring products:

| R&D items or products | Applications |
|-----------------------|--------------|
| Rhythm Cam | Mobile phone |
| VITOM | Mobile phone |

(4). Long, short-term business development plans

FocalTech pursues sustainable development, regularly monitor and evaluate the risk and opportunities of the organization's internal and external issues (such as future industrial development as well as the overall economic environment and trends) proposed by stakeholders, serving as the reference and basis for the company's social responsibility and future operation plan. Through the formulation of long-term and short-term plans, the company's future management direction will be determined. The quality as well as the environment, health and safety management system will be improved continuously to ensure that the expected results and effectiveness can be achieved. Potential emergency and impact will be identified to prevent or reduce unexpected effect, better understanding the involved risks and opportunities to solve the company's problems, which in turn improves

the company's competitiveness. The short-term and long-term plans of the company are explained as follows :

1. Short-term development plan

(1). Marketing strategy

- A. Strengthen services and businesses of the existing customers and play the role of long-term strategic partner.
- B. Develop new markets and customers, establish partnerships with marketing channels and new customers.

(2). Production strategy

- A. Strengthen the strategic partnership with major wafer fabrication, package, and testing plants to obtain stable and adequate production capacity and technical services.
- B. Strengthen the development of new wafer foundry around the world and signed a cooperative contract to increase the source and flexibility of wafer supply, providing customers with more choices of production sites.
- C. Establish and strengthen the information network connection with the supply chain partners to grasp the progress and quantity of production at any time.

(3). Product strategy

- A. Cooperate with customers to develop competitive products and solutions that lead in the industry.
- B. Assist in enhancing customer's value and innovation.
- C. Reduce the operating risks of products, highlight the development principle of product line balance, and improve the value of products.
- D. Support customers to develop highly flexible application development platform to meet the needs of fast and diversified market development.
- E. Continue to develop highly integrated ICs, reduce the number of external components, and assist customers in lowering the overall material costs.
- F. Launch new IC products that are small in sizes to effectively reduce costs.
- G. Develop ultra-narrow bezel touch and display integrated IC technology.
- H. Develop touch solution that can be used in rigid on-cell and flexible on-cell AMOLED panels.
- I. Wearable touch solution with low power, small packages, and low cost.
- J. Develop active stylus sensing technology.

(4). Operation strategy

- A. Actively improve the market share and profitability of each product.
- B. Spread risk and manage the conditions of each product line.
- C. Expand the effectiveness of innovative research and development.
- D. Strengthen talent cultivation and recruitment.
- E. Make good use of strategic alliance to create mutually-benefit environment.

(5). Operation management and financial adjustment

- A. In response to the development of the company's future operation, resources of the company will be distributed appropriately through sound financial planning and operational management, hoping to maximizing the company's resources.
- B. Establish sound and diversified funding channels, and build a close relationship with financial institutions in case operational funds are

required for business growth and development.

2. Long-term development plan

(1). Marketing strategy

- A. Strengthen international market capabilities and enhance strategic collaboration with international customers.
- B. Innovate market demand; create new consumer demand
- C. Integrate industrial supply chain, strengthen the communication and cooperation between brand owners and panel manufacturers.

(2). Production strategy

- A. Share jointly the risks involved in new process and technology development with the supply chain partners.
- B. Expand economic scale and reduce production costs.
- C. Prepare our own test and production equipment to reduce costs and meet the production capacity expansion needs.

(3). Product strategy

- A. Increase technology lead, and strengthen the R&D of products.
- B. Integrate related technologies, expand the scope of product lines and deepen the level of technologies.
- C. Strengthen the technology for high-speed analog and mixed signals.
- D. Develop high-efficiency image processing technology.
- E. Develop bio-sensing technologies.
- F. Develop touch technology with strong penetration, high signal-to-noise ratio, and good interference-resistance, as well as expand the application of touch IC in the area of industrial control and medical care.

(4). R&D strategy

- A. Expand business operation teams, plan core products, establish the company's key technologies and patents, and continue to invest in the development of new generation products to pursue leading technologies.
- B. Enhance product design capacity, improve R&D processes, and establish the techniques for standardization and modulization to shorten development time and reduce development costs, increasing the competitiveness of new products.

(5). Operation management and financial planning

- A. Establish a sound management system, implement the company's business philosophy, create an excellent corporate culture, and realize the vision of sustainable operation.
- B. Utilize the diversified funding channels of capital market to strengthen the financial structure of the company as well as the capability for long-term development. In coordination with the growth of the company, reinforce the business operation teams and improve the company's popularity as well as image.

2. Overview of Market, Production and Sales

(1) Market analysis

1. Regions for selling (offering) major products (services)

Unit: NT\$ thousand

| Region \ Year | 2021 | | 2022 | |
|----------------|--------------|------------|--------------|------------|
| | Sales amount | Percentage | Sales amount | Percentage |
| Mainland China | 18,929,282 | 86.08% | 10,253,909 | 79.18% |
| Taiwan | 2,856,250 | 12.99% | 2,183,728 | 16.86% |
| Other | 205,965 | 0.93% | 512,265 | 3.96% |
| Total | 21,991,497 | 100% | 12,949,902 | 100% |

2. Market share

The Company's current sales are based mainly on products such as Touch with Display Driver Integration (TDDI) or Integrated Driver Controller (IDC), out-cell capacitive touch IC, TFT LCD driver IC, and fingerprint recognition IC.

(1) Integrated Driver Controller (IDC):

In recent years, the Company continued to devote itself to the launch of Integrated Driver Controller (IDC). Since LTPS MUX6 technology is widely used in high-end smartphones and high frame rate display technology has been adopted by HD+ and FHD+ smartphones, the shipments of Integrated Driver Controller (IDC) in 2022 exceeded 110 million units. In addition, several tablet manufacturers have largely adopted IDC into their new models and automotive display screens. It is expected that the Company's IDC shipments and market share will continue to grow in 2023 and maintain its leading position in the market.

(2) Out-cell capacitive touch IC:

As the Integrated Driver Controller (IDC) is gradually accepted by the market, the market share of out-cell touch ICs in TFT panels has dropped sharply. However, with the increase production capacity of AMOLED panels, and the fact that the Company's out-cell touch ICs for AMOLED panels have successfully entered the supply chain of Korea and China, the Company's capacitive touch solution still maintains its leading position in terms of market share in the global smartphone market.

(3) TFT LCD driver IC:

Since Integrated Driver Controller (IDC) is widely accepted by the market, the number of smartphones adopting TFT LCD driver ICs has declined rapidly. For this reason, the Company has shifted its business focus to applications related to medium- and large-size panels, such as smart speakers, notebook computers, digital cameras, and automotives, continuously directing the product structure towards high-tech requirements and high integration. In addition to the mainstream specifications, high-resolution and high-PPI products such as WXGA+, FHD, and QHD were also launched. Due to the long lifecycle of medium- and large-size products, the Company's shipments and revenue were still maintained a certain market share in 2022.

(4) Fingerprint recognition IC:

After years of research and development, the Company has created a full range of capacitive fingerprint products. Demand from mobile phone end-customers has grown incredibly, with the shipment of back-mounted capacitive fingerprint products reaching a record high, and side-mounted capacitive fingerprint being adopted by first-tier mobile brand customers and seizing large-volume shipments. Capacitive fingerprint products continue to penetrate towards first-tier brand customers, and the market share continues to increase. The Company will continue to put more efforts in product promotion, with the shipments of other human-machine interface solutions ICs, to offer customers the convenience of one-stop shop service.

3. Supply, demand and growth of the future market

(1) Driver IC and touch IC for portable mobile device panels:

Regarding the supply of driver ICs for small- and medium-size LCDs, although manufacturers in Europe, the United States, Japan, and Korea have well-developed technologies, they are far less competitive than Taiwanese and mainland Chinese manufacturers in terms of price, delivery time, service, and flexibility. Mainland China's driver IC manufacturers such as NewVision, ViewSil Microelectronics, Chipone, and Solomon Systech, have devoted themselves to the development of LCD driver ICs in recent years and yielded fruitful results. However, their technologies are not mature enough. In addition to the impact of material shortages in the past, these manufacturers were gradually introduced to cell phone customers and their products went into mass production for shipment. Despite the location advantages, these manufacturers mainly secure low-end cell phone models for their technical capability that is far inferior to that of Taiwanese manufacturers. Since manufacturers in Taiwan have the advantage of a higher technical capability, and have better control over both the front-end wafer fabrication and the back-end package, they are capable of fulfilling most of the market needs, including high-, medium- and low-end cell phones. Therefore, Taiwanese manufacturers are currently the leading providers of driver ICs for small- and medium-size LCDs.

IDC products and technologies are now well developed. They have been mass-produced for both mobile phone and tablet brand customers, providing them with a lighter, more compact and better-performing device structure and an outstanding touch performance. Therefore, IDC products have maintained its high competitiveness for the future market. With IDC, the Company can expand its market share for intermediate-level products. In 2021, the Company shipped more than 210 million units of Integrated Driver Controller (IDC), and was the first to launch the new-generation IDC products for new applications, such as tablets, smart wearables, and automobiles. It is expected that the Company will continue to maintain its leading position in the market and lead the advancement of in-cell technologies in the future.

The Company's AMOLED driver ICs, whether for wearable applications or mobile phone applications, have been produced in small quantities. The Company will continue to carry out IC advancement for different applications. The advancement will be focused on two areas:

- A. In response to larger size of AMOLED mobile phones with high-resolution applications, more sophisticated color algorithms will be developed to coincide with the evolution of display, in order to improve panel performance and yield rate.
- B. In response to the needs of the high-end wearable market, the Company will continue to develop AMOLED IDC that can reduce the weight and size of displays, and that can be applied to GOLED In-cell and POLED On-cell.

In the application of out-cell capacitive touch IC, the Company has successfully developed an AMOLED on-cell solution and promoted it to international mobile phone brands along with various AMOLED panel manufacturers. With the increase of AMOLED's market share in the mobile phone panels, the growth of AMOLED on-cell touch IC will be promoted as well.

Furthermore, the Company's touch products have been successfully applied to smart watches, bracelets, earphones and Notebook. The shipment of touch ICs in the wearable device market and NB will continue to increase, producing more revenue and profitability for the Company.

(2) Fingerprint recognition IC:

Currently, capacitive fingerprint recognition ICs are widely used for the front, back and sides of portable electronic devices. Such ICs support the various cutting sizes (track, square and round types), allowing pressing in all directions (360 degrees). Additionally, such ICs also support coating, ceramic cover, and glass cover. Capacitive fingerprint recognition ICs have been affected by the in-display fingerprint recognition solution in terms of application, making their market share in high-end mobile phones to decline in the future. However, the technology can still be regarded as the mainstream for intermediate-level and low-end mobile phones; consequently, considerable shipments can be maintained. The Company has its own algorithm that enables quick unlocking. It can provide functions such as black screen wake-up, file folder privacy protection, fingerprint photo shooting, and fingerprint phone answering. As the number of fingerprint recognition operations increases, the algorithm will perceive changes in fingerprint characteristics caused by temperature and humidity, continue to carry out detection, and automatically update the collection of samples, thereby ensuring a consistent user experience. While ensuring both FRR (False Rejection Rate) and FAR (False Acceptance Rate) are good, the smallest array in the industry, and the fastest unlocking speed of less than 0.2 second were achieved, the Company maintains the leading position in gesture performance and low power consumption in the industry. At present, a number of the Company's capacitive fingerprint products have passed the Google Android Biometric Security Accreditation and the Ant PayPal Security Certification. These technologies and achievements will increase the willingness of customers to adopt them in the mature market of capacitive fingerprint recognition products. In addition, the Company will take the initiative to explore the notebook computer market and the high-end automotive market, in order to win substantial orders from these markets.

Currently, full-screen displays have become the major configuration for intermediate-level and high-end smartphones, and continue to penetrate towards the entire mobile market. The Company's in-display optical fingerprint recognition solution has seized small-volume shipments to end customers. Apart from that, side-mounted capacitive fingerprint recognition solution has been mass-produced for various first-tier brand end-customers,

(3) Physiological monitoring products:

Taiwan's population over the age of 65 reached 14% in March 2018, officially making it an aging society. It is estimated that by 2026, the population over the age of 65 will have exceeded 20% and it will then be classified a super-aged society, which will increase the number of people in need of long-term care. Moreover, the gradually declining function of family care has increased the pressure on individual and family caregivers, which may give rise to social and economic problems. Through smart sensors and advanced application tools, information collection and management of body data can be carried out. The data will then be transmitted back to the central database for medical care. At the same time, improvements will be made to the management of medical processes in order to save significantly on resources. Therefore, medical-related companies and various health care systems all hope to utilize the vast resources accumulated by the Taiwanese electronics industry to provide suitable solutions.

The Company's core technology lies in the artificial-intelligence-based sensors and big data database analysis. In the future, the Company will actively cooperate and collaborate with partners in various fields for subsequent handling of comprehensive and integrated health monitoring solutions with innovative business models, allowing users to enjoy accurate, convenient, and timely medical care services.

4. Competitiveness: In response to the fierce competition at home and abroad, the Company has the following competitive advantages.

- (1) Professional operations and management team: The Company's operations and management team is well trained and has rich experiences in product market strategy and positioning.
- (2) Strong R&D capability:
 - A. The Company continues to demonstrate strong capability in technological innovation and new product development, and has taken the leading position in several areas of the market.
 - B. The technical support service bases established at home and abroad can promptly solve customers' product application and production problems, which enhances customer's efficiency in mass production.
- (3) Reliable and close customer relationship: The Company has an excellent corporate culture, and maintains a long-term close relationship with upstream, midstream and downstream customers as well as the supply chain. When facing problems, the Company always adhere to the idea of integrity and spares no effort to help customers solve all their problems. Therefore, the Company is able to maintain long-term, close and reliable partnerships with both customers and suppliers.

- (4) Deep understanding of various display platforms and products: In addition to solid R&D capability, the Company has a deep understanding of various display platforms, such as mobile phones, tablets, notebooks, digital cameras, and printers, with an aim to create more added value for customers.
 - (5) Good strategic partners: In addition to deep-rooted customer relationships, the Company actively forms strategic alliances with brand customers and platform solution providers.
5. Advantages and disadvantages of the Company's future development and corresponding countermeasures
- (1) Advantages
 - A. The display industry and its application market are changing rapidly; therefore, operating efficiency and rapid response capabilities are particularly important. In the fast-changing environment, the operating efficiency of professional IC design companies has surpassed the group operation model of traditional Integrated Device Manufacturer (IDM). Additionally, the performance of domestic professional wafer fabrication, testing and package plants have reached world-class standards, thus the long-term competitiveness of professional IC design companies is promising.
 - B. Integrated Driver Controller (IDC) has dominated the market, especially in the application of small-size panels, which is also the Company's current focus area. The successful experience accumulated for LCD IDC will be beneficial for the Company to expand the market of AMOLED IDC.
 - C. The brand owners of flat-panel attach great importance to the development of related display technologies and standards. The demand for collaboration with related domestic flat-panel display manufacturers is increasing. Therefore, it is beneficial to FocalTech, who has a solid R&D capability. Regardless of technology development or innovation, the Company is in the leading position.
 - D. With IC design and software development capabilities, FocalTech-owned ITO touch patented patterns will be able to effectively provide customers with solutions in the shortest time and avoid being accused.
 - E. Stay close to the market so as to grasp the market trend, and meet customer order requirements at any time. The Company is one of the few IC design companies who meet the rapidly changing market in Mainland China, which enhances the Company's position in the market.
 - (2) Disadvantages and corresponding countermeasures
 - A. Product prices are facing downward pressure

In the second half of 2022, the inventories of both flat-panel display manufacturers and mobile phone brand customers were at a higher level, thus the product pull-in speed was not as fast as in the past. Together with the gradual increase in production capacity of suppliers and the price wars against competitors, product prices are facing downward pressure, which seriously affects profitability.

Countermeasures:

The Company continues to enhance its capabilities in product manufacturing and R&D design. Moreover, the Company also seeks lower cost wafer and packaging technologies, and it optimizes and reduces testing procedures and platforms in order to reduce manufacturing costs and increase product margins. In response to market development trends, the Company will accelerate the development of new technologies and products to widen the technological gap with competitors in the industry. Furthermore, new markets of applications, such as wearable, smart home device, security device, and automotive, will be explored to increase product competitiveness.

B. Competitors have successively engaged in the development of integrated IC solutions

Traditional display driver IC manufacturers and touch IC manufacturers are eager to give it a try. As a result, they all launched solutions for Integrated Driver Controller (IDC) to take over a share of the market, which has worsened the subsequent market competition.

Countermeasures:

The Company will continue to strengthen the deployment of domestic and international patents to increase the entry barrier, and focus on R&D to develop next-generation products, widening the gap with competitors, and providing customers with more cost-effective and competitive solutions.

C. R&D personnel resign risk

The IC design industry is a knowledge-intensive industry. The development and training of R&D and design personnel requires long-term cultivation. Hence, having recruited high-quality R&D personnel will be the core competitiveness of IC design companies. However, due to the large number of competitors in the IC industry, recruitment of outstanding professional talents is becoming increasingly difficult, and high costs are often required to recruit excellent talents. In addition, enhancing the loyalty of talents will require the Company to pay higher labor costs.

Countermeasures:

The Company takes specific measures, such as adopting various equity retention tools, setting rules for earnings distribution to employees, implementing the product line profit-sharing system, conducting performance assessment and promotion, and offering internal/external education and training, to improve the adhesion and loyalty of employees.

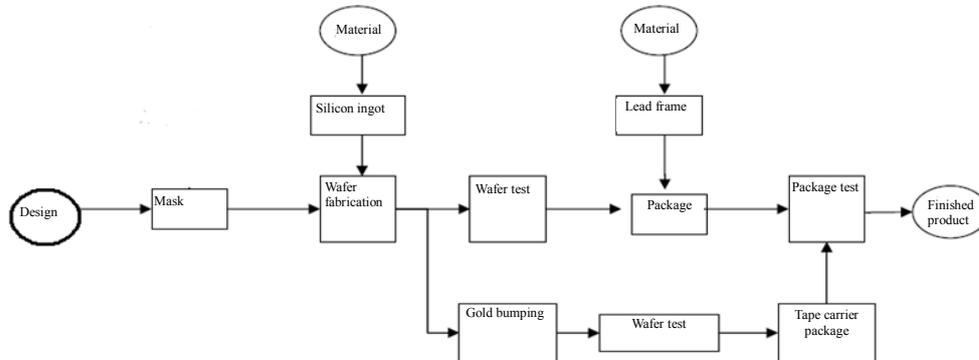
(2) Important use and production process of major products

1. Important use of major products

Currently, the Company's main products include Touch with Display Driver Integration (TDDI) or Integrated Driver Controller (IDC), capacitive touch IC, TFT LCD and AMOLED driver IC and fingerprint recognition IC. They are mainly used in various types of smartphones, tablets, notebooks, wearable devices, digital cameras, automobiles and printers.

2. Production process of major products

The Company is a professional IC design company, and its fabrication of wafers is conducted by foundries. After preliminary tests, the ICs produced by fabs are sent to package plants for packaging or bumping processes, as well as to complete IC functional tests. The following is the flow chart showing the production process:



(3) Supply of major material

| Name of major material | Major supplier | Supplying condition |
|------------------------|--|---|
| Wafer | Supplier A, Supplier B, Supplier C, Supplier D | Stable quality and supply, long-term cooperation, good supply |

(4) The name of the supplier (customer) who has accounted for more than 10% of the total purchases (sales) in any one of the most recent two years, as well as the purchase (sales) amount and percentage

1. Information of major suppliers in the past two years

Unit: NT\$ thousand

| No. | Name | 2021 | | | 2022 | | | |
|-----|---------------|-----------|--|------------------------------|---------------|------------|--|------------------------------|
| | | Amount | Percentage to annual net purchases (%) | Relationship with the issuer | Name | Amount | Percentage to annual net purchases (%) | Relationship with the issuer |
| 1 | Supplier A | 3,722,593 | 40% | None | Supplier A | 4,466,985 | 41% | None |
| 2 | Supplier C | 2,996,843 | 32% | None | Supplier C | 3,000,057 | 28% | None |
| 3 | Supplier B | 1,356,153 | 14% | None | Supplier B | 1,215,363 | 11% | None |
| 4 | | | | | Supplier D | 1,338,354 | 12% | None |
| | Others | 1,320,075 | 14% | — | Others | 743,484 | 8% | — |
| | Net purchases | 9,395,664 | 100% | — | Net purchases | 10,764,243 | 100% | — |

Note: The variation was due to the change in product combination.

2. Information of major customers in the past two years

Unit: NT\$ thousand

| No. | 2021 | | | | 2022 | | | |
|-----|-----------|------------|------------------------------------|------------------------------|-----------|------------|------------------------------------|------------------------------|
| | Name | Amount | Percentage to annual net sales (%) | Relationship with the issuer | Name | Amount | Percentage to annual net sales (%) | Relationship with the issuer |
| 1 | Company B | 2,943,186 | 13% | None | Company B | 544,762 | 4% | None |
| 2 | Company C | 2,859,803 | 13% | None | Company C | 633,714 | 5% | None |
| 3 | Company A | 1,905,534 | 9% | None | Company A | 198,970 | 2% | None |
| 4 | Company G | 2,328,269 | 11% | None | Company G | 1,304,137 | 10% | None |
| 5 | | | | | Company D | 1,999,825 | 15% | None |
| 6 | | | | | Company H | 1,352,962 | 10% | None |
| | Others | 11,954,705 | 54% | — | Others | 6,915,532 | 54% | — |
| | Net sales | 21,991,497 | 100% | — | Net sales | 12,949,902 | 100% | — |

Note 1: The above company includes the company and its affiliates.

Note 2: The variation was due to the change in product combination.

(5) Production volume and value in the past two years

Unit: 1000 units; Unit: NT\$ thousand

| Production volume and value | Year | 2021 | | | 2022 | | |
|---|---------------|---------------------|-------------------|------------------|---------------------|-------------------|------------------|
| | Major product | Production capacity | Production volume | Production value | Production capacity | Production volume | Production value |
| Human-machine interface application related ICs | | — | 572,513 | 12,342,771 | — | 309,234 | 9,623,959 |

Note: FocalTech is an IC design company and all products are produced by outsourced manufactures. Therefore, there is no production capacity data available.

(6) Sales volume and value in the past two years

Unit: 1000 units; Unit: NT\$ thousand

| Year | 2021 | | | | 2022 | | | |
|---|----------------|---------|---------------------|------------|----------------|---------|---------------------|------------|
| | Domestic sales | | International sales | | Domestic sales | | International sales | |
| | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| Major product | | | | | | | | |
| Human-machine interface application related ICs | 19,107 | 870,582 | 510,044 | 21,120,915 | 7,608 | 434,603 | 319,861 | 12,515,299 |

3. Information of employees

Information of employees in the past two years and as of the publication date of the annual report: number of employees, average year of service, average age, and education background

April 30, 2023; Unit : person(s)

| Year | | 2021 | 2022 | As of April 30, 2023 |
|-------------------------|-----------------|------|------|----------------------|
| No. of employees | Manager | 18 | 20 | 19 |
| | Production line | — | — | — |
| | Regular staff | 850 | 804 | 777 |
| | Total | 868 | 824 | 796 |
| Average age | | 36 | 36 | 37 |
| Average year of service | | 5.14 | 5.71 | 5.95 |
| Education background | Doctor | 1% | 1% | 1% |
| | Master | 46% | 46% | 45% |
| | Junior college | 52% | 52% | 53% |
| | Senior high | 1% | 1% | 1% |
| | Under Senior | —% | —% | —% |

4. Information on environmental protection expenditures

In the most recent year and as of the publication date of the annual report, disclose the losses incurred due to environmental pollution (including compensation and environmental protection audit results that violate environmental protection laws and regulations, the date of penalty, the penalty number, the laws and regulations violated, the content of violation, and the penalty shall be listed) and the estimated amount that may occur at present and in the future as well as the corresponding measures. If it is impossible to carry out the estimation, the reason shall be stated:

FocalTech is a high-tech integrated circuit design company. It is engaged in the research and development of semiconductors. The company entrusts various well-known domestic and international integrated circuit manufacturers to carry out wafer fabrication. Therefore, it is not involved in any pollution sources or pollution incident specified by the environmental protection related regulations.

5. Labor relations

(1) Employee welfare and benefits

In accordance with relevant laws and regulations, FocalTech allocates employee welfare funds and organizes an employee welfare committee to plan, supervise and implement employee welfare matters. In addition to statutory benefits in accordance with law, the Company also provides employees with additional flexible time off. In addition to following the provisions of the Labor Insurance Act, all employees of the company shall join the labor insurance and group insurance. Besides the employees, their family members can also join the group insurance under the condition that the premium is self-paid. FocalTech provides a safe and healthy working environment for employees. We have certified nurses and on-site doctors to provide regular medical and counseling services, offering facilities and environment that are superior to those required by the Occupational Safety and Health Act and providing regular health checkups better than those prescribed by the related laws and regulations. In addition, to enhance the company's competitiveness, we provide a complete training program for

employees' career planning and professional skills. We also implement profit sharing and fair evaluation as well as promotion systems to increase employees' adherence towards the organization. Subsidiaries are handled in accordance with local laws and regulations.

(2) Advanced study and training of employees

1. FocalTech provides employees with rich learning resources. Employees can enhance their knowledge and skills through internal and external training, on-the-job training, knowledge management systems, and guidance from supervisors and peers. Furthermore, through courses for new recruits, professional competencies, supervisory talents, as well as general courses and self-inspired training systems, employees are able to obtain assistance in learning and growth. On the other hand, through dual-track promotion, job rotation, and project assignment, the career and job of employees can be integrated, allowing them to enjoy the pleasure of learning and growing, and create a better future.
2. To provide more comprehensive on-the-job training and resources for our employees, the Company has developed the e-learning platform, FocalTech e-College, which allows all employees to choose courses according to the categories of "New Employee Training", "General Education", "Operation and Management", and "Professional Knowledge". These courses not only allow our employees to acquire new knowledge instantly, anywhere, anytime, without the restriction of time and location, but also enable them to better understand and systematically manage their entire learning history and records. With a robust training platform, all kinds of information and knowledge can be transferred instantly, which is conducive to the passing on of knowledge within the Company.
3. FocalTech has formulated the "Management Guidelines for Employee Education and Training" and planned related training courses in accordance with the requirements of competencies, professions, regulations and ISO to enhance the knowledge and the quality of employees, improving business performance. The education and training conducted in 2022 are as follows:

| Type of training | No. of people | Costs | Class hours |
|------------------------------|---------------|-----------|-------------|
| Management training course | 583 | 350,142 | 2,689 |
| Professional training course | 2,170 | 757,271 | 5,739 |
| General training course | 1,170 | 159,117 | 2,408 |
| New employee orientation | 201 | 22,500 | 1,334 |
| Total | 4,124 | 1,289,030 | 12,170 |

(3) Retirement system and its implementation status

To secure the retirement life of employees, and improve the spirit of on-the-job service, FocalTech has formulated the Employee Retirement Management Guidelines in accordance with the Labor Standards Act, specifying the retirement conditions, payment standards and application procedures, and establishing an Employee Retirement Reserve Supervision Committee in accordance with related laws. Retirement funds are allocated monthly and deposited in a special account of

the Bank of Taiwan under the name of the Employee Retirement Reserve Supervisory Committee. At the end of the year, if the estimated balance of the special account is insufficient to pay for the employees who are qualified for retirement in the next year, the difference in amount will be provided by the company at once before the end of March of the next year. Since the Labor Pension Act came into effect on July 1, 2005, employees can choose to follow the old pension system or the new system and retain the working experience that are applicable according to the related regulations (retain the working experience accumulated during the old pension system). For employees who are eligible for the new pension system, FocalTech will allocate 6% of the employee's salary every month to the individual labor insurance account. Subsidiaries are handled in accordance with local laws and regulations.

(4) Labor-management agreement

In accordance with relevant labor laws and related regulations, FocalTech handles labor-management agreement based on the employment contract, working rules and various management regulations. Since the establishment of the company, the labor-management relation has been harmonious, and no major labor disputes and losses have occurred.

(5) Various employee rights protection measures

FocalTech has formulated comprehensive management regulations, which clearly stipulate the rights and obligations of employees as well as their welfare and benefits to protect the rights and interests of employees.

(6) In the most recent year and as of the publication date of the annual report, disclose the losses incurred due to labor disputes (including labor inspection results that violate the Labor Standards Act, the date of penalty, the penalty number, the laws and regulations violated, the content of violation, and the penalty shall be listed) and the estimated amount that may occur at present and in the future as well as the corresponding measures. If it is impossible to carry out the estimation, the reason shall be stated: none.

6. Information security management

(1) Information security risk management framework

The Company's Information Management Division is responsible for the promotion and implementation of information security; formulation, promotion and implementation of information security policies; and raising employee awareness on information security. Additionally, the division reports regularly to the Chairman on information security operations, evaluates the effectiveness of internal controls over the Company's information operation, and ensures the confidentiality, integrity and availability of information. Finally, a "proactive information security detection and defense" framework has been established to reduce the risk of unauthorized use, destruction, or leakage of information.

As for risk assessment or specific issues, the Information Management Division will gather relevant units, including legal affairs, human resources, R&D, and auditing, for a joint discussion as appropriate.

(2) Information security policies

1. Scope and Objective: To provide the information security implementation principles for FocalTech Group’s employees so as to achieve the three major objectives of confidentiality, integrity and availability.
2. Responsible unit and detection procedure: The top-level manager is the responsible person of the information unit. Each year, the information unit internally identifies important risk factors based on risk assessment. These important risk factors are included in the information unit’s promotion work plan for improvement so as to reduce information security risks. Additionally, they are regularly compiled and submitted to the Sustainable Development Group. After consolidating other risks, the Group reports these risks factors to the Board of Directors according to their materiality level.
3. Promotion of information security work
 - (1) Arrange the annual information security work plan for the following year.
 - (2) Execute the formulated plan or instructed programs, specifically review the plan after execution, and keep records for future improvement and experience transmission.
4. Policies and operations

| Policy | Description/Purpose | Basis of Operation |
|--------------------------------|--|---|
| Password/Passphrase protection | Set password changing rules in the specified system so as to prevent unauthorized use and leakage of information. | Regulations Governing the Operations of Online and Electronic Media |
| Acceptable use method | Specify the acceptable and unacceptable practices for the use of company information and hardware resources so as to protect the security of company information. | Personal Computer Software Management Regulations |
| Email security | Specify rules for the use of email so as to avoid passive or active information leakage. | Regulations Governing the Operations of Online and Electronic Media |
| Access control | Establish control over information access as well as information processing facilities and procedures according to information security requirements so as to prevent any unauthorized access or destruction of information from the system. | Regulations Governing the Operations of Online and Electronic Media |
| Incident response | Formulate operation procedures and drill requirements for incident response, and examine them from time to time so as to reduce the damage caused by accidental information security incidents. | Information System Emergency Response Procedures |

| | | |
|--|---|---|
| The security of personal devices | Specify the principles and practices for the use of personal devices, including regulations for the use of network. | Regulations Governing the Operations of Online and Electronic Media |
| The security of server room and hardware | Specify the security management related rules for the access and uninterruptible power supply of the server room. | Regulations Governing the Operations of Online and Electronic Media |

5. Awareness raising on information security

- (1) The managerial level personnel regularly review, formulate, approve, and publish information security policies and raise the employees' awareness.
- (2) Enhance the information security awareness of colleagues through new employee training, information security awareness-raising activities, and social engineering.
- (3) Specific information security management programs

| Program | Specific Management Measures |
|---|--|
| Firewall protection | Set connection rules for firewall to ensure the blockage of malicious attacks. |
| | Users are required to additionally apply for an approval for special connection. |
| Mechanism controlling user access to the Internet | Control user's online behavior with an automatic web protection system. |
| | Automatically filter websites containing Trojan horse viruses, ransomware, or malware, which users may be linked to on the Internet. |
| Information leakage protection | Data access and leakage protection control using DLP. |
| Anti-virus software | Reduce the chance of virus intrusion by adopting an anti-virus software that updates virus patterns automatically. |
| Operating system update | The operating system is updated automatically. If the system is not updated for any reason, the Information Management Division will assist in updating it. |
| E-mail security control | Adopt the approach of automatic e-mail scanning threat protection to block access to unsafe attachments, phishing e-mails, and spam before users receive the e-mails, and to extend the protection against malicious links. When a personal computer receives an e-mail, the anti-virus software will also scan for unsafe attachments. |
| Data backup mechanism | Daily backups are scheduled for the important information system databases. |

| | |
|----------------------------------|---|
| Important file server management | Important files of all the Company's departments are stored in the server and generally kept by the information unit as a backup. |
|----------------------------------|---|

(4) Information Security Investment Resources

1. Network hardware such as firewalls, e-mail security controls, spam filtering, online behavior controls, and VPN controls.
2. Software systems such as data loss prevention, backup management, and antivirus protection.
3. Daily status checks of each information security system; execution of regular backup and off-site storage of backed-up media; weekly reviews of abnormal access and information security notifications; periodic security awareness-raising activities, social engineering drills, and employee information security training courses; execution of system disaster recovery drills, etc.

4. Information Security Measure Promotion and Implementation Results in 2022

| | |
|--|---|
| Information-security awareness-raising activities | Conducted 5 information-security awareness-raising sessions |
| Information-security-related education and training courses | Conducted 4 information-security education and training courses |
| Inclusion of new employees in education and training | 100 % |
| Arrangement of information security audit and improvement by external professional organizations | 2 times |
| Amendment or addition of information security regulations | 2 regulations |
| Disaster recovery drills | Conducted 2 disaster recovery drills |
| Social engineering drills | Conducted 1 e-mail social engineering phishing drill |
| Information security projects | Executed 10 annual information security projects |

(5) The losses or possible effects incurred due to major information security incidents, as well as the corresponding countermeasures, in the most recent year and as of the publication date of the annual report. If it cannot be estimated, the reason shall be stated: None.

7. Material Contracts:

The Company is not currently a party to any material contracts, other than those entered into the ordinary course of its business.

VI. Financial Status

1. Condensed Balance Sheets, Statements of Comprehensive Income, and CPA Audit Opinions for the Most Recent Five Years

(1) Condensed Balance Sheet

1. Consolidated Financial Statement - IFRS

Unit: NT\$ thousand

| Year | | Financial information for the most recent five years | | | | |
|---|---------------------|--|------------|------------|-------------|------------|
| | | 2018 | 2019 | 2020 | 2021 | 2022 |
| Item | | | | | | |
| Current assets | | 8,033,023 | 8,531,407 | 8,970,922 | 18,125,416 | 13,352,930 |
| Property, plant and equipment | | 1,394,372 | 1,361,478 | 1,321,940 | 2,468,605 | 2,514,208 |
| Intangible assets | | 1,386,266 | 1,336,457 | 1,300,470 | 1,284,496 | 1,297,817 |
| Other assets | | 486,460 | 373,627 | 751,721 | 3,453,417 | 3,632,230 |
| Total assets | | 11,300,121 | 11,602,969 | 12,345,053 | 25,331,934 | 20,797,185 |
| Current liabilities | Before distribution | 2,879,228 | 3,412,424 | 3,956,253 | 6,415,495 | 6,389,415 |
| | After distribution | 3,029,228 | 3,562,424 | 4,656,253 | 9,815,495 | Note 1 |
| Non-current liabilities | | 343,278 | 462,375 | 577,340 | 5,268,477 | 5,561,510 |
| Total liabilities | Before distribution | 3,222,506 | 3,874,799 | 4,533,593 | 11,683,972 | 11,950,925 |
| | After distribution | 3,372,506 | 4,024,799 | 5,233,593 | 15,083,972 | Note 1 |
| Equity attributable to owners of the parent | | | | | | |
| Share capital | | 2,987,432 | 2,996,759 | 2,103,532 | 2,162,367 | 2,161,107 |
| Capital surplus | | 6,551,481 | 5,145,377 | 4,843,642 | 6,062,869 | 6,041,988 |
| Retained earnings | Before distribution | (1,248,601) | (183,307) | 1,012,301 | 6,425,625 | 1,120,888 |
| | After distribution | 0 | 0 | 312,301 | 3,025,625 | Note 1 |
| Other Equity | | 147,164 | 5,807 | (122,316) | (1,025,199) | (296,495) |
| Treasury share | | (393,203) | (267,158) | (24,316) | 0 | (196,057) |
| Non-controlling interest | | 33,342 | 30,692 | (1,383) | 22,300 | 14,829 |
| Total shareholders' equity | Before distribution | 8,077,615 | 7,728,170 | 7,811,460 | 13,647,962 | 8,846,260 |
| | After distribution | 7,927,615 | 7,578,170 | 7,111,460 | 10,247,962 | Note 1 |

Data Source: Financial statements audited and attested by CPAs.

Note 1: Earnings for 2022 have not yet been resolved and distributed by the shareholders' meeting.

2. Individual Financial Statement - IFRS

Unit: NT\$ thousand

| Item | Year | Financial information for the most recent five years(note 1) | | | | |
|---|---------------------|---|-----------|------------|-------------|------------|
| | | 2018 | 2019 | 2020 | 2021 | 2022 |
| Current assets | | 1,789,171 | 2,240,119 | 5,449,676 | 14,058,343 | 8,456,623 |
| Property, plant and equipment | | 30,753 | 19,408 | 15,226 | 1,197,523 | 1,254,558 |
| Intangible assets | | 1,328,629 | 1,312,375 | 1,296,766 | 1,281,449 | 1,295,274 |
| Other assets | | 5,575,173 | 5,363,643 | 4,845,714 | 7,166,436 | 6,972,372 |
| Total assets | | 8,723,726 | 8,935,545 | 11,607,382 | 23,703,751 | 17,978,827 |
| Current liabilities | Before distribution | 505,919 | 1,052,458 | 3,225,284 | 4,818,835 | 3,612,303 |
| | After distribution | 655,919 | 1,202,458 | 3,925,284 | 8,218,835 | Note 1 |
| Non-current liabilities | | 173,534 | 185,609 | 569,255 | 5,259,254 | 5,535,093 |
| Total liabilities | Before distribution | 679,453 | 1,238,067 | 3,794,539 | 10,078,089 | 9,147,396 |
| | After distribution | 829,453 | 1,388,067 | 4,494,539 | 13,478,089 | Note 1 |
| Equity attributable to owners of the parent | | | | | | |
| Share capital | | 2,987,432 | 2,996,759 | 2,103,532 | 2,162,367 | 2,161,107 |
| Capital surplus | | 6,551,481 | 5,145,377 | 4,843,642 | 6,062,869 | 6,041,988 |
| Retained earnings | Before distribution | (1,248,601) | (183,307) | 1,012,301 | 6,425,625 | 1,120,888 |
| | After distribution | 0 | 0 | 312,301 | 3,025,625 | Note 1 |
| Other Equity | | 147,164 | 5,807 | (122,316) | (1,025,199) | (296,495) |
| Treasury share | | (393,203) | (267,158) | (24,316) | 0 | (196,057) |
| Non-controlling interest | | — | — | — | — | — |
| Total shareholders' equity | Before distribution | 8,044,273 | 7,697,478 | 7,812,843 | 13,625,662 | 8,831,431 |
| | After distribution | 7,894,273 | 7,547,478 | 6,889,297 | 10,225,662 | Note 1 |

Data Source: Financial statements audited and attested by CPAs.

Note 1: Earnings for 2022 have not yet been resolved and distributed by the shareholders' meeting.

(2) Condensed Statements of Comprehensive Income / Condensed Income Statement

1. Consolidated Financial Statement - IFRS

Unit: NT\$ thousand; Earnings Per Share: NT\$

| Item \ Year | Financial information for the most recent five years | | | | |
|---|--|-----------|------------|------------|-------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| Operating revenue | 9,919,368 | 9,160,261 | 13,800,348 | 21,991,497 | 12,949,902 |
| Operating gross profit | 1,562,300 | 1,993,200 | 3,428,776 | 10,729,399 | 1,282,678 |
| Operating profit or loss | (675,056) | (340,656) | 1,030,737 | 7,130,466 | (2,293,242) |
| Non-operating income and expenses | (1,828,593) | 160,295 | 126,360 | 472,604 | 432,625 |
| Profit before tax | (2,503,649) | (180,361) | 1,157,097 | 7,603,070 | (1,860,617) |
| Net profit of continued operations for the year | (2,488,118) | (205,680) | 983,458 | 6,096,850 | (1,928,895) |
| Loss of discontinued operations | — | — | — | — | — |
| Net profit (loss) for the year | (2,488,118) | (205,680) | 983,458 | 6,096,850 | (1,928,895) |
| Other comprehensive income for the year (profit after tax) | 107,575 | (141,671) | (131,355) | (91,765) | 267,066 |
| Total comprehensive income for the year | (2,380,543) | (347,351) | 852,103 | 6,005,085 | (1,661,829) |
| Net profit attributable to owners of the parent | (2,451,642) | (175,249) | 1,011,992 | 6,112,935 | (1,912,039) |
| Net profit attributable to non-controlling interest | (36,476) | (30,431) | (28,534) | (16,085) | (16,856) |
| Comprehensive income attributable to owners of the parent | (2,346,299) | (315,164) | 884,178 | 6,024,418 | (1,654,358) |
| Comprehensive income attributable to non-controlling interest | (34,244) | (32,187) | (32,075) | (19,333) | (7,471) |
| Earnings per share | (8.66) | (0.63) | 3.97 | 30.23 | (9.39) |

Data Source: Financial statements audited and attested by CPAs.

2. Individual Financial Statements - IFRS

Unit: NT\$ thousand; Earnings Per Share: NT\$

| Item | Year | Financial information for the most recent five years | | | | |
|--|------|--|-----------|------------|------------|-------------|
| | | 2018 | 2019 | 2020 | 2021 | 2022 |
| Operating revenue | | 4,298,242 | 2,901,766 | 11,410,350 | 18,335,785 | 9,642,718 |
| Operating gross profit | | 679,540 | 956,905 | 2,598,804 | 9,503,846 | 573,189 |
| Operating profit or loss | | (195,555) | 70,632 | 1,227,794 | 7,730,774 | (1,528,911) |
| Non-operating income and expenses | | (2,278,218) | (231,226) | (51,815) | (254,848) | (357,113) |
| Profit (loss) before tax | | (2,473,773) | (160,594) | 1,175,979 | 7,475,926 | (1,886,024) |
| Net profit of continued operations for the year | | (2,451,642) | (175,249) | 1,011,992 | 6,112,935 | (1,912,039) |
| Loss of discontinued operations | | — | — | — | — | — |
| Net profit (loss) for the year | | (2,451,642) | (175,249) | 1,011,992 | 6,112,935 | (1,912,039) |
| Other comprehensive income for the year (profit after tax) | | 105,343 | (139,915) | (127,814) | (88,517) | 257,681 |
| Total comprehensive income for the year | | (2,346,299) | (315,164) | 884,178 | 6,024,418 | (1,654,358) |
| Earnings per share | | (8.66) | (0.63) | 3.97 | 30.23 | (9.39) |

Data Source: Financial statements audited and attested by CPAs.

- (3) The names of CPA conducting financial audits in the Most Recent five Years and their audit opinions

| Year | Accounting Firm | Names of CPAs | Audit opinions |
|------|-------------------|--|---------------------|
| 2018 | Deloitte & Touche | CPA Shiow-Ming Shue, CPA Shu-Wan Lin | Unqualified opinion |
| 2019 | Deloitte & Touche | CPA Shiow-Ming Shue, CPA Chih-Ming Shao | Unqualified opinion |
| 2020 | Deloitte & Touche | CPA Shiow-Ming Shue, CPA Chih-Ming Shao | Unqualified opinion |
| 2021 | Deloitte & Touche | CPA Shiow-Ming Shue, CPA Chih-Ming Shao | Unqualified opinion |
| 2022 | Deloitte & Touche | CPA Yu-Hong, Kuo CPA Chih-Ming Shao | Unqualified opinion |

2. Financial Analysis for the Most Recent Five Years

(1) Consolidated Financial Statements - IFRS

| Analytical items (note 2) | | Year | Financial analysis for the most recent five years | | | | |
|----------------------------|---|--------------|---|-----------|-----------|------------|--|
| | | 2018 | 2019 | 2020 | 2021 | 2022 | |
| Financial Structure (%) | Debt-asset Ratio | 28.52 | 33.39 | 36.72 | 46.12 | 57.46 | |
| | Ratio of Long-term Capital to Property, Plant and Equipment | 601.53 | 599.34 | 634.69 | 765.38 | 572.46 | |
| Solvency (%) | Current Ratio | 279.00 | 250.01 | 226.75 | 282.53 | 208.99 | |
| | Quick Ratio | 202.62 | 195.64 | 180.46 | 220.47 | 118.19 | |
| | Interest Coverage Ratio | (318,430.41) | (15,556.34) | 57,695.67 | 60,061.12 | (3,513.41) | |
| Operating Ability (Note 1) | Receivables Turnover Rate (times) | 8.85 | 7.62 | 9.04 | 9 | 5.88 | |
| | Average Collection Days for Receivables | 41.24 | 47.89 | 40.37 | 40.55 | 62.07 | |
| | Inventory Turnover Rate (times) | 3.48 | 3.88 | 6.24 | 4.04 | 2.44 | |
| | Payables Turnover Rate (times) | 5.69 | 3.97 | 5.58 | 5.18 | 6.57 | |
| | Average Days of Sale | 104.88 | 94 | 58.49 | 90.34 | 149.59 | |
| | Property, Plant and Equipment Turnover Rate (times) | 7.08 | 6.65 | 10.29 | 11.6 | 5.2 | |
| | Total Asset Turnover Rate (times) | 0.8 | 0.8 | 1.15 | 1.17 | 0.56 | |
| Profitability | Return on Assets (%) | (20.02) | (1.79) | 8.23 | 32.42 | (8.17) | |
| | Return on Equity (%) | (26.11) | (2.23) | 13.05 | 57.03 | (17.03) | |
| | Ratio of Income Before Tax to Paid-in Capital (%) | (83.81) | (6.02) | 55.01 | 351.61 | (86.1) | |
| | Profit Margin Before Tax (%) | (25.08) | (2.25) | 7.13 | 27.72 | (14.9) | |
| | Earnings per share(NT\$) | (8.66) | (0.63) | 3.97 | 30.23 | (9.39) | |
| Cash Flow | Cash Flow Ratio(%) | (3.73) | 29.22 | 22.31 | 38.23 | (5.87) | |
| | Cash Flow Adequacy Ratio (%) | 131.81 | 170.34 | 183.83 | 91.01 | 31.4 | |
| | Cash Flow Reinvestment Ratio (%) | (3.51) | 11.8 | 9.81 | 9.66 | (28.12) | |
| Leveraging | Operating Leverage | 0.64 | 0.26 | 1.28 | 1.04 | 0.86 | |
| | Financial Leverage | 1 | 1 | 1 | 1 | 0.98 | |

Specify reasons for financial ratio differences for most recent two fiscal years (not required if difference does not exceed 20%):

1. Debt-asset Ratio, Current Ratio, and Quick Ratio: Primarily due to the decrease in current assets.
2. Ratio of Long-term Capital to Property, Plant, and Equipment: Primarily due to the decrease in shareholders' equity.
3. Interest Coverage Ratio, Return on Assets, Return on Equity, Ratio of Income Before Tax to Paid-in Capital, Profit Margin Before Tax, and Earnings per Share: Primarily due to the decrease in revenue as a result of the decline in market demand in 2022, as well as the one-time allowance for inventory valuation and obsolescence loss, which resulted in a significant decline in gross operating profit and a loss in profit.
4. Payables Turnover Rate (times), Average Collection Days for Receivables, Property, Plant and Equipment Turnover Rate (times), and Total Asset Turnover Rate (times): Primarily due to the decrease in revenue in 2022.
5. Inventory Turnover Rate and Average Days of Sale: Primarily due to the increase in inventory.
6. Payables Turnover Rate: Primarily due to the significant decline in accounts payable in 2022.
7. Cash Flow Ratio, Cash Flow Adequacy Ratio, and Cash Flow Reinvestment Ratio: Primarily due to the significant decline in net cash flow from operating activities in 2022.

Data Source: Financial reports audited and attested by CPAs.

Note 1: The above operating ability is expressed on an annualized basis.

Note 2: The formulas for the financial analysis are as follows:

1. Financial Structure:
 - (1) Debt-asset Ratio = Total Liabilities / Total Assets
 - (2) Ratio of Long-term Capital to Property, Plant and Equipment = (Total Equity / Non-Current Liabilities) / Net Worth of Property, Plant and Equipment
2. Solvency:
 - (1) Current Ratio = Current Assets / Current Liabilities
 - (2) Quick Ratio = (Current Assets – Inventory – Prepaid Expenses) / Current Liabilities
 - (3) Interest Coverage Ratio = Income Before Income Tax and Interest Expenses / Interest Expenses for the Period
3. Operating Ability:
 - (1) Receivables (including accounts receivable and notes receivable arising from business operations) Turnover Rate = Net Sales / Average Receivables (including accounts receivable and notes receivable arising from business operation) for Each Period
 - (2) Average Collection Days for Receivables = 365 / Receivables Turnover Rate
 - (3) Inventory Turnover Rate = Cost of Goods Sold / Average Inventory
 - (4) Payables (including accounts payable and notes payable arising from business operations) Turnover Rate = Cost of Goods Sold / Average Payables (including accounts payable and notes payable arising from business operations) for Each Period
 - (5) Average Days of Sale = 365 / Inventory Turnover Rate
 - (6) Property, Plant and Equipment Turnover Rate = Net Sales / Average Net Worth of Property, Plant and Equipment
 - (7) Total Asset Turnover Rate = Net Sales / Average Total Assets
4. Profitability:
 - (1) Return on Assets = [Net Income + Interest Expenses × (1 – Tax Rate)] / Average Total Assets
 - (2) Return on Equity = Net Income / Average Total Equity
 - (3) Profit Margin Before Tax = Net Income / Net Sales
 - (4) Earnings per Share = (Profit and Loss Attributable to Owners of the Parent – Dividends on Preferred Shares) / Weighted Average Number of Issued Shares
5. Cash Flow:
 - (1) Cash Flow Ratio = Net Cash Flow from Operating Activities / Current Liabilities
 - (2) Cash Flow Adequacy Ratio = Net Cash Flow from Operating Activities for the Most Recent Five Fiscal Years / (Capital Expenditures + Inventory Increase + Cash Dividend) for the Most Recent Fiscal Years
 - (3) Cash Flow Reinvestment Ratio = (Net Cash Flow from Operating Activities – Cash Dividend) / (Gross Value of Property, Plant and Equipment + Long-term Investment + Other Non-current Assets + Working Capital)
6. Leveraging:
 - (1) Operating Leverage = (Net Operating Revenue – Variable Operating Costs and Expenses) / Operating Income
 - (2) Financial Leverage = Operating Income / (Operating Income – Interest Expenses)

(2) Individual Financial Statements - IFRS

| Analytical items (note 1) | | Financial analysis for the most recent five years | | | | |
|--|---|---|-------------|-----------|-----------|------------|
| | | 2018 | 2019 | 2020 | 2021 | 2022 |
| Financial Structure (%) | Debt-asset Ratio | 7.79 | 13.86 | 32.69 | 42.52 | 50.88 |
| | Ratio of Long-term Capital to Property, Plant and Equipment | 26,721.97 | 40,617.72 | 55,051.22 | 1,577 | 1,145.15 |
| Solvency (%) | Current Ratio | 353.65 | 212.85 | 168.97 | 291.74 | 234.11 |
| | Quick Ratio | 246.14 | 133.77 | 130.89 | 234.77 | 120.17 |
| | Interest Coverage Ratio | (315,835.25) | (13,840.45) | 62,255.34 | 92,054.81 | (8,824.97) |
| Operating Ability | Receivables Turnover Rate (times) | 5.45 | 5.02 | 11.49 | 8.42 | 5.03 |
| | Average Collection Days for Receivables | 66.93 | 72.78 | 31.76 | 43.35 | 72.55 |
| | Inventory Turnover Rate (times) | 5.2 | 3.37 | 9.62 | 4.56 | 4.48 |
| | Payables Turnover Rate (times) | 7.05 | 3.86 | 6.68 | 3.71 | 2.68 |
| | Average Days of Sale | 70.25 | 108.2 | 37.95 | 79.96 | 136.11 |
| | Property, Plant and Equipment Turnover Rate (times) | 146.96 | 115.7 | 658.91 | 30.24 | 7.86 |
| | Total Asset Turnover Rate (times) | 0.42 | 0.33 | 1.11 | 1.04 | 0.46 |
| Profitability | Return on Assets (%) | (23.8) | (1.97) | 9.87 | 34.66 | (9.09) |
| | Return on Equity (%) | (26.11) | (2.23) | 13.05 | 57.03 | (17.03) |
| | Ratio of Income Before Tax to Paid-in Capital (%) | (82.81) | (5.36) | 55.9 | 345.73 | (87.27) |
| | Profit Margin Before Tax(%) | (57.04) | (6.04) | 8.87 | 33.34 | (19.83) |
| | Earnings per share(NT\$) | (8.66) | (0.63) | 3.97 | 30.23 | (9.39) |
| Cash Flow | Cash Flow Ratio(%) | 40.9 | 38.65 | 35.42 | 61.72 | 0.55 |
| | Cash Flow Adequacy Ratio (%) | 3.25 | 1.81 | 1.84 | 1.21 | 0.43 |
| | Cash Flow Reinvestment Ratio (%) | 0.82 | 3.9 | 14.06 | 13.03 | (26.86) |
| Leveraging | Operating Leverage | 0.38 | 2.09 | 1.07 | 1.02 | 0.9 |
| | Financial Leverage | 1.00 | 1.02 | 1.00 | 1.00 | 0.99 |
| Specify reasons for financial ratio differences for most recent two fiscal years (not required if difference does not exceed 20%): | | | | | | |
| <ol style="list-style-type: none"> Quick Ratio: Primarily due to the decrease in current assets. Ratio of Long-term Capital to Property, Plant, and Equipment: Primarily due to the decrease in shareholders' equity. Interest Coverage Ratio, Return on Assets, Return on Equity, Ratio of Income Before Tax to Paid-in Capital, Profit Margin Before Tax, and Earnings per Share: Primarily due to the decrease in revenue as a result of the decline in market demand in 2022, as well as the one-time allowance for inventory valuation and obsolescence loss, which resulted in a significant decline in gross operating profit and a loss in profit. Payables Turnover Rate (times), Average Collection Days for Receivables, Property, Plant and Equipment Turnover Rate (times), and Total Asset Turnover Rate (times): Primarily due to the decrease in revenue in 2022. Inventory Turnover Rate and Average Days of Sale: Primarily due to the increase in inventory. Payables Turnover Rate: Primarily due to the significant decline in accounts payable in 2022. Cash Flow Ratio, Cash Flow Adequacy Ratio, and Cash Flow Reinvestment Ratio: Primarily due to the significant decline in net cash flow from operating activities in 2022. | | | | | | |

Data Source: Financial reports audited and attested by CPAs.

Note 1: The formulas for the financial analysis are as follows:

1. Financial Structure

(1) Debt-asset Ratio = Total Liabilities / Total Assets

(2) Ratio of Long-term Capital to Fixed Assets = (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 Expenses) / Current Liabilities

(3) Interest Coverage Ratio = $\frac{\text{Income Before Income Tax and Interest Expenses}}{\text{Interest Expenses for the Period}}$

3. Operating Ability

(1) Receivables (including accounts receivable and notes receivable arising from business operations) Turnover Rate = $\frac{\text{Net Sales}}{\text{Average Receivables (including accounts receivable and notes receivable arising from business operation) for Each Period}}$

(2) Average Collection Days for Receivables = $365 \div \text{Receivables Turnover Rate}$

(3) Inventory Turnover Rate = $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

(4) Payables (including accounts payable and notes payable arising from business operations) Turnover Rate = $\frac{\text{Cost of Goods Sold}}{\text{Average Payables (including accounts payable and notes payable arising from business operations) for Each Period}}$

(5) Average Days of Sale = $365 \div \text{Inventory Turnover Rate}$

(6) Fixed Assets Turnover Rate = $\frac{\text{Net Sales}}{\text{Average Net Worth of Fixed Assets}}$

(7) Total Asset Turnover Rate = $\frac{\text{Net Sales}}{\text{Average Total Assets}}$

4. Profitability

(1) Return on Assets = $\frac{[\text{Net Income} + \text{Interest Expenses} \times (1 - \text{Tax Rate})]}{\text{Average Total Assets}}$

(2) Return on Shareholders' Equity = $\frac{\text{Net Income}}{\text{Average Net Shareholders' Equity}}$

(3) Profit Margin Before Tax = $\frac{\text{Net Income}}{\text{Net Sales}}$

(4) Earnings per Share = $\frac{(\text{Profit after tax} - \text{Dividends on Preferred Shares})}{\text{Weighted Average Number of Issued Shares}}$

5. Cash Flow

(1) Cash Flow Ratio = $\frac{\text{Net Cash Flow from Operating Activities}}{\text{Current Liabilities}}$

(2) Cash Flow Adequacy Ratio = $\frac{\text{Net Cash Flow from Operating Activities for the Most Recent Five Fiscal Years}}{(\text{Capital Expenditures} + \text{Inventory Increase} + \text{Cash Dividend}) \text{ for the Most Recent Fiscal Years}}$

(3) Cash Flow Reinvestment Ratio = $\frac{(\text{Net Cash Flow from Operating Activities} - \text{Cash Dividend})}{(\text{Gross Value of Fixed Assets} + \text{Long-term Investment} + \text{Other Assets} + \text{Working Capital})}$

6. Leveraging:

(1) Operating Leverage = $\frac{(\text{Net Operating Revenue} - \text{Variable Operating Costs and Expenses})}{\text{Operating Income}}$

(2) Financial Leverage = $\frac{\text{Operating Income}}{(\text{Operating Income} - \text{Interest Expenses})}$

3. Audit Committee' Review Report on the Financial Statement of the most recent year

FocalTech Systems Co., Ltd.

Audit Committee' Review Report

The Board of Directors has prepared the 2022 Business Report, Financial Statements, and proposal for earnings distribution of the Company. The CPA firm of Deloitte & Touche was appointed to audit the Company's Financial Statements and has issued an audit report accordingly. The Business Report, Financial Statements, and proposal for earnings distribution have been reviewed by the Audit Committee of the Company and determined to be correct and accurate. We hereby submit this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To

2023 Shareholders' Regular Meeting, FocalTech Systems Co., Ltd.

Chairperson of Audit Committee: Chan-Jane Lin



April 7, 2023

4. The financial reports of the Company for the most recent years have been audited and attested by CPA: Please refer to attachment 1.
5. The individual financial reports of the Company for the most recent years have been audited and attested by CPAs: Please refer to attachment 2.
6. In the case of any insolvency of the Company and its affiliates in the most recent year and up to the date of publication of the annual report, in the case of any insolvency, the effects on the financial position of the company shall be listed: None

VII. Review of Financial Position, Financial Conditions, and Risk Matters

1. Financial Position

Unit: NT\$ thousand

| Item \ Year | 2022 | 2021 | Variation | |
|-------------------------------|------------|-------------|-------------|------|
| | | | Amount | % |
| Current assets | 13,352,930 | 18,125,416 | (4,772,486) | (26) |
| Fund and investments | 646,280 | 591,183 | 55,097 | 9 |
| Property, plant and equipment | 2,514,208 | 2,468,605 | 45,603 | 2 |
| Intangible assets | 1,297,817 | 1,284,496 | 13,321 | 1 |
| Other assets | 2,985,950 | 2,862,234 | 123,716 | 4 |
| Total assets | 20,797,185 | 25,331,934 | (4,534,749) | (18) |
| Current liabilities | 6,389,415 | 6,415,495 | (26,080) | 0 |
| Non-current liabilities | 5,561,510 | 5,268,477 | 293,033 | 6 |
| Total liabilities | 11,950,925 | 11,683,972 | 266,953 | 2 |
| Share capital | 2,161,107 | 2,162,367 | (1,260) | 0 |
| Capital surplus | 6,041,988 | 6,062,869 | (20,881) | 0 |
| Retained earnings | 1,120,888 | 6,425,625 | (5,304,737) | (83) |
| Other Equity | (296,495) | (1,025,199) | 728,704 | (71) |
| Treasury share | (196,057) | 0 | (196,057) | |
| Non-controlling interest | 14,829 | 22,300 | (7,471) | (34) |
| Total shareholders' equity | 8,846,260 | 13,647,962 | (4,801,702) | (35) |

The primary reasons and effects for the financial ratio differences of 20% or more between the latest two periods, amounting to over NT\$10 million (inclusive) are described as follows:

1. Increase in Current Assets: Primarily due to the decreases in cash and cash equivalents, accounts receivable, and other financial assets.
2. Decreases in Retained Earnings and Total Shareholders' Equity: Primarily due to the distribution of dividends in 2021 and the loss in 2022.
3. Increase in Other Equity: Primarily due to the recognition of restricted employee share compensation costs and increase in exchange differences on conversion of financial statements from foreign-operating institutions.
4. Increase in Treasury Share: Primarily due to the buyback of treasury share.

2. Financial Conditions

Unit: NT\$ thousand

| Item \ Year | 2022 | 2021 | Variation | |
|------------------------------|-------------|------------|-------------|-------|
| | | | Amount | % |
| Operating revenue | 12,949,902 | 21,991,497 | (9,041,595) | (41) |
| Operating gross profit | 1,282,678 | 10,729,399 | (9,446,721) | (88) |
| Net operating profit or loss | (2,293,242) | 7,130,466 | (9,423,708) | (132) |
| Non-operating income and | 432,625 | 472,604 | (39,979) | (8) |

| Item \ Year | 2022 | 2021 | Variation | |
|--|-------------|-----------|-------------|-------|
| | | | Amount | % |
| expenses | | | | |
| Profit before tax | (1,860,617) | 7,603,070 | (9,463,687) | (124) |
| Net profit for the year | (1,928,895) | 6,096,850 | (8,025,745) | (132) |
| Other comprehensive income for the year (profit after tax) | 267,066 | (91,765) | 358,831 | (391) |
| Total comprehensive income for the year | (1,661,829) | 6,005,085 | (7,666,914) | (128) |
| Net profit (loss) attributable to owners of the parent | (1,912,039) | 6,112,935 | (8,024,974) | (131) |
| Comprehensive income attributable to owners of the parent for the year | (1,654,358) | 6,024,418 | (7,678,776) | (127) |

The analyses for the financial ratio differences of 20% or more between the latest two periods, amounting to over NT\$10 million are as follows:

1. Decreases in Operating Revenue, Operating Gross Profit, Net Operating Profit, and Profit Before Tax: Primarily due to the significant decrease in revenue as a result of the decline in end-use demand in 2022, as well as the one-time allowance for inventory valuation and obsolescence loss.
2. Net profit for the Year and Net Profit (Loss) Attributable to Owners of the Parent Company: Primarily due to the significant decrease in Profit Before Tax and income tax expense.
3. Other Comprehensive Income for the Year (Profit After Tax), Total Comprehensive Income for the Year, and Comprehensive Income Attributable to Owners of the Parent for the Year: Primarily due to the decrease in Net Profit for the Year in 2022 and the increase in exchange differences on conversion of financial statements from foreign-operating institutions.

3. Cash Flow

Analysis of changes in cash flow for the most recent year, improvement plan for liquidity deficiencies and cash flow analysis for the next year

| Beginning of year cash balance | Expected net operating activities cash flow for the whole year | Expected net cash flow of investing and financing activities for the whole year | Exchange rate effects | Estimated cash surplus (deficit) | Correction action for cash deficit | |
|--------------------------------|--|---|-----------------------|----------------------------------|------------------------------------|-------------------|
| | | | | | Investment | Wealth management |
| 6,456,988 | (3,804,288) | 2,886,337 | 135,433 | 5,674,470 | — | — |

(1) Analysis of changes in cash flow for the current year

1. Operating Activities: Operating Activities: Net cash outflow of NT\$3,804,288 was primarily due to the increase in the inventory for the year.
2. Investing Activities: Net cash inflow of NT\$3,526,833 was primarily due to the decreases in other financial assets and refundable deposits
3. Financing Activities: Net cash outflow of NT\$640,496 was primarily due to the distribution of cash dividends and increase in loans.

(2) Correction action for estimated cash deficit and cash flow analysis: No deficit in cash

projected.

(3) Cash flow analysis for the coming fiscal year: N/A.

4. Impact of Major Capital Expenditures on Financial Operations in the Most Recent Year:

(1) Utilization of major capital expenditures: None.

(2) Projected possible effects: None.

5. Policy for the Most Recent Fiscal Year on Investment in Other Companies, Main Reasons for Profits/Losses Resulting Therefrom, Plans for Improvement, and Investment Plans for the Coming Fiscal Year:

The Company's investments in other companies are primarily strategic investments. The investment loss under equity method of NT\$794,020 in 2022 was primarily due to operating losses by Company-owned subsidiaries in 2022. In the future, the Company will continue to prudently assess and substantially manage investments in other companies based on the long-term strategic principle.

6. Risk Analysis for the Most Recent Fiscal Year as well as the Current Fiscal Year up to the Date of Publication of the Annual Report

(1) Effect on the Company's Profits/Losses by Interest and Exchange Rate Fluctuations and Inflation Rate Changes, and Response Measures to Be Taken in the Future

1. Effect on the Company's profits/losses by interest rate fluctuations in the most recent fiscal year, and response measures to be taken in the future

The Group was exposed to interest rate risk primarily related to its investments in fixed-rate time deposits, bonds, current position of long-term borrowings, borrowings, floating-rate demand deposits, structured investments and short-term borrowings. 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. As for the Group's financial assets held as of December 31, 2022 and 2021 associated with interest rate fluctuations, for every 0.25% increase in market interest rate, profit before tax for financial assets with floating rates would increase by NT\$2,441,000 and NT\$8,636,000, respectively. If the market interest rate decreased by 0.25%, the resulting amounts would be the same but in negative values.

To avoid impacts from changes in interest rates, the Company will take the following response measures as appropriate:

(1) The Company regularly evaluates bank deposit/borrowing rates, obtains average market rates, and closely liaises with banks to strive for the most favorable deposit/borrowing rates.

(2) In the future, the Company will use various financing channels for fundraising in a timely manner, depending on the operating conditions and capital requirements.

2. Effect on the Company's profits/losses due to exchange rate fluctuation, and response measures to be taken in the future

The Group's exchange rate risk relates primarily to operating activities (when the currency used for revenue or expenses differs from the Company's functional currency) and net investments in foreign operations. In addition, the Group is primarily affected by fluctuations in the exchange rate with the U.S.

dollar (USD). Based on the sensitivity analysis of the Group's foreign exchange rate risk for the U.S. dollar currency as of December 31, 2022, the amount of increase/decrease in profit before tax associated with net assets/liabilities, in a situation where the New Taiwan dollar (NTD) had weakened 5% against the currency, is shown in the table below:

Unit: NT\$ thousand

| | Impact of USD |
|----------------------------|---------------|
| Profit and Loss and Equity | 52,159 |

The above table shows that when the NTD:USD exchange rate fluctuates sharply, it may affect the Company's profit and loss. Therefore, the Company always keeps track of exchange rate fluctuations in the international market and continues to implement the following response measures:

- (1) The Company's finance department maintains close contact with the foreign exchange departments of correspondent financial institutions to collect information on exchange rate changes on a constant basis and to keep abreast of international exchange rate trends and changes, in order to proactively respond to negative effects from exchange rate fluctuations. The Company manages its forward exchange transactions and foreign exchange settlements with reference to exchange rate movements.
 - (2) The finance department submits monthly internal assessment reports on net foreign currency asset (liability) positions that require hedging to the Company's management, for the purpose of determining hedging measures to be taken.
 - (3) The use of foreign currency cash from the sale of products in/to foreign countries to pay for foreign currency payables arising from the purchase of materials can hedge part of the exchange rate risk by taking advantage of the natural hedging feature. Therefore, the Company only has to use other instruments for net foreign currency assets (liabilities); examples include the purchase and sale of forward exchange, depending on the exchange rate fluctuations to hedge the risk of exchange rate changes in a timely manner.
3. Effects on the Company's profits/losses from changes in the inflation rate, and response measures to be taken in the future

The Company will closely monitor the inflation situation, and adjust the selling price of products and material inventory as appropriate, to reduce the impact of inflation on the Company; the Company will also enter into purchase contracts with cooperative vendors for major raw materials.

- (2) Policies Regarding High-risk Investments, Highly Leveraged Investments, Loans to Other Parties, Endorsements, Guarantees, and Derivatives Transactions; the Primary Reasons for Profits/Losses Generated Thereby; and Response Measures to Be Taken in the Future

The Company operates in a conservative and prudent manner and does not engage in high-risk, highly leveraged investments.

The Company's loaning of funds to others, endorsements, and guarantees are performed in accordance with the policies and response measures set forth in the Company's Operational Procedures for Loaning Funds to Others and Procedures for Endorsement and Guarantees, which have been carefully executed taking into account the risk conditions and relevant regulations.

The Company's derivatives transactions policy remains conservative and prudent, and is not used for arbitrage or speculative purposes, so there is no

significant market risk. Thus, in addition to following laws and regulations of the competent authorities and generally accepted accounting principles, the Company has established the Procedures for the Acquisition or Disposal of Assets, as approved by the shareholders' meeting, to regulate procedures for engaging in derivatives transactions.

(3) Research and Development Plans to Be Carried Out in the Future, and Further Expenditures Expected

The Company is committed to the development of integrated, high value-added products, and the relevant R&D plans along with their progress are in line with the Company's direction of product development. R&D expenses are expected to account for approximately 15% of consolidated revenue in the coming fiscal year, which will be adjusted annually depending on operating conditions. The Company will continue to involve itself in R&D work, develop new products, and master key factors such as talent, capital, and technology to pursue a leading R&D position.

(4) Effects on the Company's Financial Operations by Important Policies Adopted and Changes in the Legal Environment at Domestic and Foreign; and Response Measures to Be Taken

The Company follows domestic and foreign laws and regulations in its daily operations, and is always aware of domestic and foreign policy trends and regulatory changes to fully understand and respond to changes in market conditions. Changes in domestic and foreign policies and laws have not had a significant impact on the Company's financial operations in the most recent fiscal year.

(5) Impacts of the Developments in Science and Technology (including information security risk) as well as Industrial Change on the Company's Financial Operations, and Response Measures to Be Taken

The Company stays constantly aware of technological changes and developments in the industry in which it operates, and quickly grasps industry dynamics. Additionally, the Company is constantly enhancing its R&D capabilities, applying for patents to protect its various innovative concepts and designs, and actively expanding its market applications for the future. Hence, changes in technology and the industry have a positive impact on the Company. Furthermore, with the globalization of the Internet, the network information security issue has become a major risk faced by corporates, particularly the IC design industry. In addition to showcasing its intellectual achievements, a corporate in the industry also needs to prevent the outflow of its skills and technologies. The Company has formulated information security policies and specific management programs for information security operations, such as strengthening prevention and protection measures to avoid internal and external unauthorized access and virus intrusion, refining backup policies and conducting recovery testing and drills, and monitoring abnormalities, to implement information security risk management. By protecting the its business secrets and intellectual property, the Company is able to achieve the goals of sustainable business development.

(6) Effects from Changes in the Company's Corporate Image on the Company's Crisis Management, and Response Measures to Be Taken

Since its establishment, the Company has actively strengthened its internal management, improved management quality and performance, strived to maintain its corporate image, and complied with relevant laws and regulations. As of now, nothing has happened sufficient to affect the Company's corporate image.

- (7) Expected Benefits and Possible Risks Associated with Any Mergers or Acquisitions, and Mitigation Measures Being or to Be Taken: None.
- (8) Expected Benefits and Possible Risks Associated with Any Plant Expansion, and Mitigation Measures Being or to Be Taken: None.
- (9) Risks Associated with Any Consolidation of Sales or Purchasing Operations, and Mitigation Measures Being or to Be Taken

- 1. Risks from Consolidated Purchasing Operations

The Company's current production configuration is not consolidated in a single foundry. In addition to maintaining long-term and close cooperative relationships with specific foundries, the Company also increases its sources of supply from other professional foundries to provide more choices and protection for quality, sources and prices of raw materials. Hence, there is no risk from consolidated purchasing operations.

- 2. Risks from Consolidated Sales Operations

The Company's products are primarily sold through dealers, mobile phone module manufacturers, and panel manufacturers, and to major mobile phone brands in Japan besides the mobile phone market in Mainland China. By selling its products through dealers, module, and panel manufacturers, the Company has gained a wide range of end-user customers. In 2022, no single customer accounted for 25% or more of net operating revenues, and thus there is no risk of over-reliance on a single customer or high customer concentration.

- (10) Effects Upon and Risks to the Company in the Event a Major Quantity of Shares Belonging to a Director, Supervisor, or Shareholder Holding Greater than a 10 Percent Stake in the Company Being Transferred or Otherwise Changing Hands; and Mitigation Measures Being or to Be Taken: None.

- (11) Effects Upon and Risks to the Company Associated with Any Change in Governance Personnel or Top Management; and Mitigation Measures Being or to Be Taken: None.

- (12) Litigious and Non-litigious Matters

- 1. If there has been any material impact upon shareholders' equity or prices for the Company's securities as a result of any litigation, non-litigious proceeding, or administrative dispute involving the Company that was finalized or remained pending during the most recent two fiscal years prior to the publication date of the annual report, the facts and amount in dispute, commencement date, main parties involved, and current status of the case(s) shall be disclosed:

In addition to compiling relevant information to support and protect the Company's rights in its litigation and non-litigious proceedings, the Company keeps track constant of the progress of cases that have been brought to court. As of the publication date of the annual report, the Company has not been involved in any litigation, non-litigious proceeding, or administrative dispute whose outcome would have a material impact upon Company shareholders' equity, financial position or securities prices.

- 2. If there has been any material impact upon Company shareholders' equity or securities' prices as a result of any litigation, non-litigious proceeding, or administrative dispute involving a company director, supervisor, president, de facto responsible person, or major shareholder with a stake of more than 10 percent, and the matter was finalized or remained pending during the most recent two fiscal years prior to the publication date of the annual report, the facts and amount in dispute, commencement date, main parties involved, and current status of the case shall be disclosed: None.

3. The occurrence of any event set forth under Article 157 of the Securities and Exchange Act that involves a company director, supervisor, managerial officer, or any major shareholder with a stake of more than 10 percent, provided the event occurred in the most recent two fiscal years prior to the publication date of the annual report, and current status of the case handled by the Company: None.

(13) Other Important Risks and Mitigation Measures Being or to Be Taken: None.

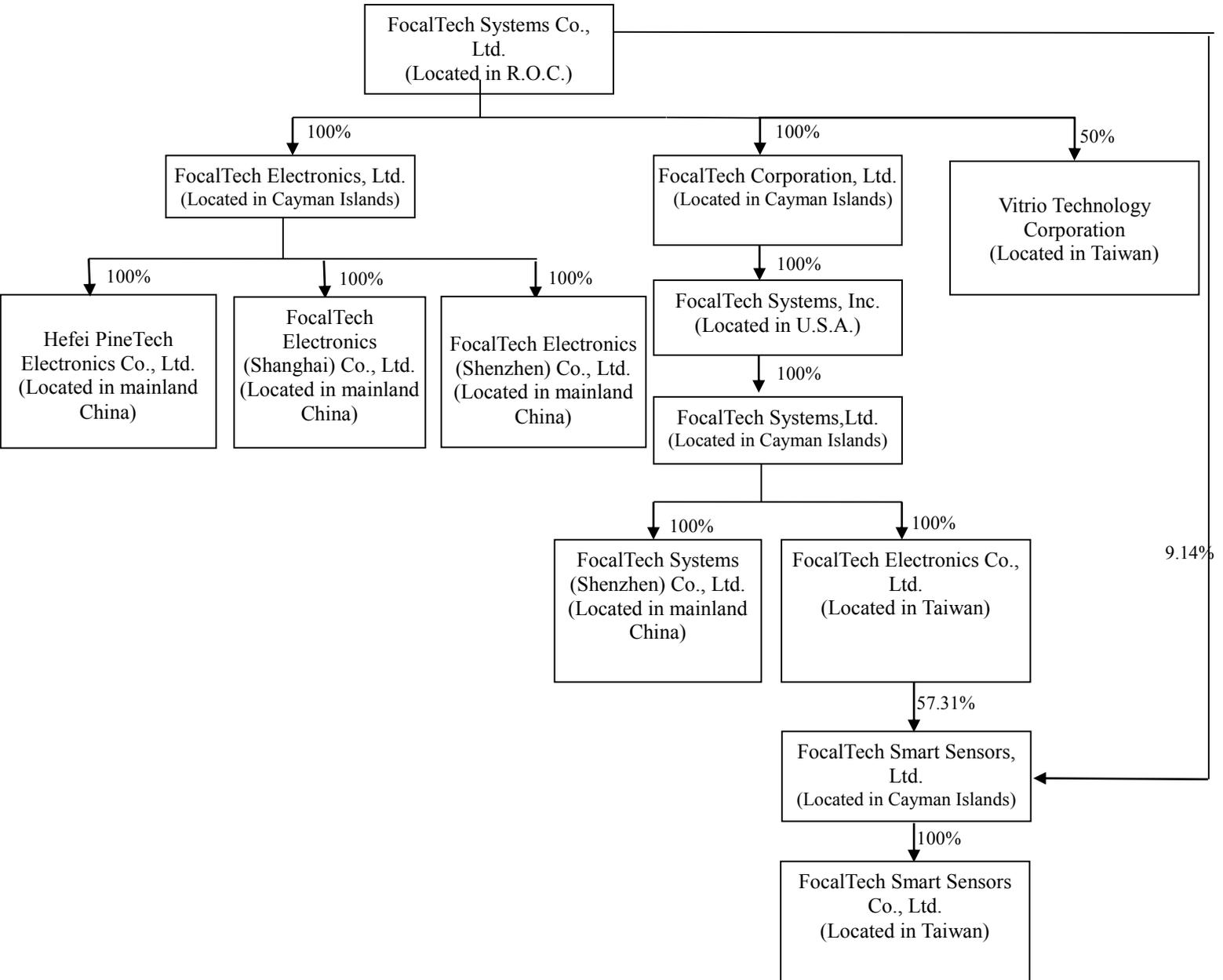
7. Other Important Matters: None.

VIII. Special Disclosure

1. Information regarding the Company's Affiliates

(1) Chart showing the Company's Affiliates

December 31, 2022



(2) Profiles of the Company's Affiliates

Dec. 31, 2022; Unit: NT\$ thousand/Foreign currency: thousand

| Name of Enterprise | Date of establishment | Address | Paid-in Capital | Major operations or production items |
|--|-----------------------|----------------|-----------------|--|
| FocalTech Corporation, Ltd. | July 2012 | Cayman Islands | TWD 7,059,264 | Investment holding |
| FocalTech Systems, Inc. | October 2005 | U.S.A. | USD 102,293 | Investment holding |
| FocalTech Systems, Ltd. | October 2005 | Cayman Islands | USD 23,350 | Investment holding |
| FocalTech Electronics, Ltd. | August 2014 | Cayman Islands | USD 100 | Investment holding |
| FocalTech Systems (Shenzhen) Co., Ltd. | April 2006 | Mainland China | USD 37,000 | Design and R&D of consumer electronic chips |
| FocalTech Electronics (Shenzhen) Co., Ltd. | March 2015 | Mainland China | USD 2,300 | R & D, production management and sales of consumer electronic chips |
| FocalTech Electronics (Shanghai) Co., Ltd. | November 2014 | Mainland China | USD2,000 | Sales service of consumer electronic chips |
| FocalTech Electronics Co., Ltd. | June 2006 | Taiwan | TWD 20,000 | Customs declaration for import and export of consumer electronic chips |
| FocalTech Smart Sensors Co., Ltd. | July 2016 | Taiwan | TWD87,085 | R & D, production management and sales of consumer electronic chips |
| Hefei PineTech Electronics Co., Ltd. | July 2015 | Taiwan | RMB30,000 | R & D and sales of consumer electronic chips |
| FocalTech Smart Sensors, Ltd. | December 2017 | Cayman Islands | USD13,618 | Investment holding |
| Vitrio Technology Corporation | September 2020 | Taiwan | TWD 2,840 | R & D, production management and sales of consumer electronic chips |

(3) No controlling or subordinate relations, as adjudged by Article 369-3 of the Company Act, exist for the Company.

(4) Industries Covered by the Business Operated by Affiliates Overall

The businesses of the Company and its affiliates include IC production management, design, R&D, sales, and investment. The businesses of the Company's affiliates as a whole include R&D, marketing, after-sales service, and general investment in chips for display drivers, touch and fingerprint recognition, and physiological monitoring products, etc.

(5) Information on the Directors, Supervisors, and Presidents of Each Affiliate

December 31, 2022

| Name of Enterprise | Title | Name or representative | Status of shareholding | |
|--|---|---|------------------------|-----------------------|
| | | | Number of shares | Ratio of shareholding |
| FocalTech Corporation, Ltd. | Director | Genda J. Hu | — | — |
| FocalTech Systems, Inc. | Director | Genda J. Hu | — | — |
| FocalTech Systems, Ltd. | Director | Genda J. Hu | — | — |
| FocalTech Electronics, Ltd. | Director | Genda J. Hu | — | — |
| FocalTech Systems (Shenzhen) Co., Ltd. | Executive Director President Supervisor | Genda Hu Genda Hu Hsiao-Peng Kuo | — | — |
| FocalTech Electronics (Shenzhen) Co., Ltd. | Executive Director President Supervisor | Genda Hu Genda Hu Hsiao-Peng Kuo | — | — |
| FocalTech Electronics (Shanghai) Co., Ltd. | Executive Director President Supervisor | Genda Hu Genda Hu Hsiao-Peng Kuo | — | — |
| FocalTech Electronics Co., Ltd. | Chairman | Genda Hu | — | — |
| FocalTech Smart Sensors Co., Ltd. | Chairman | Pei-Tzu Wu | — | — |
| Hefei PineTech Electronics Co., Ltd. | Chairman President Director Director Supervisor | Wei-Ching Hou Wei-Ching Hou Chien-Ping Kuo Lien-Kuo Wang Hsiao-Peng Kuo | — | — |
| FocalTech Smart Sensors, Ltd. | Chairman | Pei-Tzu Wu | — | — |
| | Director | GWAA LLC(Designated representative :Pei-Tzu Wu) | 375,000 | 1.14% |
| | Director | FocalTech Electronics Co., Ltd. (Designated representative : Pei-Hsin Wu) | 18,813,050 | 57.31% |
| | Director | FocalTech Systems Co., Ltd. (Designated representative : Jui-Cheng Hsu) | 3,000,000 | 9.14% |
| | Director | Chou-Hao Tsai | — | — |
| | Director | Yen Kan | — | — |
| Vitrio Technology Corporation | Chairman | Ming-Tuo Yu | — | — |
| | Director | Jui-Cheng Hsu | | |
| | Director | Yu-Hsuan Lin | | |
| | Director | Pei-Tzu Wu | | |
| | Supervisor | George Chang | | |
| | Supervisor | Wei-Chieh Chang | | |

(6) Business Operations of Each Affiliate:

Dec. 31, 2022; Earnings per share are expressed in NT\$, while others are expressed in NT\$ thousand

| Name of Enterprise | Capital | Total assets | Total liabilities | Net Worth | Operating revenue | Operating profit | Profit or loss for the year (after tax) | Earnings per share (loss) (NT\$) (after tax) |
|--|-----------|--------------|-------------------|-----------|-------------------|------------------|---|--|
| FocalTech Corporation, Ltd. | 7,059,264 | 2,202,075 | 7,959 | 2,194,116 | - | (7,318) | (638,033) | Note 1 |
| FocalTech Electronics, Ltd. | 3,071 | 2,180,020 | 683,767 | 1,496,253 | 169,132 | (194,966) | (151,395) | Note 1 |
| FocalTech Smart Sensors, Ltd. | 418,215 | 44,200 | - | 44,200 | - | (361,507) | (50,241) | (1.53) |
| FocalTech Systems, Inc. | 3,141,414 | 2,295,397 | 295,991 | 1,999,406 | 25,334 | 4,688 | (631,856) | Note 1 |
| FocalTech Systems, Ltd. | 717,080 | 2,374,903 | 303,856 | 2,071,047 | - | (53,865) | (638,826) | Note 1 |
| FocalTech Systems (Shenzhen) Co., Ltd. | 1,136,276 | 893,781 | 64,199 | 829,582 | 176,237 | (595,473) | (579,627) | Note 2 |
| FocalTech Electronics (Shenzhen) Co., Ltd. | 285,603 | 3,127,545 | 2,659,632 | 467,913 | 3,486,534 | 80,222 | 3,140 | Note 2 |
| FocalTech Electronics (Shanghai) Co., Ltd. | 61,420 | 44,969 | 10,550 | 34,419 | 102,359 | 4,873 | 4,458 | Note 2 |
| FocalTech Electronics Co., Ltd. | 20,000 | 107,257 | - | 107,257 | 1,686 | 252 | (19,079) | Note 1 |
| FocalTech Smart Sensors Co., Ltd. | 87,085 | 24,708 | 3,018 | 21,690 | 361,614 | 330,240 | 311,039 | Note 1 |
| Hefei PineTech Electronics Co., Ltd. | 132,282 | 322,265 | 74,034 | 248,231 | 87,646 | 24,932 | 15,375 | Note 2 |
| Vitrio Technology Corporation | 2,840 | 2,109 | 1,771 | 338 | - | (548) | (491) | (1.73) |

Note 1: 100% directly and indirectly controlled by the Company; these shares are issued for the purpose of equity management. Hence, the calculation of earnings per share based on the number of shares has no reference value.

Note 2: Calculation of earnings per share not applicable, as this is a limited company with no shares issued.

2. Private placement of securities in the most recent year and up to the date of publication of the annual report: Not applicable
3. Subsidiaries' holding or disposal of the Company's shares in the most recent year and up to the date of publication of the annual report: Not applicable
4. Other necessary supplementary notes: None

IX. Any matter in the most recent year and up to the date of publication of the annual report which has a significant impact on shareholders' equity or securities prices as stipulated in subparagraph 2 of paragraph 2 of Article 36 of the Securities and Exchange Act: None

Attachment 1

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of FocalTech Systems Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. 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.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2022 are stated as follows:

Sales Revenue

The sales revenue of Integrated Driver Controller is the main indicator of financial and business performance evaluated by investors and the management. It possibly exists the pressure to achieve the financial target, and it might result in the risk of the occurrence of sales revenue. Therefore, the sales revenue of Integrated Driver Controller is considered as a key audit matter for the financial year ended December 31, 2022.

Refer to Notes 4 and 23 for the accounting policy, accounting estimation and disclosure information.

Our audit procedures related to the abovementioned Key Audit Matters included the following:

1. We evaluated the design of internal control related to sales and collection cycle and the implement of the internal control.
2. We obtained customer ranking list in 2022, and analyze the differences of customers and its sales amount.
3. We analyzed if the sales quantities, sales revenue and gross margin by products existed material exception.
4. We sampled purchase orders, shipping documents bills of lading, and collection records in revenue breakdown to ensure the occurrence of sales revenue.

Valuation of Inventory

Due to high market demand fluctuation and rapid technological development, the inventories may turn obsolete or have a lower net realizable value which may result in inventories being impaired. The Group has performed impairment assessment on inventories through evaluation of aging and net realizable value of inventories quarterly. The management has practiced their professional judgement in estimating the possible loss on impairment based on the sales performance of each product. Therefore, inventory valuation is considered as a key audit matter for the financial year ended December 31, 2022.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

Refer to Notes 4 and 11 for the accounting policy, accounting estimation and disclosure information.

Our audit procedures related to the abovementioned Key Audit Matters included the following:

1. We obtained an understanding of the Group's accounting policies and procedures on the assessment of impairment through analyzing the net realizable value calculation report and inventory aging report prepared by the management. We have inspected the supporting documents of recent selling price, and re-calculated the net realizable value of inventory to ensure its accuracy and reasonableness of the management's estimation on impairment loss.
2. We obtained an understanding of the Group's judgement on the estimation of impairment loss for obsolete items information and discussed recent sales performance and the reasonableness on the estimates of inventory devaluation in the future. We also performed inspection on recent sales to evaluate the reasonableness of the impairment loss provided on obsolete stock.

Other Matter

We have also audited the parent company only financial statements of FocalTech Systems Co., Ltd. as of and for the years ended December 31, 2022 and 2021 on which we have issued an unmodified opinion.

Responsibilities of Corporate Management and Governance Hierarchy for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, (including members of the Audit Committee) is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the Standards on Auditing of 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 Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yu-Hong Kuo and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China
February 23, 2023

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

| ASSETS | 2022 | | 2021 | |
|--|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Note 4 and 6) | \$ 5,674,470 | 27 | \$ 6,456,988 | 26 |
| Financial assets at fair value through profit or loss - current (Note 4 and 7) | - | - | 119,218 | 1 |
| Financial assets at fair value through other comprehensive income - current (Note 4 and 8) | - | - | 55,590 | - |
| Accounts receivables, net (Note 4 and 10) | 1,148,471 | 6 | 3,255,081 | 13 |
| Inventories (Note 4 and 11) | 5,753,731 | 28 | 3,822,218 | 15 |
| Other financial assets (Note 4 and 9) | 517,464 | 2 | 3,879,862 | 15 |
| Other current assets (Note 25) | <u>258,794</u> | <u>1</u> | <u>536,459</u> | <u>2</u> |
| Total current assets | <u>13,352,930</u> | <u>64</u> | <u>18,125,416</u> | <u>72</u> |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through profit or loss - non-current (Note 4 and 7) | 467,143 | 2 | 412,779 | 1 |
| Financial assets at fair value through other comprehensive income - non-current (Note 4 and 8) | 179,137 | 1 | 178,404 | 1 |
| Property, plant and equipment (Note 4 and 13) | 2,514,208 | 12 | 2,468,605 | 10 |
| Goodwill (Notes 4 and 14) | 1,237,268 | 6 | 1,237,268 | 5 |
| Other intangible assets (Note 4 and 15) | 60,549 | - | 47,228 | - |
| Deferred tax assets (Note 4 and 25) | 306,129 | 2 | 9,914 | - |
| Refundable deposits (Note 16) | 2,654,474 | 13 | 2,841,745 | 11 |
| Other non-current assets (Note 32) | <u>25,347</u> | <u>-</u> | <u>10,575</u> | <u>-</u> |
| Total non-current assets | <u>7,444,255</u> | <u>36</u> | <u>7,206,518</u> | <u>28</u> |
| TOTAL | <u>\$ 20,797,185</u> | <u>100</u> | <u>\$ 25,331,934</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 17) | \$ 3,070,806 | 15 | \$ 301,712 | 1 |
| Accounts payables (Note 18) | 929,492 | 4 | 2,620,160 | 10 |
| Other payables (Note 19) | 1,653,776 | 8 | 1,596,958 | 6 |
| Current tax liabilities (Notes 4 and 25) | 629,303 | 3 | 1,786,309 | 7 |
| Current position of long-term borrowings (Note 17) | 25,000 | - | - | - |
| Other current liabilities (Notes 23) | <u>81,038</u> | <u>-</u> | <u>110,356</u> | <u>1</u> |
| Total current liabilities | <u>6,389,415</u> | <u>30</u> | <u>6,415,495</u> | <u>25</u> |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Note 17) | 961,840 | 5 | 786,840 | 3 |
| Deferred tax liabilities (Note 4 and 25) | 216,757 | 1 | 51,584 | - |
| Net defined benefit liabilities-non-current (Note 4 and 20) | 13,560 | - | 22,140 | - |
| Guarantee deposits received (Note 21) | 4,369,353 | 21 | 4,397,513 | 18 |
| Other non-current liabilities | <u>-</u> | <u>-</u> | <u>10,400</u> | <u>-</u> |
| Total non-current liabilities | <u>5,561,510</u> | <u>27</u> | <u>5,268,477</u> | <u>21</u> |
| Total liabilities | <u>11,950,925</u> | <u>57</u> | <u>11,683,972</u> | <u>46</u> |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 4, 22 and 27) | | | | |
| Share capital | | | | |
| Ordinary shares | <u>2,161,107</u> | <u>11</u> | <u>2,162,367</u> | <u>9</u> |
| Capital surplus | | | | |
| Additional paid-in capital | 4,753,839 | 23 | 4,737,390 | 19 |
| Treasury shares | 125,381 | 1 | 79,917 | - |
| Employee stock options | 62,305 | - | 65,873 | - |
| Restricted stock for employees | 1,066,015 | 5 | 1,145,555 | 5 |
| Employee share options – expired | <u>34,448</u> | <u>-</u> | <u>34,134</u> | <u>-</u> |
| Total capital surplus | <u>6,041,988</u> | <u>29</u> | <u>6,062,869</u> | <u>24</u> |
| Retained earnings | | | | |
| Legal reserve | 712,562 | 3 | 101,230 | - |
| Special reserve | 211,479 | 1 | 122,316 | - |
| Undistributed earnings | <u>196,847</u> | <u>1</u> | <u>6,202,079</u> | <u>25</u> |
| Total retained earnings | <u>1,120,888</u> | <u>5</u> | <u>6,425,625</u> | <u>25</u> |
| Other equity | <u>(296,495)</u> | <u>(1)</u> | <u>(1,025,199)</u> | <u>(4)</u> |
| Treasury shares | <u>(196,057)</u> | <u>(1)</u> | <u>-</u> | <u>-</u> |
| Equity attributable to owners of the parent | <u>8,831,431</u> | <u>43</u> | <u>13,625,662</u> | <u>54</u> |
| NON-CONTROLLING INTERESTS (Note 22) | <u>14,829</u> | <u>-</u> | <u>22,300</u> | <u>-</u> |
| Total equity | <u>8,846,260</u> | <u>43</u> | <u>13,647,962</u> | <u>54</u> |
| TOTAL | <u>\$ 20,797,185</u> | <u>100</u> | <u>\$ 25,331,934</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)

| | 2022 | | 2021 | |
|--|---------------------|-------------|---------------------|-------------|
| | Amount | % | Amount | % |
| REVENUE (Note 4 and 23) | \$ 12,949,902 | 100 | \$ 21,991,497 | 100 |
| COSTS OF SALES (Notes 4,11 and 24) | <u>(11,667,224)</u> | <u>(90)</u> | <u>(11,262,098)</u> | <u>(51)</u> |
| GROSS PROFIT | <u>1,282,678</u> | <u>10</u> | <u>10,729,399</u> | <u>49</u> |
| OPERATING EXPENSES (Notes 24, 27,28 and 31) | | | | |
| Selling and marketing expenses | (492,636) | (4) | (555,675) | (2) |
| General and administrative expenses | (546,775) | (4) | (633,984) | (3) |
| Research and development expenses | <u>(2,536,509)</u> | <u>(20)</u> | <u>(2,409,274)</u> | <u>(11)</u> |
| Total operating expenses | <u>(3,575,920)</u> | <u>(28)</u> | <u>(3,598,933)</u> | <u>(16)</u> |
| OPERATING (LOSS) INCOME | <u>(2,293,242)</u> | <u>(18)</u> | <u>7,130,466</u> | <u>33</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Finance costs (Note 24) | (51,492) | - | (12,680) | - |
| Interest income (Note 4) | 93,996 | 1 | 31,307 | - |
| (Loss) gain on financial assets and liabilities at fair value through profit or loss (Notes 4) | (81,306) | (1) | 83,103 | - |
| Other gains and losses, net | 207,675 | 2 | 428,564 | 2 |
| Gain (loss) on foreign exchange(Notes 4) | <u>263,752</u> | <u>2</u> | <u>(57,690)</u> | <u>-</u> |
| Total non-operating income and expenses | <u>432,625</u> | <u>4</u> | <u>472,604</u> | <u>2</u> |
| (LOSS) INCOME BEFORE INCOME TAX | (1,860,617) | (14) | 7,603,070 | 35 |
| INCOME TAX EXPENSE (Notes 4 and 25) | <u>(68,278)</u> | <u>(1)</u> | <u>(1,506,220)</u> | <u>(7)</u> |
| NET (LOSS) INCOME | <u>(1,928,895)</u> | <u>(15)</u> | <u>6,096,850</u> | <u>28</u> |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans(Notes 4 and 20) | 7,985 | - | 751 | - |
| Income tax related to items that will not be reclassified subsequently to profit or loss(Notes 4 and 25) | <u>(1,117)</u> | <u>-</u> | <u>(105)</u> | <u>-</u> |
| | <u>6,868</u> | <u>-</u> | <u>646</u> | <u>-</u> |

(Continued)

| | 2022 | | 2021 | |
|--|-----------------------|-------------|---------------------|------------|
| | Amount | % | Amount | % |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences from translating the financial statements of foreign operations (Notes 4) | \$ 273,505 | 2 | \$ (89,858) | (1) |
| Unrealized loss from debt instrument investments measured at fair value through other comprehensive income (Notes 4) | <u>(13,307)</u> | <u>-</u> | <u>(2,553)</u> | <u>-</u> |
| | <u>260,198</u> | <u>2</u> | <u>(92,411)</u> | <u>(1)</u> |
| Total other comprehensive income (loss), net of income tax | <u>267,066</u> | <u>2</u> | <u>(91,765)</u> | <u>(1)</u> |
| TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR | <u>\$ (1,661,829)</u> | <u>(13)</u> | <u>\$ 6,005,085</u> | <u>27</u> |
| NET (LOSS) INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ (1,912,039) | (15) | \$ 6,112,935 | 28 |
| Non-controlling interests | <u>(16,856)</u> | <u>-</u> | <u>(16,085)</u> | <u>-</u> |
| | <u>\$ (1,928,895)</u> | <u>(15)</u> | <u>\$ 6,096,850</u> | <u>28</u> |
| TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ (1,654,358) | (13) | \$ 6,024,418 | 27 |
| Non-controlling interests | <u>(7,471)</u> | <u>-</u> | <u>(19,333)</u> | <u>-</u> |
| | <u>\$ (1,661,829)</u> | <u>(13)</u> | <u>\$ 6,005,085</u> | <u>27</u> |
| (LOSS) EARNINGS PER SHARE (Note 26) | | | | |
| Basic | <u>\$ (9.39)</u> | | <u>\$ 30.23</u> | |
| Diluted | | | <u>\$ 28.62</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 | | Retained Earnings | | | Other Equity | | | | | | Non-controlling Interests | Total Equity |
| | Ordinary Shares | Capital Surplus | Legal Reserve | Special Reserve | Undistributed Earnings | Exchange Differences from Translating the Financial Statement of Foreign Operations | Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income | Unearned employee compensation | Treasury Shares | Total | | | |
| 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 | |
| Appropriation of 2020 earnings | | | | | | | | | | | | | |
| Legal reserve | - | - | 101,230 | - | (101,230) | - | - | - | - | - | - | - | |
| Special reserve | - | - | - | 122,316 | (122,316) | - | - | - | - | - | - | - | |
| Cash dividends | - | - | - | - | (700,000) | - | - | - | - | (700,000) | - | (700,000) | |
| Net income for the years ended December 31, 2021 | - | - | - | - | 6,112,935 | - | - | - | - | 6,112,935 | (16,085) | 6,096,850 | |
| Other comprehensive income (loss) for the years ended December 31, 2021, net of income tax | - | - | - | - | 646 | (86,610) | (2,553) | - | - | (88,517) | (3,248) | (91,765) | |
| Total comprehensive income (loss) for the years ended December 31, 2021 | - | - | - | - | 6,113,581 | (86,610) | (2,553) | - | - | 6,024,418 | (19,333) | 6,005,085 | |
| Compensation cost of employee share options | - | 66,351 | - | - | - | - | - | - | - | 66,351 | - | 66,351 | |
| Treasury shares transferred to employees | - | 1,947 | - | - | - | - | - | - | 23,945 | 25,892 | - | 25,892 | |
| Treasury shares retired | (119) | (252) | - | - | - | - | - | - | 371 | - | - | - | |
| 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 | 3,764 | 5,626 | - | - | - | - | - | - | - | 9,390 | - | 9,390 | |
| Issuance of restricted stock employees | 55,190 | 1,145,555 | - | - | - | - | - | (1,145,555) | - | 55,190 | - | 55,190 | |
| Compensation cost of restricted stock to employees | - | - | - | - | - | - | - | 331,835 | - | 331,835 | - | 331,835 | |
| BALANCE, DECEMBER 31, 2021 | 2,162,367 | 6,062,869 | 101,230 | 122,316 | 6,202,079 | (211,648) | 169 | (813,720) | - | 13,625,662 | 22,300 | 13,647,962 | |
| Appropriation of 2021 earnings | | | | | | | | | | | | | |
| Legal reserve | - | - | 611,332 | - | (611,332) | - | - | - | - | - | - | - | |
| Special reserve | - | - | - | 89,163 | (89,163) | - | - | - | - | - | - | - | |
| Cash dividends | - | - | - | - | (3,400,000) | - | - | - | - | (3,400,000) | - | (3,400,000) | |
| Net loss for the years ended December 31, 2022 | - | - | - | - | (1,912,039) | - | - | - | - | (1,912,039) | (16,856) | (1,928,895) | |
| Other comprehensive income (loss) for the years ended December 31, 2022, net of income tax | - | - | - | - | 6,868 | 264,120 | (13,307) | - | - | 257,681 | 9,385 | 267,066 | |
| Total comprehensive income (loss) for the years ended December 31, 2022 | - | - | - | - | (1,905,171) | 264,120 | (13,307) | - | - | (1,654,358) | (7,471) | (1,661,829) | |
| Compensation cost of employee share options | - | 46,258 | - | - | - | - | - | - | - | 46,258 | - | 46,258 | |
| Treasury shares acquired | - | - | - | - | - | - | - | - | (507,621) | (507,621) | - | (507,621) | |
| Treasury shares transferred to employees | - | - | - | - | - | - | - | - | 311,564 | 311,564 | - | 311,564 | |
| Retirement of restricted stock employees | (3,880) | (79,540) | - | - | - | - | - | 79,540 | - | (3,880) | - | (3,880) | |
| Issuance of ordinary shares from exercise of employee share options | 2,620 | 12,401 | - | - | - | - | - | - | - | 15,021 | - | 15,021 | |
| Unvested restricted stock to employees refund cash dividends | - | - | - | - | 434 | - | - | - | - | 434 | - | 434 | |
| Compensation cost of restricted stock to employees | - | - | - | - | - | - | - | 398,351 | - | 398,351 | - | 398,351 | |
| BALANCE, DECEMBER 31, 2022 | \$ 2,161,107 | \$ 6,041,988 | \$ 712,562 | \$ 211,479 | \$ 196,847 | \$ 52,472 | \$ (13,138) | \$ (335,829) | \$ (196,057) | \$ 8,831,431 | \$ 14,829 | \$ 8,846,260 | |

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

This is the translation of the financial statements. CPAs do not audit or review on this translation.

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

| | <u>2022</u> | <u>2021</u> |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss) income before income tax | \$ (1,860,617) | \$ 7,603,070 |
| Adjustments for: | | |
| Depreciation expenses | 119,936 | 86,494 |
| Amortization expenses | 71,724 | 15,955 |
| Net loss (gain) on financial assets at fair value through profit or loss | 81,306 | (83,103) |
| Finance costs | 51,492 | 12,680 |
| Interest income | (93,996) | (31,307) |
| Compensation cost of employee share options | 46,258 | 66,351 |
| Loss (gain) on disposal of property plant and equipment | (460) | 318 |
| Gain on disposal of investments | (97,765) | (183,272) |
| Loss (reversal gain) on write-down of inventories | 2,254,749 | (259,552) |
| Unrealized loss on foreign exchange | 128,450 | (31,157) |
| Compensation cost of restricted stock to employees | 398,351 | 331,835 |
| Changes in operating assets and liabilities | | |
| Financial assets mandatorily measured at fair value through profit or loss | 95,352 | (34,762) |
| Accounts receivables | 2,112,803 | (1,624,336) |
| Inventories | (4,169,905) | (1,814,888) |
| Other current assets | 294,424 | (354,559) |
| Accounts payables | (1,696,410) | 893,835 |
| Other payables | (51,028) | 581,523 |
| Other current liabilities | (32,505) | (119,053) |
| Other non-current liabilities | (10,400) | - |
| Net defined benefit liabilities | (595) | (475) |
| Cash (used) generated from operations | <u>(2,358,836)</u> | <u>5,055,597</u> |
| Interest paid | (50,368) | (12,673) |
| Income tax paid | <u>(1,395,084)</u> | <u>(70,372)</u> |
| Net cash (outflow) inflow from operating activities | <u>(3,804,288)</u> | <u>4,972,552</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from disposal of financial asset at fair value through other comprehensive income | 59,609 | - |
| Acquisition of property, plant and equipment | (151,888) | (1,241,028) |
| Disposal of property, plant and equipment | 7,695 | - |
| Decrease (increase) in refundable deposits | 188,079 | (2,669,759) |
| Acquisition of intangible assets | (71,091) | - |
| Decrease (increase) in other financial assets | 3,429,086 | (2,520,040) |
| (Increase) decrease in other non-current assets | (14,739) | 851 |
| Interest received | <u>80,082</u> | <u>36,430</u> |
| Net cash inflow (outflow) from investing activities | <u>3,526,833</u> | <u>(6,393,546)</u> |

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

| | <u>2022</u> | <u>2021</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term borrowings | \$ 2,772,193 | \$ (221,693) |
| Increase in long-term borrowings | 200,000 | 786,840 |
| (Decrease) increase in guarantee deposits | (28,207) | 3,907,208 |
| Dividends paid to owners of the Company | (3,400,000) | (700,000) |
| Exercise of employee share options | 15,021 | 9,390 |
| Treasury shares acquired | (507,621) | - |
| Treasury shares transferred to employees | 311,564 | 25,892 |
| Increase in non-controlling interests | - | 42,759 |
| Issuance of restricted stock employees | - | 55,190 |
| Retirement of restricted stock employees | (3,880) | - |
| Unvested restricted stock employees refund cash dividends | <u>434</u> | <u>-</u> |
| Net cash (outflow) inflow financing activities | <u>(640,496)</u> | <u>3,905,586</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | |
| | <u>135,433</u> | <u>(39,286)</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (782,518) | 2,445,306 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>6,456,988</u> | <u>4,011,682</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 5,674,470</u> | <u>\$ 6,456,988</u> |

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

FocalTech Systems Co., Ltd. (“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 (“TWSE”) 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 Human-Machine Interface solutions, 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 February 23, 2023.

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. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2023

| New, Revised or Amended Standards and Interpretations | Effective Date Announced by IASB |
|---|---|
| Amendments to IAS 1 “Disclosure of Accounting Policies” | January 1, 2023 (Note 1) |
| Amendments to IAS 8 “Definition of Accounting Estimates” | January 1, 2023 (Note 2) |
| Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” | January 1, 2023 (Note 3) |

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

Note 2: 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 3: 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.

- c. The IFRSs issued by International Accounting Standards Board (IASB), but not yet endorsed and issued into effect by the Financial Supervisory Commission (FSC):

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective Date Announced by IASB (Note)</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 |
| Amendments to IFRS 16" Lease liabilities in a sale and leaseback" | January 1, 2024 (Note 2) |
| IFRS 17 "Insurance Contracts" | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17- Comparative Information" | January 1, 2023 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2024 |
| Amendments to IAS 1 "Noncurrent liabilities with contractual terms" | January 1, 2024 |

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

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

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 present Consolidated Financial Report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by Financial Supervisory Commission.

- 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. Standards in differentiating current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Assets expected to be realized within 12 months after the reporting period; and
- 2) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Those not as aforementioned current assets or current liabilities are classified as non-current assets or non-current liabilities.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Applicable adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Total comprehensive income of the subsidiaries is attributed both to the shareholders of the parent and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing controlling over the subsidiaries are accounted as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their interests in the subsidiaries respectively. The amount adjusted for the non-controlling interests and the difference between fair value and the consideration paid or received are recognized directly in equity and attributed to shareholders of the parent.

The detail information, holding percentages, and main business of the subsidiaries could be found in Note 12, TABLE 5 and TABLE 6.

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period;

This is the translation of the financial statements. CPAs do not audit or review on this translation.

income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

f. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

g. Property, plant and equipment

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

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Goodwill

Goodwill arising from the acquisition of a business is carried at cost, and subsequently measured at cost less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

i. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. Impairment of property, plant and equipment and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of Property, plant and equipment and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs to.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

i) Measurement category

The Group's financial assets include those measured at FVTPL, at amortized cost and investments in debt instruments measured at FVTOCI.

A. Financial asset at FVTPL

The equity instruments that are not specified as FVTOCI and debt instruments that do not meet the criteria of amortized cost or FVTOCI are mandatorily required to be measured at FVTPL.

Any dividends, interest earned and gain or loss arising from the remeasurement is recognized in profit or loss at fair value. The determination methodology of fair value of financial instruments states in Note 30.

B. Financial assets at amortized cost

Financial assets that meet both two following conditions will subsequently be measured at

This is the translation of the financial statements. CPAs do not audit or review on this translation.

amortized cost:

- (1) The objective of the business model to hold the financial asset is to collect contractual cash flows; and
- (2) The cash flows from contractual terms of the financial asset on specified dates are solely matched for payments of principal and interests on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, account receivables at amortized cost, other financial assets, and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method, subtracting any impairment loss. Foreign exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from obtaining date, high liquidation level, readily convertible to a known amount of cash at any time, and low risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

C. Investments in debt instruments at FVTOCI

Investments in debt instruments that meet both the following conditions are subsequently measured at FVTOCI:

- (1) The objective of the business model to hold the financial asset is to collect contractual cash flows and sell financial assets; and
- (2) The cash flows from contractual terms of the financial asset on specified dates are solely matched for payments of principal and interests on the principal amount outstanding.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses or reversed gains on investments in debt instruments at FVTOCI are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when these debt instruments are disposed.

ii) Impairment of financial assets

At the end of each reporting period, the impairment loss is recognized by expected credit loss method for financial assets at amortized cost (including accounts receivables) and for investments in debt instruments in FVTOCI.

The loss allowance for accounts receivables is determined by the expected credit losses over the lifetime. For other financial assets at amortized cost and investments in debt instruments that are measured at FVTOCI, if the credit risk on the financial instrument has not increased significantly after initial recognition, a loss allowance is determined by the expected credit losses resulting from the possible default events within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk after initial recognition, a loss allowance is determined by the expected credit losses resulting from all possible default events over the expected life of a financial instrument.

Expected credit losses (ECLS) reflect the weighted average of credit losses with the respective risks of default occurring as the weights. 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. In contrast, Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

All impairment loss of the financial instruments with a corresponding adjustment to their carrying amount are through an allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

iii) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

When a financial asset carried at amortized cost is derecognized in its entirety, the difference between the asset's carrying amount and the consideration is recognized in profit or loss. If the financial asset is an investment in debt instruments at FVTOCI and derecognized in its entirety, the difference between the asset's carrying amount and the sum of the consideration plus the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. The carrying amount is calculated by weighted average of stock types. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

i) Subsequent measurement

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

ii) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

1. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

m. Revenue recognition

The Group recognizes revenue when customer's contract obligations are satisfied.

Revenue comes from sales of human and machine interface devices ICs. Revenue is recognized when the ICs start to be shipped or are delivered to the specific locations instructed by customers, at which time the customer has full discretion over the ICs. Revenue and accounts receivables are recognized concurrently.

The Group considers varying contractual terms to estimate sales returns and recognize refund liabilities, which is classified under other payables.

n. Lease

The Group evaluates if the contract belongs to or includes the lease the commencement date.

The Group as a lessee

Except for the leases of low-value asset or short-term leases recognized as expenses on a straight-line basis, the Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets from the commencement date.

o. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets which are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Government Grants

Government grants are not recognized until it is assured reasonably that the Group will be able to comply with the conditions attaching to the subsidies and the grants will be received possibly.

Government grants used as the compensation for expenses or losses already incurred are recognized in profit or loss in the period in which they become receivable and are not necessary to return.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost, including current service cost and net interest on the net defined benefit liability (asset), is recognized as employee benefits expense in the period it occurs. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan.

r. Share-based payment arrangements

Equity-settled and share-based payment arrangements granted to employees

The fair value at the grant date of the equity-settled and share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's optimal estimate number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options.

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.

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax on unappropriated earnings according to the Income Tax Law should be accrued in the year when the resolution regarding to the appropriated earnings is made in the shareholder meeting.

Any adjustment of prior years' tax liability is counted in the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against

This is the translation of the financial statements. CPAs do not audit or review on this translation.

which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets 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.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the deferred tax is recognized in other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|--|---------------------|---------------------|
| | 2022 | 2021 |
| Cash on hand | \$ 15,560 | \$ 24,233 |
| Checking accounts and demand deposits | 1,855,151 | 4,141,003 |
| Cash equivalent (time deposits with original maturities within three months) | <u>3,803,759</u> | <u>2,291,752</u> |
| | <u>\$ 5,674,470</u> | <u>\$ 6,456,988</u> |

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - NON-CURRENT

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| <u>Current</u> | | |
| Mandatorily measured at fair value through profit or loss (FVTPL) | | |
| Listed ordinary shares | \$ - | \$ 119,218 |
| <u>Non – Current</u> | | |
| Mandatorily measured at fair value through profit or loss (FVTPL) | | |
| Listed preferred shares | \$ 147,391 | \$ 151,801 |
| Private Funds | 207,977 | 156,075 |
| Structured Investments | 111,775 | 104,903 |
| | <u>\$ 467,143</u> | <u>\$ 412,779</u> |

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | <u>December 31</u> | |
|---------------------------------|--------------------|-------------|
| | <u>2022</u> | <u>2021</u> |
| Investments in debt instruments | | |
| <u>Current</u> | | |
| Foreign investments | | |
| Fixed income bonds | \$ - | \$ 55,590 |
| <u>Non – Current</u> | | |
| Foreign investments | | |
| Fixed income bonds | \$ 179,137 | \$ 178,404 |

9. OTHER FINANCIAL ASSETS

| | <u>December 31</u> | |
|---|--------------------|--------------|
| | <u>2022</u> | <u>2021</u> |
| Time deposits with original maturities more than three months | \$ 517,464 | \$ 3,879,862 |

10. ACCOUNTS RECEIVABLES, NET

| | <u>December 31</u> | |
|----------------------|--------------------|--------------|
| | <u>2022</u> | <u>2021</u> |
| Accounts receivables | \$ 1,148,471 | \$ 3,255,081 |

The average credit term for sales of goods was 30-120 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 accounts 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.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

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 accounts receivables. The expected credit losses on accounts 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 accounts receivable.

The following table details the loss allowance of accounts receivables based on the Group's allowance matrix.

December 31, 2022

| | 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>\$ 1,102,087</u> | <u>\$ 15,049</u> | <u>\$ 31,335</u> | <u>\$ -</u> | <u>\$ 1,148,471</u> |

December 31, 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>\$ 3,023,207</u> | <u>\$ 231,874</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,255,081</u> |

11. INVENTORIES

| | December 31 | |
|----------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Finished goods | \$ 1,020,143 | \$ 1,233,626 |
| Work in progress | 2,073,643 | 1,622,781 |
| Raw materials and supplies | <u>2,659,945</u> | <u>965,811</u> |
| | <u>\$ 5,753,731</u> | <u>\$ 3,822,218</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2022 and 2021 was NT\$11,667,224 thousand and NT\$11,262,098 thousand, included write-down inventories of NT\$(2,254,749) thousand and reverse of write-down inventories of NT\$259,552 thousand for the years ended December 31, 2022 and 2021, respectively. Above mentioned gains from price recovery of inventories 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 | Nature of Activities | Proportion of Ownership | |
|---|--|--|-------------------------|--------|
| | | | December 31 2022 | 2021 |
| FocalTech Systems Co., Ltd. | FocalTech Corporation, Ltd. | Investment activity | 100% | 100% |
| | FocalTech Electronics, Ltd. | Investment activity | 100% | 100% |
| FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd. | FocalTech Smart Sensors, Ltd. | Investment activity | 66.45% | 66.45% |
| FocalTech Smart Sensors, Ltd. | FocalTech Smart Sensors Co., Ltd. | Research, development, manufacturing and sale of integrated circuits | 100% | 100% |
| FocalTech Corporation, Ltd. | FocalTech Systems, Inc. | Investment activity | 100% | 100% |
| FocalTech Systems, Inc. | FocalTech Systems, Ltd. | Investment activity | 100% | 100% |
| FocalTech Systems, Ltd. | FocalTech Systems (Shenzhen) Co., Ltd. | Design and research of integrated circuits | 100% | 100% |
| | FocalTech Electronics Co., Ltd. | Import and export of integrated circuits | 100% | 100% |
| FocalTech Electronics, Ltd. | FocalTech Electronics (Shanghai) Co., Ltd. | Sales support and post-sales service for affiliates' IC products | 100% | 100% |
| | FocalTech Electronics (Shenzhen) Co., Ltd. | Research, development, manufacturing and sale of integrated circuits | 100% | 100% |
| | Hefei PineTech Electronics Co., Ltd. | Research, development and sale of integrated circuits | 100% | 100% |

13. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Development Equipment | Office Equipment | Information Equipment | Leasehold Improvements | Construction In progress | Total |
|---|-------------------|---------------------|-----------------------|------------------|-----------------------|------------------------|--------------------------|---------------------|
| Cost | | | | | | | | |
| Balance, January 1, 2022 | \$ - | \$ 1,336,121 | \$ 434,688 | \$ 12,349 | \$ 44,540 | \$ 38,530 | \$ 1,080,130 | \$ 2,946,358 |
| Additions | - | - | 68,220 | 48,143 | 1,722 | - | 33,803 | 151,888 |
| Disposals | - | - | (41,516) | (458) | (3,683) | (16,879) | - | (62,536) |
| Reclassification | 557,110 | 500,183 | (130) | - | 130 | - | (1,057,293) | - |
| Effect of foreign currency exchange differences | - | 20,308 | 15,567 | 943 | 636 | 218 | - | 37,672 |
| Balance, December 31, 2022 | <u>\$ 557,110</u> | <u>\$ 1,856,612</u> | <u>\$ 476,829</u> | <u>\$ 60,977</u> | <u>\$ 43,345</u> | <u>\$ 21,869</u> | <u>\$ 56,640</u> | <u>\$ 3,073,382</u> |
| Accumulated depreciation | | | | | | | | |
| Balance, January 1, 2022 | \$ - | \$ 156,566 | \$ 240,423 | \$ 10,107 | \$ 32,127 | \$ 38,530 | \$ - | \$ 477,753 |
| Depreciation | - | 41,003 | 73,697 | 2,406 | 2,830 | - | - | 119,936 |
| Disposals | - | - | (34,669) | (441) | (3,312) | (16,879) | - | (55,301) |
| Effect of foreign currency exchange differences | - | 2,151 | 13,077 | 908 | 432 | 218 | - | 16,786 |
| Balance, December 31, 2022 | <u>\$ -</u> | <u>\$ 199,720</u> | <u>\$ 292,528</u> | <u>\$ 12,980</u> | <u>\$ 32,077</u> | <u>\$ 21,869</u> | <u>\$ -</u> | <u>\$ 559,174</u> |
| Carrying amounts as of December 31, 2022 | <u>\$ 557,110</u> | <u>\$ 1,656,892</u> | <u>\$ 184,301</u> | <u>\$ 47,997</u> | <u>\$ 11,268</u> | <u>\$ -</u> | <u>\$ 56,640</u> | <u>\$ 2,514,208</u> |
| Cost | | | | | | | | |
| Balance, January 1, 2021 | \$ - | \$ 1,343,090 | \$ 292,977 | \$ 11,557 | \$ 38,869 | \$ 38,604 | \$ - | \$ 1,725,097 |
| Additions | - | - | 154,365 | 731 | 5,802 | - | 1,080,130 | 1,241,028 |
| Disposals | - | - | (8,366) | - | - | - | - | (8,366) |
| Reclassification | - | - | (156) | 104 | 52 | - | - | - |
| Effect of foreign currency exchange differences | - | (6,969) | (4,132) | (43) | (183) | (74) | - | (11,401) |
| Balance, December 31, 2021 | <u>\$ -</u> | <u>\$ 1,336,121</u> | <u>\$ 434,688</u> | <u>\$ 12,349</u> | <u>\$ 44,540</u> | <u>\$ 38,530</u> | <u>\$ 1,080,130</u> | <u>\$ 2,946,358</u> |
| Accumulated depreciation | | | | | | | | |
| Balance, January 1, 2021 | \$ - | \$ 121,696 | \$ 203,722 | \$ 9,574 | \$ 29,561 | \$ 38,604 | \$ - | \$ 403,157 |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

| | <u>Land</u> | <u>Buildings</u> | <u>Development Equipment</u> | <u>Office Equipment</u> | <u>Information Equipment</u> | <u>Leasehold Improvements</u> | <u>Construction In progress</u> | <u>Total</u> |
|--|-------------|---------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------------|-------------------------------------|---------------------|
| Depreciation | - | 35,492 | 47,738 | 575 | 2,689 | - | - | 86,494 |
| Disposals | - | - | (8,048) | - | - | - | - | (8,048) |
| Reclassification | - | - | - | (10) | 10 | - | - | - |
| Effect of foreign currency exchange differences | - | (622) | (2,989) | (32) | (133) | (74) | - | (3,850) |
| Balance, December 31, 2021 | <u>\$ -</u> | <u>\$ 156,566</u> | <u>\$ 240,423</u> | <u>\$ 10,107</u> | <u>\$ 32,127</u> | <u>\$ 38,530</u> | <u>\$ -</u> | <u>\$ 477,753</u> |
| Carrying amounts as of December 31, 2021 | <u>\$ -</u> | <u>\$ 1,179,555</u> | <u>\$ 194,265</u> | <u>\$ 2,242</u> | <u>\$ 12,413</u> | <u>\$ -</u> | <u>\$ 1,080,130</u> | <u>\$ 2,468,605</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 32.

14. GOODWILL

| | <u>December 31</u> | |
|----------------|---------------------|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Ending balance | <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, resulting the goodwill of \$3,237,268 thousand. In 2018, the impacts of market improper competition and the shortage of wafer supply made the company a serious market share decline, which is expected to influence the market shares and gross margins in the future. Therefore, the recoverable amount from Display and Touch integrated chip less than the carrying value so the Company recognized the impairment loss of \$2,000,000 thousand. In 2019, based on the market growth and market share gain in smartphone market, the Group estimated cash flows from sales of Display and Touch integrated chip, and the recoverable amount exceeded the carrying value. Therefore, the Group did not recognize any impairment on goodwill.

The recoverable amount is calculated by Display and Touch integrated chip projected net cash flows, discounted at 13.98% and 16.52% for the years ended December 31, 2022 and 2021, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin.

15. OTHER INTANGIBLE ASSETS

| | Licenses and Franchises | Software | Patents | Trademark | Total |
|--|--|-------------------|------------------|------------------|-------------------|
| <u>Cost</u> | | | | | |
| Balance, January 1, 2022 | \$ 128,012 | \$ 135,839 | \$ 76,707 | \$ 74,000 | \$ 414,558 |
| Additions | 4,451 | 66,640 | - | - | 71,091 |
| Reclassification | - | 13,904 | - | - | 13,904 |
| Effect of foreign currency exchange differences | <u>11,969</u> | <u>13,217</u> | <u>3</u> | <u>-</u> | <u>25,189</u> |
| Balance, December 31, 2022 | <u>\$ 144,432</u> | <u>\$ 229,600</u> | <u>\$ 76,710</u> | <u>\$ 74,000</u> | <u>\$ 524,742</u> |
| <u>Accumulated amortization</u> | | | | | |
| Balance, January 1, 2022 | \$ 128,012 | \$ 132,792 | \$ 54,726 | \$ 51,800 | \$ 367,330 |
| Amortization expenses | 2,226 | 54,717 | 7,381 | 7,400 | 71,724 |
| Effect of foreign currency exchange differences | <u>11,969</u> | <u>13,167</u> | <u>3</u> | <u>-</u> | <u>25,139</u> |
| Balance, December 31, 2022 | <u>\$ 142,207</u> | <u>\$ 200,676</u> | <u>\$ 62,110</u> | <u>\$ 59,200</u> | <u>\$ 464,193</u> |
| Carrying amounts as of December 31, 2022 | <u>\$ 2,225</u> | <u>\$ 28,924</u> | <u>\$ 14,600</u> | <u>\$ 14,800</u> | <u>\$ 60,549</u> |
| <u>Cost</u> | | | | | |
| Balance, January 1, 2021 | \$ 122,262 | \$ 148,247 | \$ 76,708 | \$ 74,000 | \$ 421,217 |
| Reclassification | 8,911 | (8,911) | - | - | - |
| Effect of foreign currency exchange differences | <u>(3,161)</u> | <u>(3,497)</u> | <u>(1)</u> | <u>-</u> | <u>(6,659)</u> |
| Balance, December 31, 2021 | <u>\$ 128,012</u> | <u>\$ 135,839</u> | <u>\$ 76,707</u> | <u>\$ 74,000</u> | <u>\$ 414,558</u> |
| <u>Accumulated amortization</u> | | | | | |
| Balance, January 1, 2021 | \$ 122,130 | \$ 144,543 | \$ 46,942 | \$ 44,400 | \$ 358,015 |
| Amortization expenses | 132 | 638 | 7,785 | 7,400 | 15,955 |
| Reclassification | 8,911 | (8,911) | - | - | - |
| Effect of foreign currency exchange differences | <u>(3,161)</u> | <u>(3,478)</u> | <u>(1)</u> | <u>-</u> | <u>(6,640)</u> |
| Balance, December 31, 2021 | <u>\$ 128,012</u> | <u>\$ 132,792</u> | <u>\$ 54,726</u> | <u>\$ 51,800</u> | <u>\$ 367,330</u> |
| Carrying amounts as of December 31, 2021 | <u>\$ -</u> | <u>\$ 3,047</u> | <u>\$ 21,981</u> | <u>\$ 22,200</u> | <u>\$ 47,228</u> |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

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

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

16. REFUNDABLE DEPOSITS

| | <u>December 31</u> | |
|--|--------------------|--------------------|
| | <u>2022</u> | <u>2021</u> |
| Capacity guarantee deposits and others | <u>\$2,654,474</u> | <u>\$2,841,745</u> |

Guarantee deposits mainly consists of cash paid to suppliers to ensure stable foundry capacity.

17. BORROWINGS

a. Short-term borrowings

| | <u>December 31</u> | |
|----------------------|--------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Unsecured bank loans | \$3,070,806 | \$ - |
| Secured bank loans | <u>-</u> | <u>301,712</u> |
| | <u>\$3,070,806</u> | <u>\$ 301,712</u> |
| Annual interest rate | | |
| Unsecured bank loans | 1.30~4.20% | - |
| Secured bank loans | - | 1.74~1.81% |

Property, plant and equipment are pledged as collateral for the bank loans, please refer to Note 32.

b. Long-term borrowings

| | <u>December 31</u> | |
|--|--------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Unsecured bank loans | \$ 200,000 | \$ - |
| Secured bank loans | <u>786,840</u> | <u>786,840</u> |
| | 986,840 | 786,840 |
| Less: reclassification to Current position of long-term borrowings | <u>(25,000)</u> | <u>-</u> |
| | <u>\$ 961,840</u> | <u>\$ 786,840</u> |
| Annual interest rate | | |
| Unsecured bank loans | 1.65% | - |
| Secured bank loans | 1.625~1.75% | 1.00% |

For secured bank loans, the principals will be paid monthly or quarterly after three years from drawdown date. The period of borrowings is from September, 2021 to September, 2036.

For unsecured bank loans, the principals will be paid monthly after one year from drawdown date. The period of borrowings is from September, 2022 to September, 2025.

Commercial building is pledged as collateral for long-term loans, please refer to Note 32.

18. ACCOUNTS PAYABLES

| | December 31 | |
|-------------------|-------------|--------------|
| | 2022 | 2021 |
| Accounts payables | \$ 929,492 | \$ 2,620,160 |

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.

19. OTHER PAYABLES

| | December 31 | |
|--|--------------------|--------------------|
| | 2022 | 2021 |
| Payable for rebates | \$ 870,372 | \$ 610,291 |
| Payable for salaries and bonus | 584,170 | 777,747 |
| Payable for labor, health and social insurance | 14,276 | 15,913 |
| Reserve for litigations | 51,325 | 46,261 |
| Payable for professional services and others | <u>133,633</u> | <u>146,746</u> |
| | <u>\$1,653,776</u> | <u>\$1,596,958</u> |

20. RETIREMENT BENEFIT

a. Defined contribution plans

The Company · FocalTech Smart Sensors Co., Ltd. and FocalTech Electronics Co., Ltd. adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

| | December 31 | |
|---|--------------------|------------------|
| | 2022 | 2021 |
| Present value of defined benefit obligation | \$ 33,968 | \$ 40,265 |
| Fair value of plan assets | (20,408) | (18,125) |
| Net defined benefit liability | <u>\$ 13,560</u> | <u>\$ 22,140</u> |

Movements in net defined benefit liability were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|--|--|--|--|
| Balance at January 1, 2022 | <u>\$ 40,265</u> | <u>(\$ 18,125)</u> | <u>\$ 22,140</u> |
| Net interest expense (income) | <u>262</u> | <u>(120)</u> | <u>142</u> |
| Recognized in profit or loss | <u>262</u> | <u>(120)</u> | <u>142</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,426) | (1,426) |
| Actuarial gain - changes in financial assumptions | (2,453) | - | (2,453) |
| Actuarial gain - experience adjustments | (4,106) | - | (4,106) |
| Recognized in other comprehensive income | (6,559) | (1,426) | (7,985) |
| Contributions from the employer | <u>-</u> | <u>(737)</u> | <u>(737)</u> |
| Balance at December 31, 2022 | <u>\$ 33,968</u> | <u>(\$ 20,408)</u> | <u>\$ 13,560</u> |
| Balance at January 1, 2021 | <u>\$ 42,275</u> | <u>(\$ 18,909)</u> | <u>\$ 23,366</u> |
| Net interest expense (income) | <u>338</u> | <u>(154)</u> | <u>184</u> |
| Recognized in profit or loss | <u>338</u> | <u>(154)</u> | <u>184</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (90) | (90) |
| Actuarial loss - changes in financial assumptions | 764 | - | 764 |
| Actuarial gain - experience adjustments | (1,425) | - | (1,425) |
| Recognized in other comprehensive income | (661) | (90) | (751) |
| Contributions from the employer | <u>-</u> | <u>(659)</u> | <u>(659)</u> |
| Benefits paid | <u>(1,687)</u> | <u>1,687</u> | <u>-</u> |
| Balance at December 31, 2021 | <u>\$ 40,265</u> | <u>(\$ 18,125)</u> | <u>\$ 22,140</u> |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|----------------------------------|--------------------|-------------|
| | 2022 | 2021 |
| Discount rate | 1.25% | 0.65% |
| Expected rate of salary increase | 4.5% | 4.5% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| | December 31 | |
|----------------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Discount rate | | |
| 0.25% increase | (<u>\$ 985</u>) | (<u>\$ 1,263</u>) |
| 0.25% decrease | <u>\$ 1,022</u> | <u>\$ 1,314</u> |
| Expected rate of salary increase | | |
| 1% increase | <u>\$ 4,180</u> | <u>\$ 5,348</u> |
| 1% decrease | (<u>\$ 3,674</u>) | (<u>\$ 4,670</u>) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|--|--------------------|---------------|
| | 2022 | 2021 |
| The expected contributions to the plan for the next year | <u>\$ 720</u> | <u>\$ 680</u> |
| The average duration of the defined benefit obligation | 14.6 years | 15.2 years |

21. GUARANTEE DEPOSITS RECEIVED

| | December 31 | |
|--|--------------------|--------------------|
| | 2022 | 2021 |
| Capacity guarantee deposits and others | <u>\$4,369,353</u> | <u>\$4,397,513</u> |

Guarantee deposit mainly consists of cash received from customers to ensure they have access to the Group's specified capacity

22. EQUITY

a. Share capital

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

| | December 31 | |
|---|---------------------|---------------------|
| | 2022 | 2021 |
| Numbers of shares authorized (in thousands) | <u>500,000</u> | <u>500,000</u> |
| Shares authorized | <u>\$ 5,000,000</u> | <u>\$ 5,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>216,111</u> | <u>216,237</u> |
| Shares issued | <u>\$ 2,161,107</u> | <u>\$ 2,162,367</u> |

The company has issued 19 thousand shares of exercised employees' share option and redeemed 146 thousand shares of issued restricted stocks for employees during the year ended December 31, 2022. The registration processes have not been completed as of December 31, 2022.

b. Capital surplus

| | Additional Paid-in Capital (1) | Treasury Shares (1) | Restricted stock for employees (2) | Employee Share Options (2) | Employee Share Options - Expired (1) | Total |
|---|--------------------------------------|---------------------------|---|----------------------------------|---|---------------------|
| BALANCE, JANUARY 1, 2022 | \$ 4,737,390 | \$ 79,917 | \$ 1,145,555 | \$ 65,873 | \$ 34,134 | \$ 6,062,869 |
| Employee treasury share vested | - | 45,464 | - | (45,464) | - | - |
| Compensation cost of employee share options | - | - | - | 46,258 | - | 46,258 |
| Issuance of ordinary shares from exercise of employee share options | 16,449 | - | - | (4,048) | - | 12,401 |
| Employee share options expired | - | - | - | (314) | 314 | - |
| Retirement of restricted stock employees | - | - | (79,540) | - | - | (79,540) |
| BALANCE, December 31, 2022 | <u>\$ 4,753,839</u> | <u>\$ 125,381</u> | <u>\$ 1,066,015</u> | <u>\$ 62,305</u> | <u>\$ 34,448</u> | <u>\$ 6,041,988</u> |
| BALANCE, JANUARY 1, 2021 | \$ 4,725,445 | \$ 69,361 | \$ - | \$ 14,903 | \$ 33,933 | \$4,843,642 |
| Treasury shares transferred to employees | - | 1,947 | - | - | - | 1,947 |
| Employee treasury share vested | - | 8,861 | - | (8,861) | - | - |
| Treasury shares retired | - | (252) | - | - | - | (252) |
| Compensation cost of employee share options | - | - | - | 66,351 | - | 66,351 |
| Issuance of ordinary shares from exercise of employee share options | 11,945 | - | - | (6,319) | - | 5,626 |
| Employee share options expired | - | - | - | (201) | 201 | - |
| Issuance of restricted stock for employees | - | - | 1,145,555 | - | - | 1,145,555 |
| BALANCE, December 31, 2021 | <u>\$ 4,737,390</u> | <u>\$ 79,917</u> | <u>\$ 1,145,555</u> | <u>\$ 65,873</u> | <u>\$ 34,134</u> | <u>\$ 6,062,869</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 cannot be used for any purposes.

c. Retained earnings and dividend policy

Under the Company’s Article of Incorporation, when distributing annual earnings, the Company 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 prepare a distribution proposal for the remaining earnings plus 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.

See Note 24(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 is required to set aside additional special capital reserve equal to the total amount of items that are accounted for as deductions from stockholders’ equity shall be set aside from prior-year earnings.

The appropriations of earnings for 2021 and 2020 were approved in annual shareholder’s meeting held on June 9, 2022, and August 19, 2021, respectively, were as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------|--------------------|-------------------|
| Legal reserve | <u>\$ 611,332</u> | <u>\$ 101,230</u> |
| Special reserve | <u>\$ 89,163</u> | <u>\$ 122,316</u> |
| Cash dividends | <u>\$3,400,000</u> | <u>\$ 700,000</u> |
| Cash dividends per share | <u>\$ 15.71</u> | <u>\$ 3.32</u> |

d. Special reserve

| | <u>2022</u> | <u>2021</u> |
|------------------------------|-------------------|-------------------|
| Balance, beginning | \$ 122,316 | \$ - |
| Special reserve appropriated | <u>89,163</u> | <u>122,316</u> |
| Balance, ending | <u>\$ 211,479</u> | <u>\$ 122,316</u> |

e. Treasury stock

| | Shares (In Thousands) |
|---------------------------------------|----------------------------------|
| Number of shares on January 1, 2021 | 778 |
| Decrease during the period | <u>(778)</u> |
| Number of shares on December 31, 2021 | <u>=</u> |
| Number of shares on January 1, 2022 | - |
| Increase during the period | 4,000 |
| Decrease during the period | <u>(2,455)</u> |
| Number of shares on December 31, 2022 | <u><u>1,545</u></u> |

On February 23, 2022, the board of directors resolved the 6th treasure stock transferred to employees program no more than 4,000,000 shares for transferring to employees. From April 6 to April 19, 2021, 4,000,000 shares had been bought back, and it amount was \$507,621 thousand. The transferring price to employees would be the average purchase price.

The detailed information for other treasure stock transferred to employee programs could be found in Note 27 (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.

f. Unearned employee compensation

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Balance, beginning | (\$ 813,720) | \$ - |
| Retirement (issuance) of shares | 79,540 | (1,145,555) |
| Share-based payment expenses recognized | <u>398,351</u> | <u>331,835</u> |
| Balance, ending | <u>(\$ 335,829)</u> | <u>(\$ 813,720)</u> |

The issuance of employee restricted share plan has been approved by shareholders' meeting held on June 20, 2020. The board of directors approved to issue 5,749 thousand and 236 thousand shares on April 7, 2021 and July 29, 2021, respectively. Please refer Note 27 (c) for the detailed information.

g. Non-controlling interests

| | 2022 | 2021 |
|--|------------------|------------------|
| Balance, beginning | \$ 22,300 | (\$ 1,383) |
| Net loss | (16,856) | (16,085) |
| Other comprehensive income (loss) | | |
| Exchange differences from translating the financial statements of foreign operations | 9,385 | (3,248) |
| Non-controlling interests subscribing subsidiary new shares issuing for cash | - | 42,759 |
| Changes in ownership interests in subsidiaries | <u>-</u> | <u>257</u> |
| Balance, ending | <u>\$ 14,829</u> | <u>\$ 22,300</u> |

23. REVENUE

| | For the Year Ended December 31 | |
|--|---------------------------------------|----------------------|
| | 2022 | 2021 |
| IC for human and machine interface devices | <u>\$ 12,949,902</u> | <u>\$ 21,991,497</u> |
| <u>Contract balances</u> | | |
| | December 31 | |
| | 2022 | 2021 |
| Contract liabilities (classified as current liabilities) | | |
| Sales of goods | <u>\$ 56,455</u> | <u>\$ 49,099</u> |

24. NET INCOME

a. Finance costs

| | For the Year Ended December 31 | |
|------------------------|---------------------------------------|------------------|
| | 2022 | 2021 |
| Interest on bank loans | \$ 51,492 | \$ 12,240 |
| Interest on deposits | <u>-</u> | <u>440</u> |
| | <u>\$ 51,492</u> | <u>\$ 12,680</u> |

b. Depreciation and amortization

| | For the Year Ended December 31 | |
|--|---------------------------------------|-------------------|
| | 2022 | 2021 |
| Property, plant and equipment | \$ 119,936 | \$ 86,494 |
| Intangible assets | <u>71,724</u> | <u>15,955</u> |
| | <u>\$ 191,660</u> | <u>\$ 102,449</u> |
| An analysis of deprecation by function | | |
| Operating costs | \$ 26,612 | \$ 8,892 |
| Operating expenses | <u>165,048</u> | <u>93,557</u> |
| | <u>\$ 191,660</u> | <u>\$ 102,449</u> |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

c. Employee benefits expense

| | For the Year Ended December 31 | |
|--|---------------------------------------|-------------------------|
| | 2022 | 2021 |
| Post-employment benefits | | |
| Defined contribution plans | \$ 33,048 | \$ 30,331 |
| Defined benefit plans (see Note 20) | 142 | 184 |
| Share-based payments (see Note 27) | 444,609 | 398,186 |
| Other employee benefits | <u>2,231,610</u> | <u>2,214,641</u> |
| Total employee benefits expense | <u>\$ 2,709,409</u> | <u>\$ 2,643,342</u> |
| An analysis of employee benefits expense by function | | |
| Operating costs | \$ 245,045 | \$ 227,778 |
| Operating expenses | <u>2,464,364</u> | <u>2,415,564</u> |
| | <u>\$ 2,709,409</u> | <u>\$ 2,643,342</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. There was no employees' compensation accrued due to loss before income tax for the year ended December 31, 2022. The accrued employees' compensation and remuneration of directors for the year ended December 31, 2021 is as follows:

| <u>Amount</u> | <u>2021</u> |
|---------------------------|-------------------|
| Employees' compensation | <u>\$ 316,730</u> |
| Remuneration of directors | <u>\$ 30,000</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 for 2021 on February 23, 2022. There is no difference between the actual amount of remuneration to employees and directors resolved and the amount of remuneration to employees and directors accounted for in 2021 consolidated 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.

25. INCOME TAXES

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

| | For the Year Ended December 31 | |
|---|---------------------------------------|---------------------|
| | 2022 | 2021 |
| Current income tax expense | | |
| In respect of the current year | \$ 163,762 | \$ 1,310,749 |
| Other income tax adjustments | <u>36,675</u> | <u>122,040</u> |
| | <u>200,437</u> | <u>1,432,789</u> |
| Deferred income tax expense | | |
| In respect of the current year | (132,159) | <u>73,431</u> |
| Income tax expense recognized in profit or loss | <u>\$ 68,278</u> | <u>\$ 1,506,220</u> |

A reconciliation of accounting profit and income tax expense is as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|---------------------|
| | 2022 | 2021 |
| (Loss) income before tax from continuing operations | (<u>\$1,860,617</u>) | <u>\$ 7,603,070</u> |
| (Loss) income tax expense calculated at the statutory rate and the effective tax rate | (\$ 221,768) | \$ 1,097,956 |
| Nondeductible expenses in determining taxable income | 63,987 | 17,678 |
| Tax effect of earnings to be distributed by subsidiaries | 167,231 | 429 |
| Tax exemption | (3,342) | (37,877) |
| Unrecognized temporary differences | (181) | (1,001) |
| Unrecognized loss carryforwards | 25,676 | 43,083 |
| Adjustments for prior years' tax | 36,675 | 122,040 |
| Tax effects from investment tax credit rate less than 30% | - | <u>263,912</u> |
| Income tax expense recognized in profit or loss | <u>\$ 68,278</u> | <u>\$ 1,506,220</u> |

The company's research and development expenditure is expected to offset the corporate income tax by 30%, so the effective tax rate is 14% after considering the deduction effect.

For other jurisdictions, taxes are calculated using the applicable tax rate for each individual jurisdiction.

b. Recognized in other comprehensive income

| | December 31 | |
|--|--------------------|---------------|
| | 2022 | 2021 |
| Deferred tax | | |
| Remeasurement of defined benefit plans | <u>\$ 1,117</u> | <u>\$ 105</u> |

c. Current tax assets and liabilities

| | December 31 | |
|---|--------------------|---------------------|
| | 2022 | 2021 |
| Current tax assets(recorded as other current assets) | | |
| Tax refund receivable | \$ 5,590 | \$ 1,510 |
| Current tax liabilities | | |
| Income tax levied on accumulated overseas undistributed earnings (Note) | \$ 295,668 | \$ 286,867 |
| Income tax payable | 333,635 | 1,499,442 |
| Total | <u>\$ 629,303</u> | <u>\$ 1,786,309</u> |

Note: The estimated income tax from accumulated overseas undistributed earnings determined at the end of 2017 for FocalTech Systems, Inc. could be paid in installments for eight years under the US tax law.

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

2022

| | <u>Beginning Balance</u> | <u>Recognized in Profit or Loss</u> | <u>Recognized in Other Comprehensive Income</u> | <u>Exchange Differences</u> | <u>Ending Balance</u> |
|---|--------------------------|-------------------------------------|---|-----------------------------|-----------------------|
| <u>Deferred tax assets</u> | | | | | |
| Temporary differences | | | | | |
| Obsolete of inventory | \$ 10,779 | \$ 272,961 | \$ - | \$ - | \$ 283,740 |
| Others | (4,434) | 24,371 | (1,117) | - | 18,820 |
| | 6,345 | 297,332 | (1,117) | - | 302,560 |
| Loss carryforwards | 3,569 | - | - | - | 3,569 |
| | <u>\$ 9,914</u> | <u>\$ 297,332</u> | <u>(\$ 1,117)</u> | <u>\$ -</u> | <u>\$ 306,129</u> |
| <u>Deferred tax liabilities</u> | | | | | |
| Temporary differences | | | | | |
| Intangible assets | \$ 6,174 | (\$ 2,058) | \$ - | \$ - | \$ 4,116 |
| Investment income recognized from foreign investees | 45,410 | 167,231 | - | - | 212,641 |
| | <u>\$ 51,584</u> | <u>\$ 165,173</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 216,757</u> |

2021

| | <u>Beginning Balance</u> | <u>Recognized in Profit or Loss</u> | <u>Recognized in Other Comprehensive Income</u> | <u>Exchange Differences</u> | <u>Ending Balance</u> |
|---|--------------------------|-------------------------------------|---|-----------------------------|-----------------------|
| <u>Deferred tax assets</u> | | | | | |
| Temporary differences | | | | | |
| Obsolete of inventory | \$ 71,336 | (\$ 60,557) | \$ - | \$ - | \$ 10,779 |
| Others | (3,950) | (379) | (105) | - | (4,434) |
| | 67,386 | (60,936) | (105) | - | 6,345 |
| Loss carryforwards | 17,768 | (14,124) | - | (75) | 3,569 |
| | <u>\$ 85,154</u> | <u>(\$ 75,060)</u> | <u>(\$ 105)</u> | <u>(\$ 75)</u> | <u>\$ 9,914</u> |
| <u>Deferred tax liabilities</u> | | | | | |
| Temporary differences | | | | | |
| Intangible assets | \$ 8,232 | (\$ 2,058) | \$ - | \$ - | \$ 6,174 |
| Investment income recognized from foreign investees | 44,981 | 429 | - | - | 45,410 |
| | <u>\$ 53,213</u> | <u>(\$ 1,629)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 51,584</u> |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

- e. Information about unused loss carryforwards and tax-exemption.

Loss carryforwards as of December 31, 2022 comprised of:

| <u>Unused Amount</u> | <u>Expiry Year</u> |
|----------------------|--------------------|
| \$ 10,332 | 2025 |
| 518,290 | 2026 |
| 5,147 | 2030 |
| <u>71,668</u> | 2031 |
| | |
| <u>\$ 605,437</u> | |

- f. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2022 and 2021, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$0 thousand and \$1,770,810 thousand, respectively.

- g. Income tax assessments

The Company's tax returns through 2019, FocalTech Smart Sensors Co., Ltd., and FocalTech Electronics Co., Ltd.'s tax returns through 2020 have been examined by the tax authorities.

26. (LOSS) EARNINGS PER SHARE

| | Unit: NT\$ Per Share | |
|---------------------------------|---------------------------------------|-----------------|
| | For the Year Ended December 31 | |
| | <u>2022</u> | <u>2021</u> |
| Basic (loss) earnings per share | (\$ 9.39) | <u>\$ 30.23</u> |
| Diluted earnings per share | | <u>\$ 28.62</u> |

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

Net (Loss) Profit for the Period

| | For the Year Ended December 31 | |
|--|---------------------------------------|--------------------|
| | <u>2022</u> | <u>2021</u> |
| (Loss) earnings used in the computation of basic (loss) earnings per share | (<u>\$1,912,039</u>) | <u>\$6,112,935</u> |

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

| | For the Year Ended December 31 | |
|---|---------------------------------------|----------------|
| | 2022 | 2021 |
| Weighted average number of ordinary shares used in the computation of basic (loss) earnings per share | 203,701 | 202,208 |
| Effect of potentially dilutive ordinary shares: | | |
| Treasury shares transferred to Employees | - | 8,157 |
| Employee share options (share) | - | 475 |
| Restricted stock for employees (share) | - | 785 |
| The remuneration to employees | - | 1,984 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>203,701</u> | <u>213,609</u> |

Note: There is no diluted effectiveness for the years ended December 31, 2022 due to operating loss.

27. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

The Group did not have new share option plan issued for employees for the years ended December 31, 2022 and 2021.

Information about vested options as of December 31, 2022 and 2021 are as following:

| Employee Stock Option Plan | <u>December 31, 2022</u> | | <u>December 31, 2021</u> | |
|-------------------------------|--------------------------------------|--|--------------------------------------|--|
| | Range of exercise price (NT\$) | Weighted- average remaining contractual life (years) | Range of exercise price (NT\$) | Weighted- average remaining contractual life (years) |
| 2006 | \$29.68 | 0.27 | \$5.37~36.17 | 0.11~1.27 |
| 2015 | 12.8 | 2.67 | 15.6 | 3.67 |

Information on outstanding options for the years ended December 31, 2022 and 2021 are as follows:

2022

| Employee Stock Option Plan | <u>Beginning Balance</u> | | <u>Options exercised</u> | | <u>Options expired</u> | | <u>Ending Balance</u> | |
|-------------------------------|--------------------------|--|--------------------------|--|------------------------|--|-----------------------|--|
| | 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 | 198,399 | \$19.86 | (140,000) | \$20.98 | (36,000) | \$ 5.37 | 22,399 | \$29.68 |
| 2015 | 209,000 | 15.60 | (122,000) | 15.16 | - | - | 87,000 | 12.80 |

2021

| Employee Stock Option Plan | <u>Beginning Balance</u> | | <u>Options exercised</u> | | <u>Options expired</u> | | <u>Ending Balance</u> | |
|-------------------------------|--------------------------|--|--------------------------|--|------------------------|--|-----------------------|--|
| | 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 | \$26.65 | (199,800) | \$33.04 | - | \$ - | 198,399 | \$19.86 |
| 2015 | 397,500 | 15.90 | (176,500) | 15.78 | (12,000) | 15.90 | 209,000 | 15.60 |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

As of December 31, 2022, the valid and outstanding employee stock option plans are as following:

| Plan | Number of Options | Valid Period | Vesting Terms |
|---------------------------------|-------------------|--------------|---|
| 2006 employee stock option plan | 12,600,000 | 10 years | (1) A certain percentages of the options defined in the plan are vested and exercisable after the first year, or (2) according to the achievement level of the performance target defined in advance. |
| 2015 employee stock option plan | 2,800,000 | 10 years | (1) A certain percentage of the options defined in the plan are vested and exercisable after the second year. |

For the subsequent changes in the Company's ordinary share capital, such as issuance of shares in cash, from earnings and capital surplus, consolidation, spin-off, share split, issuance of global depository receipts, and decrease in ordinary shares which is not resulted from treasury share retired, the exercise price and the conversion ratio would be considered to adjust accordingly based on the plans.

b. Treasure stock transferred to employees

The Company acquired 4,000 thousand shares treasury stock for the years ended December 31, 2022. Information about treasury stock transferred to employee is 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 (Adjusted) |
| The 5th treasure stock transferred to employee program | 2018/8/23 | 7,689 | 7,206 | (473) | (10) | 32.93 (Adjusted) |
| The 6th treasure stock transferred to employee program | 2022/2/23 | 4,000 | 2,455 | - | - | 126.91 |

Information about treasury stock transferred to employee for the years ended December 31, 2022 is as follows:

| The 4th treasury stock transferred to employee program | | | The 5th treasury stock transferred to employee 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 | 181.40 | 2019/11/08 | 60 | - |
| | | | 2020/03/20 | 1,399 | 3.70 |
| | | | 2020/11/16 | 434 | 1.90 |
| | | | 2021/04/07 | 572 | 181.20 |
| | | | 2021/07/29 | 90 | 242.20 |
| Total | <u>7,952</u> | | Total | <u>7,206</u> | |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

| The 6th treasury stock transferred to employee program | | |
|--|-----------------------------------|---|
| Employee subscription base date | Shares transferred (In Thousands) | The fair value of the right to subscribe (NT\$) |
| 2022/06/21 | 2,315 | \$ - |
| 2022/11/11 | 140 | - |
| Total | <u>2,455</u> | |

The limitations and rights on the unvested shares were as follows;

- 1) The employees cannot sell, pledge, transfer, donate, or dispose these shares.
- 2) The Company and the employees should enter into a trust agreement with a trust and custodian institution and authorize the institution to exercise the shareholders' rights including but not limited to attendance, proposing, speaking and voting in the shareholder meetings.

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 follows:

| Grant date | Fair value per share (in dollar) | Actual shares of issued (in thousand) |
|------------|----------------------------------|---------------------------------------|
| 2021/04/07 | \$ 205 | 5,749 |
| 2021/07/29 | 265 | 236 |

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:

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

The constraints of restricted stock are as follows:

- a. Employees are restricted to sell, pledge, transfer, and give to another, create any encumbrance on, or otherwise dispose of, any shares before vested.
- b. The rights of restricted stock are same as ordinary share including attendance, propose, speak, voting right and so on at the Company's shareholders' meeting. The exercise of such rights shall be performed in accordance with the trust agreement or the securities custodies by the Company's prescribed.
- 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's 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 years ended December 31, 2022 and 2021 are as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2022 | 2021 |
| Shares buyback programs | \$ 46,258 | \$ 66,351 |
| Restricted stock for employees | <u>398,351</u> | <u>331,835</u> |
| | <u>\$ 444,609</u> | <u>\$ 398,186</u> |
| Adjustment account: | | |
| Capital surplus - employee stock options | \$ 46,258 | \$ 66,351 |
| Other equity - unearned employee compensation | <u>398,351</u> | <u>331,835</u> |
| | <u>\$ 444,609</u> | <u>\$ 398,186</u> |

28. 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 December, 2023. 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 NT\$8,596 thousand and NT\$21,135 thousand as of December 31, 2022 and 2021.

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

| | For the Year Ended December 31 | |
|---------------|---------------------------------------|------------------|
| | 2022 | 2021 |
| Lease payment | <u>\$ 24,586</u> | <u>\$ 34,633</u> |

29. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity. The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stockholders through the optimization of the debt and equity balance.

To define the strategy of the Group's capital structure, the Group first sets its target market share according to the industry scale, the growth of the industry and the product roadmap. Based on the projected market position, the Group plans the research and development investment and capital expenditure. Furthermore, the Group calculates working capitals and cash demands based on the long-term development plan considering the industry characteristics to build up the overall operating model. Finally, the Group evaluates not only the possible contribution margin, operating profit ratio and cash flows according to the product competitiveness but also risk factors such as the fluctuation of the business circle and the life circle of the product to decide the suitable capital structure. The management reviews capital structures periodically and considers the possible costs and risks of different capital structures. Generally, the Group adopted prudent capital management strategy.

The Group was not restricted to other external capital requirements.

30. 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

December 31, 2022

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Financial assets at FVTPL | | | | |
| Listed preferred shares | \$ 147,391 | \$ - | \$ - | \$ 147,391 |
| Private funds | - | - | 207,977 | 207,977 |
| Structured Investments | - | 111,775 | - | 111,775 |
| Total | <u>\$ 147,391</u> | <u>\$ 111,775</u> | <u>\$ 207,977</u> | <u>\$ 467,143</u> |
| Financial assets at FVTOCI | | | | |
| Investments in debt instruments | | | | |
| Fixed income bonds | <u>\$ -</u> | <u>\$ 179,137</u> | <u>\$ -</u> | <u>\$ 179,137</u> |

December 31, 2021

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Financial assets at FVTPL | | | | |
| Listed preferred shares | \$ 271,019 | \$ - | \$ - | \$ 271,019 |
| Private funds | - | - | 156,075 | 156,075 |
| Structured Investments | - | 104,903 | - | 104,903 |
| Total | <u>\$ 271,019</u> | <u>\$ 104,903</u> | <u>\$ 156,075</u> | <u>\$ 531,997</u> |
| Financial assets at FVTOCI | | | | |
| Investments in debt instruments | | | | |
| Fixed income bonds | <u>\$ -</u> | <u>\$ 233,994</u> | <u>\$ -</u> | <u>\$ 233,994</u> |

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and 2021.

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

| <u>Financial assets at FVTPL</u> | <u>For the Years Ended December 31</u> | |
|---|--|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Balance, beginning of period | \$ 156,075 | \$ 52,579 |
| Purchases | 45,778 | 100,554 |
| Disposals | (2,345) | (750) |
| Recognized in profit or loss (other income or loss) | 5,778 | 4,428 |
| Effect of foreign currency exchange differences | <u>2,691</u> | <u>(736)</u> |
| Balance, end of period | <u>\$ 207,977</u> | <u>\$ 156,075</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.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

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

| | December 31 | |
|---|--------------------|-------------|
| | 2022 | 2021 |
| <u>Financial assets</u> | | |
| Fair value through profit or loss (FVTPL) | | |
| Mandatorily at FVTPL | \$ 467,143 | \$ 531,997 |
| Amortized cost (Note 1) | 9,994,879 | 16,433,676 |
| Financial assets at FVTOCI | | |
| Investments in debt instruments | 179,137 | 233,994 |
| <u>Financial liabilities</u> | | |
| Amortized cost (Note 2) | 11,010,267 | 9,703,183 |

1) The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, accounts receivables, other financial assets and refundable deposits.

2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payables, other payables, current position of long-term borrowings, long-term borrowings and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, accounts receivable, other financial assets, financial assets at FVTPL, financial assets at FVTOCI, accounts payables 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 operates 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.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

1) Market risk

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

a) Foreign currency 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 34.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar. The following table details the Group's sensitivity to a 5% increase and decrease 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 Years Ended December 31 | |
| | 2022 | 2021 |
| Profit or loss/ equity | <u>\$ 52,159</u> (i) | <u>\$ 271,944</u> (i) |

i. This was mainly attributable to the outstanding balances of USD time deposits, accounts receivables, bank loans, accounts payables, other payables, other current assets, refundable deposit, other current liabilities and guarantee deposits received.

b) Interest rate risk

The Group was exposed to interest rate risk primarily related to its investments in fixed-rate time deposits, bonds, current position of long-term borrowings, borrowings, floating-rate demand deposits, structured investments and short-term borrowings. 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:

| | December 31 | |
|-------------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Fair value interest rate risk | | |
| Financial assets | <u>\$ 4,500,360</u> | <u>\$ 6,405,608</u> |
| Financial liabilities | <u>\$ 3,070,806</u> | <u>\$ 1,088,552</u> |
| Cash flow interest rate risk | | |
| Financial assets | <u>\$ 1,963,302</u> | <u>\$ 4,241,431</u> |
| Financial liabilities | <u>\$ 986,840</u> | <u>\$ 786,840</u> |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

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 personnel 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 years ended December 31, 2022 and 2021 would increase/ decrease by NT\$2,441 thousand and NT\$8,636 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 accounts receivables mainly came from its top 5 customers. Ongoing credit evaluation of the financial condition of the customers is performed.

As of December 31, 2022, accounts receivables from top 5 customers represented 55% of total accounts receivables. The credit concentration risk of other accounts 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 institute. 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:

| <u>Category</u> | <u>Description</u> | <u>Basis for Recognizing Expected Credit Loss</u> | <u>Expected Credit Loss Ratio</u> | <u>Carrying Amount as of December 31, 2022</u> |
|-----------------|--|---|---|--|
| Performing | The debtor with low credit risk and fully capable of paying off contractual cash flows | 12 months expected credit loss | 0% | <u>\$ 179,137</u> |

| <u>Category</u> | <u>Description</u> | <u>Basis for Recognizing Expected Credit Loss</u> | <u>Expected Credit Loss Ratio</u> | <u>Carrying Amount as of December 31, 2021</u> |
|-----------------|--|---|---|--|
| Performing | The debtor with low credit risk and fully capable of paying off contractual cash flows | 12 months expected credit loss | 0% | <u>\$ 233,994</u> |

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. The Company relies on bank borrowings as a significant source of liquidity.

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.

December 31, 2022

| | <u>On Demand or Less than 1 Year</u> | <u>1-5 Years</u> | <u>More than 5 Years</u> |
|------------------------------------|--|---------------------|------------------------------|
| Non-interest bearing | \$ 2,581,919 | \$ 4,369,353 | \$ - |
| Fixed interest rate liabilities | 3,072,155 | - | - |
| Floating interest rate liabilities | <u>25,000</u> | <u>395,556</u> | <u>566,284</u> |
| | <u>\$ 5,679,074</u> | <u>\$ 4,764,909</u> | <u>\$ 566,284</u> |

December 31, 2021

| | <u>On Demand or Less than 1 Year</u> | <u>1-5 Years</u> | <u>More than 5 Years</u> |
|------------------------------------|--|---------------------|------------------------------|
| Non-interest bearing | \$ 4,216,894 | \$ 4,397,513 | \$ - |
| Fixed interest rate liabilities | 301,936 | - | - |
| Floating interest rate liabilities | <u>-</u> | <u>155,832</u> | <u>631,008</u> |
| | <u>\$ 4,518,830</u> | <u>\$ 4,553,345</u> | <u>\$ 631,008</u> |

31. 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 Year Ended December 31 | |
|------------------------------|---------------------------------------|------------------|
| | 2022 | 2021 |
| Long-term employee benefits | \$ 41,727 | \$ 11,548 |
| Short-term employee benefits | 49,806 | 109,734 |
| Post-employment benefits | 378 | 488 |
| Share-based payments | <u>68,554</u> | <u>48,275</u> |
| | <u>\$160,465</u> | <u>\$170,045</u> |

32. PLEDGED ASSETS

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

| | December 31 | |
|---|--------------------|------------------|
| | 2022 | 2021 |
| Properties, plants and equipment – Net of buildings | \$ 495,182 | \$ 510,257 |
| Properties, plants and equipment – Land | 557,110 | - |
| Properties, plants and equipment – Construction in progress | - | 1,071,400 |
| Pledge deposits (categorized in other non-current assets) | <u>4,000</u> | <u>4,000</u> |
| | <u>1,056,292</u> | <u>1,585,657</u> |

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

NOVATEK MICROELECTRONICS CORP. (“NOVATEK”) filed five patent infringement actions with Intellectual Property and Commercial Court on August 9, 2021, asking the court to prohibit the Company from manufacturing, offering for sale, selling, utilizing or importing, for the aforementioned purposes, products infringing on such patents and asking for indemnification for any losses. The Claims were dismissed by the Intellectual Property and Commercial Court on February 18, 2023.

34. 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 are as follows:

December 31, 2022

| | Foreign Currencies (thousand) | Exchange Rate | NT\$(thousand) |
|------------------------------|--|----------------------|-----------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 219,107 | 30.71 (USD:NTD) | \$ 6,728,783 |
| USD | 16,780 | 6.9646 (USD:RMB) | 515,311 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 183,023 | 30.71 (USD:NTD) | 5,620,630 |
| USD | 18,896 | 6.9646 (USD:RMB) | 580,291 |

December 31, 2021

| | Foreign Currencies (thousand) | Exchange Rate | NT\$(thousand) |
|------------------------------|--|----------------------|-----------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 494,679 | 27.68(USD:NTD) | \$ 13,692,701 |
| USD | 16,817 | 6.3757 (USD:RMB) | 465,507 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 279,278 | 27.68 (USD:NTD) | 7,730,402 |
| USD | 35,727 | 6.3757 (USD:RMB) | 988,917 |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

35. ADDITIONAL DISCLOSURES

- (1) Information about significant transactions and investees:
- a. Financings provided to others: See Table 1 attached;
 - b. Endorsement/guarantee provided: See Table 2 attached;
 - c. Marketable securities held (excluding investments in subsidiaries and associates): See Table 3 attached;
 - d. Marketable securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital: None;
 - e. Acquisition of individual real estate property at costs of at least NT\$300 million or 20% of the paid-in capital: None;
 - f. Disposal of individual real estate property at prices of at least NT\$300 million or 20% of the paid-in capital: None;
 - g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None;
 - h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
 - i. Information about the derivative financial instruments transaction: None;
 - j. Others: The business relationship between the parent and the subsidiaries and significant transactions between them: See Table 4 attached;
- (2) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in mainland China): See Table 5 attached;
- (3) Information on investment in Mainland China:
- a. The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: See Table 6 attached.
 - b. Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: See Table 4 attached.
- (4) Information of major shareholders
List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder: None.

36. SEGMENT INFORMATION

a. Operating segments

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-Machine Interface solutions related IC under a single operation unit. Thus, the information of separate operating segments is not applicable.

b. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

| | For the Year Ended December 31 | |
|--|---------------------------------------|----------------------|
| | 2022 | 2021 |
| IC for Human-Machine Interface Solutions | <u>\$ 12,949,902</u> | <u>\$ 21,991,497</u> |

c. Geographical information

The Group operates in two principal geographical areas China and Taiwan.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

| | Revenue from External Customers | | Non-current Assets | |
|--------|--|----------------------|---------------------------|---------------------|
| | For the Year Ended December 31 | | December 31 | |
| | 2022 | 2021 | 2022 | 2021 |
| China | \$ 10,253,909 | \$ 18,929,282 | \$ 1,236,577 | \$ 1,256,858 |
| Taiwan | 2,183,728 | 2,856,250 | 3,992,654 | 4,100,720 |
| Others | <u>512,265</u> | <u>205,965</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 12,949,902</u> | <u>\$ 21,991,497</u> | <u>\$ 5,229,231</u> | <u>\$ 5,357,578</u> |

The Group's revenue was classified by location of receivable. Non-current assets which comprise property, plant and equipment, other intangible assets and guarantee deposits, exclude Measured at fair value through other comprehensive income-financial assets, financial assets at fair value through profit, goodwill, deferred tax assets and other non-current assets.

d. Information about major customers

Single customers contributed 10% or more to the Group's revenue were as follows:

| | For the Year Ended December 31 | | | |
|---------------------------|---------------------------------------|-------------------|---------------------|-------------------|
| | 2022 | | 2021 | |
| | Sales amount | Percentage | Sales amount | Percentage |
| Custom A and subsidiaries | \$ NA(Note) | NA | \$ 2,943,186 | 13 |
| Custom B and subsidiaries | 1,999,825 | 15 | NA(Note) | NA |
| Custom C and subsidiaries | 1,352,962 | 10 | NA(Note) | NA |
| Custom D and subsidiaries | 1,304,137 | 10 | 2,328,269 | 11 |
| Custom E and subsidiaries | NA(Note) | NA | 2,859,803 | 13 |

Note: The sale amount is under 10% of the Group's revenue.

FocalTech Systems Co., Ltd. and Subsidiaries
FINANCINGS PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2022
(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| No (Note 1) | Financing Company | Counterparty | Financial Statement Account | Related Party | Maximum Balance for the Period (Note 4) | Ending Balance (Note 4) | Amount Actually Drawn (Note 4) | Interest Rate | Nature for Financing | Transaction Amounts | Reason for Financing | Allowance for Bad Debt | Collateral | | Financing Limits for Each Borrowing Company (Note 2) | Financing Company's Total Financing Amount Limits (Note 2) | Note |
|----------------|-----------------------------------|---|--|------------------|--|-------------------------------|--------------------------------------|------------------|---------------------------------------|------------------------|-------------------------|---------------------------|------------|-------|--|--|--------|
| | | | | | | | | | | | | | Item | Value | | | |
| 1 | FocalTech Systems, Ltd. | FocalTech Systems Co., Ltd. | Other receivables from related parties | Yes | \$ 1,842,600 (USD 60,000) | \$ 1,842,600 (USD 60,000) | \$ - | - | The need for short- term financing | \$ - | Operating capital | \$ - | - | - | \$ 2,071,047 | \$ 2,071,047 | Note 3 |
| 1 | FocalTech Systems, Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | Other receivables from related parties | Yes | 307,100 (USD 10,000) | 307,100 (USD 10,000) | - | - | The need for short- term financing | - | Operating capital | - | - | - | 2,071,047 | 2,071,047 | Note 3 |
| 2 | FocalTech Electronics, Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | Other receivables from related parties | Yes | 767,750 (USD 25,000) | 767,750 (USD 25,000) | - | - | The need for short- term financing | - | Operating capital | - | - | - | 1,496,253 | 1,496,253 | Note 3 |

Note 1: The parent company and its subsidiaries are coded as follows:

- 1) The parent company is coded "0".
- 2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The lending limits:

- 1) The total amount available for lending purpose shall not exceed 20% of the net worth of the Company.
- 2) The lending limits for any borrowers are set forth as below:
 - A. The total amount for lending to a company having a business relationship with the company shall not exceed the total transaction amount between the parties during the period of twelve months prior to the time of lending (the transaction amount shall mean the sales or purchasing amount between the parties, whichever is higher), and shall not exceed 20% of the net worth of the financing company or 30% of the net worth of the counterparty, whichever is lower.
 - B. The total amount for lending to a company in need of funds for a short-term period shall not exceed 20% of the net worth of the financing company. The lending limits for any borrower shall not exceed 10% of the net worth of the creditor or 30% of the net worth of the borrower, whichever is lower.
- 3) For financing needs between offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, or financing needs to the Company by offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, the total amount for such fund-lending shall not be subject to the limit of 100% of the net worth of the creditor
- 4) Where the Company's financial reports are prepared in accordance with the International Financial Reporting Standards, "net worth" in the Procedures means the equity attributable to shareholders of the parent in the balance sheet.

Note 3: The balances have been eliminated on consolidation.

Note 4: Using the exchange rate of 1 USD: 30.71 NTD as of December 31, 2022.

TABLE 2

FocalTech Systems Co., Ltd. and Subsidiaries
ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| No. (Note1) | Endorsement/ Guarantee Provider | Guaranteed Party | | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2) | Maximum Balance for the Period (Note 5) | Ending Balance (Note 5) | Amount Actually Drawn | Amount of Endorsement/ Guarantee Collateralized by Property | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements(%) | Maximum Endorsement/ Guarantee Amount Allowable (Note 2) | Guarantee Provided by Parent Company | Guarantee Provided by A Subsidiary | Guarantee Provided to Subsidiaries in Mainland China | Note |
|----------------|--|---|--|---|---|--------------------------------|--------------------------|---|--|---|---|--|--|-------------------|
| | | Name | Nature of Relationship | | | | | | | | | | | |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Systems, Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company. | \$ 4,415,715 | \$ 1,381,950 (USD 45,000) | \$ 1,381,950 (USD 45,000) | \$ - | \$ - | 15.65% | \$ 4,415,715 | Yes | No | No | (Note 3) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Electronics, Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company. | 4,415,715 | 1,400,507 (USD 45,604) | 1,400,507 (USD 45,604) | - | - | 15.86% | 4,415,715 | Yes | No | No | (Note 3) |
| 0 | FocalTech Systems Co., Ltd. | Hefei PineTech Electronics Co., Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company. | 4,415,715 | 1,750,470 (USD 57,000) | 1,750,470 (USD 57,000) | 63,549 | - | 19.82% | 4,415,715 | Yes | No | Yes | (Note 3 and 5) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company. | 4,415,715 | 2,118,990 (USD 69,000) | 2,118,990 (USD 69,000) | 19,571 | - | 23.99% | 4,415,715 | Yes | No | Yes | (Note 3 and 5) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Smart Sensors Co., Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company. | 4,415,715 | 107,485 (USD 3,500) | 107,485 (USD 3,500) | - | - | 1.22% | 4,415,715 | Yes | No | No | (Note 4) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Smart Sensors, Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company. | 4,415,715 | 107,485 (USD 3,500) | 107,485 (USD 3,500) | - | - | 1.22% | 4,415,715 | Yes | No | No | (Note 4) |
| 1 | FocalTech Systems (Shenzhen) Co., Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | The endorser/ guarantor parent company owns directly and indirectly 100% voting shares of the endorsed/guaranteed company. | 829,582 | 440,940 (CNY 100,000) | - | - | - | - | 829,582 | No | No | Yes | - |

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transaction

1) 0 for parent company.

2) Subsidiaries are given a number in sequence starting with No. 1.

Note 2: Limits on Endorsement/ Guarantee Amount

1) The ceilings on the amount of endorsements/guarantees due to business transaction are as below:

2) The total amount of endorsements/guarantees and the amount of endorsements/guarantees for any single entity shall not exceed 50% of the net worth of the Company.

3) The total amount of endorsements/guarantees between the Company owns directly or indirectly 100% voting shares shall not exceed 100% of the net worth of the Company.

4) The total amount of endorsement/guarantee provided by the Company or by the Company and its subsidiaries shall not exceed 50% of the net worth of the Company. The total amount of the endorsement/guarantee provided by the Company and the subsidiaries to any individual entity shall not exceed 50% of the net worth of the Company.

5) The net worth referred to above are based on the latest reviewed financial statements. Where the Company's financial reports are prepared in accordance with the International Financial Reporting Standards, "net worth" in the Procedures means the equity attributable to shareholders of the parent in the balance sheet.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

TABLE 2

Note 3: FocalTech Systems Co., Ltd. provided USD 45,000 thousand of endorsements/guarantees for FocalTech Electronics Ltd., FocalTech Systems, Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$0, NT\$0, NT\$0, and NT\$ 19,164 thousand respectively.

Note 4: FocalTech Systems Co., Ltd. provided USD 3,500 thousand of endorsements/guarantees for FocalTech Smart Sensors Ltd. and FocalTech Smart Sensors Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 5: FocalTech Systems Co., Ltd. provided USD 5,000 thousand of endorsements/guarantees for Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 6: Using the exchange rate of 1 USD: 30.71 NTD and 1 RMB: 4.4094 NTD as of December 31, 2022.

TABLE 3

FocalTech Systems Co., Ltd. and Subsidiaries
 MARKETABLE SECURITIES HELD
 DECEMBER 31, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2022 | | | | Note |
|-----------------------------|---|-------------------------------|---|-------------------|-----------------------------|-----------------------------|-----------------------------|------|
| | | | | Shares/Units | Carrying Value | Percentage of Ownership (%) | Fair Value | |
| FocalTech Systems Co., Ltd. | <u>Stock</u> | | | | | | | |
| | Class B Preferred Stock of Fubon Financial Holding Co., Ltd. | - | Financial assets at fair value through profit or loss - non current | 170,000 | NT\$ 9,775 | 0.03 | NT\$ 9,775 | |
| | Class A Preferred Stock of WT Microelectronics Co., Ltd. | - | " | 2,882,000 | NT\$ 137,616 | 2.13 | NT\$ 137,616 | |
| | <u>Privately Offered Fund</u> | | | | | | | |
| | CDIB Capital Healthcare Ventures II Limited Partnership | - | Financial assets at fair value through profit or loss - non current | - | NT\$ 23,926 | 0.96 | NT\$ 23,926 | |
| | CDIB Capital Growth Partners L.P. | - | " | - | NT\$ 30,202 | 0.66 | NT\$ 30,202 | |
| | CDIB-Innolux Limited Partnership | - | " | - | NT\$ 36,457 | 4.37 | NT\$ 36,457 | |
| FocalTech Systems, Ltd. | Cathay Private Equity Smart Tech Limited Partnership | - | " | - | NT\$ 87,484 | 24.59 | NT\$ 87,484 | |
| | <u>Structured product</u> | | | | | | | |
| | CLN Link HSBC SUB | - | Financial assets at fair value through profit or loss - non current | - | NT\$ 55,643 (USD 1,812) | | NT\$ 55,643 (USD 1,812) | |
| | CLN Link Barclays SUB | - | " | - | NT\$ 56,132 (USD 1,828) | | NT\$ 56,132 (USD 1,828) | |
| | <u>Fixed income bond</u> | | | | | | | |
| | Bank of China Limited Maturity Date : November 13, 2024 | - | Financial assets at fair value through other comprehensive income - non current | - | NT\$ 129,565 (USD 4,219) | | NT\$ 129,565 (USD 4,219) | |
| FocalTech Electronics, Ltd. | Industrial and Commercial Bank of China Limited Maturity Date : September 21, 2025 | - | " | - | NT\$ 49,572 (USD 1,614) | | NT\$ 49,572 (USD 1,614) | |
| | <u>Privately Offered Fund</u> | | | | | | | |
| | TIEF Fund, L.P. | - | Financial assets at fair value through profit or loss - non current | - | NT\$ 29,908 (USD 974) | 4.83 | NT\$ 29,908 (USD 974) | |

Note 1 : The percentage of ownership for preferred stock is the held shares divided by the number of outstanding shares.

Note 2 : Using the exchange rate of 1 USD: 30.71 NTD as of December 31, 2022.

TABLE 4

FocalTech Systems Co., Ltd. and Subsidiaries
 INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2022
 (Amount in Thousands of New Taiwan Dollars)

| No. (Note 1) | Company Name | Counterparty | Nature of Relationship (Note 3) | Intercompany Transactions | | | |
|-----------------|--|--|------------------------------------|-----------------------------------|--------------------|--------|---|
| | | | | Financial Statements Item | Amount (Note 4) | Terms | Percentage of Consolidated Net Revenue or Total Assets |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Electronics, Ltd. | 1 | Accounts Payables | \$ 581,936 | Note 2 | 2.8% |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | 1 | Cost of revenue | 10,290 | Note 2 | 0.08% |
| 1 | FocalTech Electronics, Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | 2 | Other Receivables | 87,031 | Note 2 | 0.42% |
| 2 | FocalTech Systems, Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | 2 | Other Receivables | 309,211 | Note 2 | 1.49% |
| 3 | FocalTech Electronics (Shenzhen) Co., Ltd. | Hefei PineTech Electronics Co., Ltd. | 2 | Accounts Payables | 286,093 | Note 2 | 1.38% |
| | | | 2 | Research and development expenses | 87,647 | Note 2 | 0.68% |
| 3 | FocalTech Electronics (Shenzhen) Co., Ltd. | FocalTech Systems (Shenzhen) Co., Ltd. | 2 | Other Prepayment | 335,134 | Note 2 | 1.61% |
| | | | 2 | Research and development expenses | 176,239 | Note 2 | 1.36% |
| 3 | FocalTech Electronics (Shenzhen) Co., Ltd. | FocalTech Electronics (Shanghai) Co., Ltd. | 2 | Other Payables | 27,494 | Note 2 | 0.13% |
| | | | 2 | Selling and marketing expenses | 102,359 | Note 2 | 0.79% |
| 4 | FocalTech Smart Sensors, Ltd. | FocalTech Smart Sensors Co., Ltd. | 2 | Research and development expenses | 361,397 | Note 2 | 2.79% |
| 5 | FocalTech Systems, Inc. | FocalTech Systems, Ltd. | 2 | Service revenue | 25,334 | Note 2 | 0.2% |

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transaction

1) 0 for parent company.

2) Subsidiaries are given a number in sequence starting with No. 1.

Note 2: The services of production management, sales, research and development are provided between the Company and its subsidiaries. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

Note 3: The transaction relationships with the counterparties are as follows:

1) The Company to the consolidated subsidiary.

2) The consolidated subsidiary to another consolidated subsidiary.

Note 4: Balances, transactions, revenue and expenses between the Company and its subsidiaries have been eliminated on consolidation.

TABLE 5

FocalTech Systems Co., Ltd. and Subsidiaries

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)

(Note 1)

FOR THE YEAR ENDED DECEMBER 31, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2022 | | | Net Income (Losses) of the Investee (Note 4) | Share of Profits/Losses of Investee (Note 4) | Note |
|---------------------------------|-----------------------------------|----------------|--|----------------------------------|----------------------------------|---------------------------------|-------------------------|---------------------------------|--|--|---------------|
| | | | | December 31,2022 (Note 2) | December 31,2021 (Note 3) | Shares | Percentage of Ownership | Carrying Value (Note 2) | | | |
| FocalTech Systems Co., Ltd. | FocalTech Corporation, Ltd. | Cayman Islands | Investment activity | NT\$ 7,059,264 | NT\$ 7,059,264 | 5,491,200 | 100% | NT\$ 2,194,116 (USD 71,446) | (NT\$ 638,033) (USD 21,407) | (NT\$ 638,033) (USD 21,407) | Subsidiary |
| FocalTech Systems Co., Ltd. | FocalTech Electronics, Ltd. | Cayman Islands | Investment activity | NT\$ 3,071 (USD 100) | NT\$ 2,768 (USD 100) | 2 | 100% | NT\$ 1,496,253 (USD 48,722) | (NT\$ 151,395) (USD 5,080) | (NT\$ 151,395) (USD 5,080) | Subsidiary |
| FocalTech Systems Co., Ltd. | FocalTech Smart Sensors, Ltd. | Cayman Islands | Investment activity | NT\$ 85,350 | NT\$ 85,350 | 3,000,000 | 9.14% | NT\$ 4,039 (USD 132) | (NT\$ 50,241) (USD 1,686) | (NT\$ 4,592) (USD 154) | Subsidiary |
| FocalTech Systems Co., Ltd. | Vitrio Technology Corporation | Taiwan | Research, development, manufacturing and sale of integrated circuits | NT\$ 4,970 | NT\$ 4,970 | 142,000 | 50% | NT\$ - | (NT\$ 491) | NT\$ - | Joint Venture |
| FocalTech Electronics Co., Ltd. | FocalTech Smart Sensors, Ltd. | Cayman Islands | Investment activity | NT\$ 238,821 | NT\$ 238,821 | 18,813,050 | 57.31% | NT\$ 25,330 (USD 825) | (NT\$ 50,241) (USD 1,686) | (NT\$ 28,793) (USD 966) | Subsidiary |
| FocalTech Smart Sensors, Ltd. | FocalTech Smart Sensors Co., Ltd. | Taiwan | Research, development, manufacturing and sale of integrated circuits | NT\$ 11,990 | NT\$ 11,990 | 17,417,000 | 100% | NT\$ 21,690 | NT\$ 311,039 | NT\$ 311,039 | Subsidiary |
| FocalTech Corporation, Ltd. | FocalTech Systems, Inc. | U.S.A | Investment activity | NT\$ 3,141,414 (USD 102,293) | NT\$ 2,831,466 (USD 102,293) | 100 | 100% | NT\$ 1,999,406 (USD 65,106) | (NT\$ 631,856) (USD 21,200) | (NT\$ 631,856) (USD 21,200) | Subsidiary |
| FocalTech Systems, Inc. | FocalTech Systems, Ltd. | Cayman Islands | Investment activity | NT\$ 717,080 (USD 23,350) | NT\$ 646,330 (USD 23,350) | 2 | 100% | NT\$ 2,071,047 (USD 67,439) | (NT\$ 638,826) (USD 21,434) | (NT\$ 638,826) (USD 21,434) | Subsidiary |
| FocalTech Systems, Ltd. | FocalTech Electronics Co., Ltd. | Taiwan | Import and export of integrated circuits | NT\$ 20,000 | NT\$ 20,000 | 2,000,000 | 100% | NT\$ 107,257 (USD 3,493) | (NT\$ 19,079) (USD 640) | (NT\$ 19,079) (USD 640) | Subsidiary |

Note 1: Please refer to the table 6 for the information on investment in Mainland China.

Note 2: Using the exchange rate of 1 USD: 30.71 NTD as of December 31, 2022.

Note 3: Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

Note 4: Using the average exchange rate of 1 USD: 29.8045 NTD for the year ended December 31, 2022.

TABLE 6

FocalTech Systems Co., Ltd. and Subsidiaries
 INFORMATION ON INVESTMENT IN MAINLAND CHINA
 FOR THE YEAR ENDED DECEMBER 31, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| Investee company | Main businesses and products | Total amount of paid-in capital (Note 1) | Method of investment | Accumulated outflow of investment from Taiwan as of January 1, 2022 (Note 1) | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2022 (Note 1) | Net income (loss) of investee company (Note 2) | Percentage of ownership | Investment income (loss) recognized (Note 2) | Carrying amount as of December 31, 2022 (Note 1) | Accumulated inward remittance of earnings as of December 31, 2022 | Note |
|--|--|--|----------------------|--|------------------|--------|--|--|-------------------------|--|--|---|------|
| | | | | | Outflow | Inflow | | | | | | | |
| FocalTech Electronics (Shanghai) Co., Ltd. | Sales support and post-sales service for affiliates' IC products | NT\$ 61,420 (USD 2,000) | (Note 3 and 4) | NT\$ 30,710 (USD 1,000) | \$ - | \$ - | NT\$ 30,710 (USD 1,000) | NT\$ 4,458 (USD 150) | 100% | NT\$ 4,458 (USD 150) | NT\$ 34,419 (USD 1,121) | \$ - | - |
| FocalTech Electronics (Shenzhen) Co., Ltd. | Research, development, manufacturing and sale of integrated circuits | NT\$ 285,603 (USD 9,300) | (Note 3) | NT\$ 30,710 (USD 1,000) | - | - | NT\$ 30,710 (USD 1,000) | NT\$ 3,140 (USD 105) | 100% | NT\$ 3,140 (USD 105) | NT\$ 467,913 (USD 15,237) | - | - |
| FocalTech Systems (Shenzhen) Co., Ltd. | Design and research of integrated circuits | NT\$ 1,136,275 (USD 37,000) | (Note 4) | - | - | - | - | (NT\$ 579,627) (USD 19,448) | 100% | (NT\$ 579,627) (USD 19,448) | NT\$ 829,582 (USD 27,013) | - | - |
| Hefei PineTech Electronics Co., Ltd. | Research, development and sale of integrated circuits | NT\$ 132,282 (RMB 30,000) | (Note 4) | - | - | - | - | NT\$ 15,375 (USD 516) | 100% | NT\$ 15,375 (USD 516) | NT\$ 248,231 (USD 8,083) | - | - |

| Accumulated Investment in Mainland China as of December 31, 2022 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| \$61,420 (USD2,000) | \$1,856,945 (USD60,467) | \$5,298,858 |

Note 1: Using the exchange rate of 1 USD: 30.71 NTD and 1 RMB :4.4094 NTD as of December 31, 2022.

Note 2: Using the average exchange rate of 1 USD: 29.8045 NTD and 1 RMB :4.4347 NTD for year ended December 31, 2022.

Note 3: Indirect investment in Mainland China through a holding company established in other countries.

Note 4: The investment is through the foreign subsidiaries, has not been remitted from Taiwan.

Attachment 2

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Sales Revenue

The sales revenue of Integrated Driver Controller is the main indicator of financial and business performance evaluated by investors and the management. It possibly exists the pressure to achieve the financial target, and it might result in the risk of the occurrence of sales revenue. Therefore, the sales revenue of Integrated Driver Controller is considered as a key audit matter for the financial year ended December 31, 2022.

Refer to Notes 4 and 22 for the accounting policy, accounting estimation and disclosure information.

Our audit procedures related to the abovementioned Key Audit Matters included the following:

1. We evaluated the design of internal control related to sales and collection cycle and the implement of the internal control.
2. We obtained customer ranking list in 2022, and analyze the differences of customers and its sales amount.
3. We analyzed if the sales quantities, sales revenue and gross margin by products existed material exception.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

4. We sampled purchase orders, shipping documents bills of lading, and collection records in revenue breakdown to ensure the occurrence of sales revenue.

Valuation of Inventory

Due to high market demand fluctuation and rapid technological development, the inventories may turn obsolete or have a lower net realizable value which may result in inventories being impaired. The Company has performed impairment assessment on inventories through evaluation of aging and net realizable value of inventories quarterly. The management has practiced their professional judgement in estimating the possible loss on impairment based on the sales performance of each product. Therefore, inventory valuation is considered as a key audit matter for the financial year ended December 31, 2022.

Refer to Notes 4 and 11 for the accounting policy, accounting estimation and disclosure information.

Our audit procedures related to the abovementioned Key Audit Matters included the following:

1. We obtained an understanding of the Company's accounting policies and procedures on the assessment of impairment through analyzing the net realizable value calculation report and inventory aging report prepared by the management. We have inspected the supporting documents of recent selling price, and re-calculated the net realizable value of inventory to ensure its accuracy and reasonableness of the management's estimation on impairment loss.
2. We obtained an understanding of the Company's judgement on the estimation of impairment loss for obsolete items information and discussed recent sales performance and the reasonableness on the estimates of inventory devaluation in the future. We also performed inspection on recent sales to evaluate the reasonableness of the impairment loss provided on obsolete stock.

Responsibilities of Corporate Management and Governance Hierarchy For the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, (including members of the Audit Committee) is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of 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 financial statements.

As part of an audit in accordance with the Standards on Auditing of 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 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 Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Yu-Hong Kuo and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 23, 2023

FOCALTECH SYSTEMS CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars, Except Par Value)

| ASSETS | 2022 | | 2021 | |
|---|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Note 4 and 6) | \$ 3,113,907 | 17 | \$ 5,073,919 | 21 |
| Financial assets at fair value through profit or loss -current (Note 4 and 7) | - | - | 119,218 | 1 |
| Accounts receivables, net (Note 4 and 9) | 922,393 | 5 | 2,910,667 | 12 |
| Inventories (Note 4 and 10) | 4,109,927 | 23 | 2,654,159 | 11 |
| Other financial assets (Note 4 and 8) | 184,260 | 1 | 3,086,830 | 13 |
| Other current assets (Note 24 and 30) | 126,136 | 1 | 213,550 | 1 |
| Total current assets | 8,456,623 | 47 | 14,058,343 | 59 |
| NON-CURRENT ASSETS | | | | |
| Financial asset at fair value through profit or loss - non-current (Note 4 and 7) | 325,460 | 2 | 284,271 | 1 |
| Investments accounted for using equity method (Note 4 and 11) | 3,694,408 | 20 | 4,050,456 | 17 |
| Property, plant and equipment (Note 4 and 12) | 1,254,558 | 7 | 1,197,523 | 5 |
| Goodwill (Notes 4 and 13) | 1,237,268 | 7 | 1,237,268 | 6 |
| Other intangible assets (Notes 4 and 14) | 58,006 | - | 44,181 | - |
| Deferred income tax assets (Notes 4 and 24) | 301,072 | 2 | 4,857 | - |
| Refundable deposits(Notes 15) | 2,648,946 | 15 | 2,826,852 | 12 |
| Other non-current assets | 2,486 | - | - | - |
| Total non-current assets | 9,522,204 | 53 | 9,645,408 | 41 |
| TOTAL | \$ 17,978,827 | 100 | \$ 23,703,751 | 100 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 16) | \$ 1,400,000 | 8 | \$ - | - |
| Accounts payables (Note 17 and 30) | 1,225,732 | 7 | 2,824,379 | 12 |
| Other payables (Note 18) | 589,688 | 3 | 416,425 | 2 |
| Current tax liabilities (Note 4 and 24) | 327,127 | 2 | 1,366,072 | 6 |
| Current position of long-term borrowings (Note 16) | 25,000 | - | - | - |
| Other current liabilities(Note 22 and 30) | 44,756 | - | 211,959 | 1 |
| Total current liabilities | 3,612,303 | 20 | 4,818,835 | 21 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Note 16) | 961,840 | 6 | 786,400 | 3 |
| Deferred tax liabilities (Notes 4 and 24) | 216,757 | 1 | 51,584 | - |
| Net defined benefit liabilities - non-current (Notes 4 and 19) | 13,560 | - | 22,140 | - |
| Guarantee deposits received (Notes 20) | 4,342,936 | 24 | 4,388,290 | 19 |
| Other non-current liabilities | - | - | 10,400 | - |
| Total non-current liabilities | 5,535,093 | 31 | 5,259,254 | 22 |
| Total liabilities | 9,147,396 | 51 | 10,078,089 | 43 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 21 and 26) | | | | |
| Share capital | | | | |
| Ordinary shares | 2,161,107 | 12 | 2,162,367 | 9 |
| Capital surplus | | | | |
| Additional paid-in capital | 4,753,839 | 27 | 4,737,390 | 20 |
| Treasury shares | 125,381 | 1 | 79,917 | - |
| Employee share options | 62,305 | - | 65,873 | - |
| Restricted stock for employees | 1,066,015 | 6 | 1,145,555 | 5 |
| Employee share options - expired | 34,448 | - | 34,134 | - |
| Total capital surplus | 6,041,988 | 34 | 6,062,869 | 25 |
| Retained earnings | | | | |
| Legal reserve | 712,562 | 4 | 101,230 | - |
| Special reserve | 211,479 | 1 | 122,316 | 1 |
| Undistributed earnings | 196,847 | 1 | 6,202,079 | 26 |
| Total retained earnings | 1,120,888 | 6 | 6,425,625 | 27 |
| Other equity | (296,495) | (2) | (1,025,199) | (4) |
| Treasury shares | (196,057) | (1) | - | - |
| Total equity | 8,831,431 | 49 | 13,625,662 | 57 |
| TOTAL | \$ 17,978,827 | 100 | \$ 23,703,751 | 100 |

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

FOCALTECH SYSTEMS CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2022 | | 2021 | |
|---|--------------------|-------------|--------------------|-------------|
| | Amount | % | Amount | % |
| REVENUE (Note 4 and 22) | \$ 9,642,718 | 100 | \$ 18,335,785 | 100 |
| COSTS OF SALES (Notes 4,10, 23 and 30) | <u>(9,069,529)</u> | <u>(94)</u> | <u>(8,831,939)</u> | <u>(48)</u> |
| GROSS PROFIT | <u>573,189</u> | <u>6</u> | <u>9,503,846</u> | <u>52</u> |
| OPERATING EXPENSES (Notes 23, 26, 27 and 30) | | | | |
| Selling and marketing expenses | (197,124) | (2) | (199,670) | (1) |
| General and administrative expenses | (333,874) | (4) | (325,796) | (2) |
| Research and development expenses | <u>(1,571,102)</u> | <u>(16)</u> | <u>(1,247,606)</u> | <u>(7)</u> |
| Total operating expenses | <u>(2,102,100)</u> | <u>(22)</u> | <u>(1,773,072)</u> | <u>(12)</u> |
| OPERATIONS (LOSS) INCOME | <u>(1,528,911)</u> | <u>(16)</u> | <u>7,730,774</u> | <u>42</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Finance costs (Note 23) | (21,132) | - | (8,130) | - |
| Share of loss of subsidiaries and joint ventures(Note4) | (794,020) | (8) | (649,268) | (4) |
| Interest income (Note 4) | 59,007 | - | 9,364 | - |
| (Loss) gain on financial assets and liabilities at fair value through profit or loss (Notes 4) | (81,318) | (1) | 87,748 | 1 |
| Other gains and losses, net | 126,363 | 1 | 373,371 | 2 |
| Gain (loss) on foreign currency exchange (Note 4) | <u>353,987</u> | <u>4</u> | <u>(67,933)</u> | <u>-</u> |
| Total non-operating income and expenses | <u>(357,113)</u> | <u>(4)</u> | <u>(254,848)</u> | <u>(1)</u> |
| (LOSS) INCOME BEFORE INCOME TAX | (1,886,024) | (20) | 7,475,926 | 41 |
| INCOME TAX EXPENSE (Notes 4 and 24) | <u>(26,015)</u> | <u>-</u> | <u>(1,362,991)</u> | <u>(8)</u> |
| NET (LOSS) INCOME | <u>(1,912,039)</u> | <u>(20)</u> | <u>6,112,935</u> | <u>33</u> |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 19) | 7,985 | - | 751 | - |
| Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 24) | <u>(1,117)</u> | <u>-</u> | <u>(105)</u> | <u>-</u> |
| | <u>6,868</u> | <u>-</u> | <u>646</u> | <u>-</u> |

(Continued)

FOCALTECH SYSTEMS CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | 2022 | | 2021 | |
|--|----------------|------|--------------|----|
| | Amount | % | Amount | % |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Share of other comprehensive loss of subsidiaries (Notes 4) | \$ 250,813 | 3 | \$ (89,163) | - |
| Total other comprehensive income (loss), net of income tax | 257,681 | 3 | (88,517) | - |
| TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR | \$ (1,654,358) | (17) | \$ 6,024,418 | 33 |
| (LOSS) EARNINGS PER SHARE (Note 25) | | | | |
| Basic | \$ (9.39) | | \$ 30.23 | |
| Diluted | | | \$ 28.62 | |

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)

| | Share Capital | | Retained Earnings | | | Other Equity | | | | Total Equity |
|--|-----------------|-----------------|-------------------|-----------------|------------------------|---|---|--------------------------------|-----------------|--------------|
| | Ordinary Shares | Capital Surplus | Legal Reserve | Special Reserve | Undistributed Earnings | Exchange Differences from Translating Financial Statement of Foreign Operations | Unrealized Gains(losses) on Financial Assets at Fair Value through Other comprehensive income | Unearned employee compensation | Treasury Shares | |
| BALANCE, JANUARY 1, 2021 | \$ 2,103,532 | \$ 4,843,642 | \$ - | \$ - | \$ 1,012,301 | \$ (125,038) | \$ 2,722 | \$ - | \$ (24,316) | \$ 7,812,843 |
| Appropriation of 2020 earnings | | | | | | | | | | |
| Legal reserve | - | - | 101,230 | - | (101,230) | - | - | - | - | - |
| Special reserve | - | - | - | 122,316 | (122,316) | - | - | - | - | - |
| Cash dividends | - | - | - | - | (700,000) | - | - | - | - | (700,000) |
| Net income for the year ended December 31, 2021 | - | - | - | - | 6,112,935 | - | - | - | - | 6,112,935 |
| Other comprehensive loss for the year ended December 31, 2021 ,net of income tax | - | - | - | - | 646 | (86,610) | (2,553) | - | - | (88,517) |
| Total comprehensive income (loss) for the year ended December 31, 2021 | - | - | - | - | 6,113,581 | (86,610) | (2,553) | - | - | 6,024,418 |
| Compensation cost of employee share options | - | 66,351 | - | - | - | - | - | - | - | 66,351 |
| Treasury shares transferred to employees | - | 1,947 | - | - | - | - | - | - | 23,945 | 25,892 |
| Treasury shares retired | (119) | (252) | - | - | - | - | - | - | 371 | - |
| Changes in ownership interests in subsidiaries | - | - | - | - | (257) | - | - | - | - | (257) |
| Issuance of ordinary shares from exercise of employee share options | 3,764 | 5,626 | - | - | - | - | - | - | - | 9,390 |
| Issuance of restricted stock for employees | 55,190 | 1,145,555 | - | - | - | - | - | (1,145,555) | - | 55,190 |
| Compensation cost of restricted stock of employees | - | - | - | - | - | - | - | 331,835 | - | 331,835 |
| BALANCE AT DECEMBER 31, 2021 | 2,162,367 | 6,062,869 | 101,230 | 122,316 | 6,202,079 | (211,648) | 169 | (813,720) | - | 13,625,662 |
| Appropriation of 2021 earnings | | | | | | | | | | |
| Legal reserve | - | - | 611,332 | - | (611,332) | - | - | - | - | - |
| Special reserve | - | - | - | 89,163 | (89,163) | - | - | - | - | - |
| Cash dividends | - | - | - | - | (3,400,000) | - | - | - | - | (3,400,000) |
| Net loss for the year ended December 31, 2022 | - | - | - | - | (1,912,039) | - | - | - | - | (1,912,039) |
| Other comprehensive income for the year ended December 31, 2022 ,net of income tax | - | - | - | - | 6,868 | 264,120 | (13,307) | - | - | 257,681 |
| Total comprehensive loss for the year ended December 31, 2022 | - | - | - | - | (1,905,171) | 264,120 | (13,307) | - | - | (1,654,358) |
| Compensation cost of employee share options | - | 46,258 | - | - | - | - | - | - | - | 46,258 |
| Treasury shares acquired | - | - | - | - | - | - | - | - | (507,621) | (507,621) |
| Treasury shares transferred to employees | - | - | - | - | - | - | - | - | 311,564 | 311,564 |
| Retirement of restricted stock employees | (3,880) | (79,540) | - | - | - | - | - | 79,540 | - | (3,880) |
| Issuance of ordinary shares from exercise of employee share options | 2,620 | 12,401 | - | - | - | - | - | - | - | 15,021 |
| Unvested restricted stock to employees refund cash dividends | - | - | - | - | 434 | - | - | - | - | 434 |
| Compensation cost of restricted stock of employees | - | - | - | - | - | - | - | 398,351 | - | 398,351 |
| BALANCE AT DECEMBER 31, 2022 | \$ 2,161,107 | \$ 6,041,988 | \$ 712,562 | \$ 211,479 | \$ 196,847 | \$ 52,472 | \$ (13,138) | \$ (335,829) | \$ (196,057) | \$ 8,831,431 |

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

This is the translation of the financial statements. CPAs do not audit or review on this translation.

FOCALTECH SYSTEMS CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

| | <u>2022</u> | <u>2021</u> |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss) income before income tax from continuing operation | \$(1,886,024) | \$ 7,475,926 |
| Adjustments for: | | |
| Depreciation expenses | 43,502 | 18,470 |
| Amortization expenses | 71,170 | 15,317 |
| Loss (gain) on financial assets and liabilities at fair value through profit or loss | 81,318 | (87,748) |
| Finance costs | 21,132 | 8,130 |
| Interest income | (59,007) | (9,364) |
| Compensation cost of employee share options | 15,304 | 27,008 |
| Share of loss of subsidiaries and joint ventures | 794,020 | 649,268 |
| Gain on disposal of property plant and equipment | (1,143) | - |
| Gain on disposal of investments | (97,765) | (183,272) |
| Loss (reversal gain) on write-down of inventories | 2,018,719 | (319,202) |
| Compensation cost of restricted stock to employees | 242,146 | 204,457 |
| Changes in operating assets and liabilities | | |
| Increase in financial assets mandatorily classified as at fair value through profit or loss | 94,476 | (35,330) |
| Accounts receivables | 1,988,274 | (1,465,481) |
| Inventories | (3,474,487) | (1,119,676) |
| Other current assets | 91,537 | (50,351) |
| Accounts payables | (1,598,647) | 888,080 |
| Other payables | 173,263 | 76,869 |
| Other current liabilities | (168,327) | (148,964) |
| Other non-current liabilities | (10,400) | - |
| Net defined benefit liabilities | (595) | (475) |
| Cash generated from operations | (1,661,534) | 5,943,662 |
| Interest paid | (20,008) | (8,122) |
| Income tax paid | (1,201,208) | (45,595) |
| Net cash (outflow) inflow from operating activities | <u>(2,882,750)</u> | <u>5,889,945</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of investments accounted for using equity method | - | (85,350) |
| Purchase of property, plant and equipment | (107,079) | (1,200,767) |
| Disposal of property, plant and equipment | 7,685 | - |
| Decrease (increase) in refundable deposits | 177,906 | (2,681,248) |
| Acquisition of intangible assets | (71,091) | - |
| Increase in other non-current assets | (2,486) | - |
| Decrease (increase) in other financial assets | 2,902,570 | (2,915,950) |
| Interest received | 45,069 | 8,037 |
| Net cash inflow from (outflow) investing activities | <u>2,952,574</u> | <u>(6,875,278)</u> |

(Continued)

This is the translation of the financial statements. CPAs do not audit or review on this translation.

FOCALTECH SYSTEMS CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term borrowings | \$ 1,400,000 | \$ (480,000) |
| Increase in long-term borrowings | 200,000 | 786,840 |
| (Decrease) increase in guarantee deposits received | (45,354) | 3,906,014 |
| Cash dividends paid | (3,400,000) | (700,000) |
| Proceeds from issuance ordinary shares under employee share options | 15,021 | 9,390 |
| Treasury shares acquired | (507,621) | - |
| Treasury shares transferred to employees | 311,564 | 25,892 |
| Issuance of restricted stock for employees | - | 55,190 |
| Retirement of restricted stock employees | (3,880) | - |
| Unvested restricted stock employees refund cash dividends | <u>434</u> | <u>-</u> |
| Net cash (outflow) inflow from financing activities | <u>(2,029,836)</u> | <u>3,603,326</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,960,012) | 2,617,993 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>5,073,919</u> | <u>2,455,926</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 3,113,907</u> | <u>\$ 5,073,919</u> |

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

FocalTech Systems Co., Ltd. (“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 (“TWSE”) 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 Human-Machine Interface solutions, such as Display Driver IC, Touch Control IC and so on.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on February 23, 2023.

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 Company’s accounting policies.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2023

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective Date Announced by IASB</u> |
|---|---|
| Amendments to IAS 1 “Disclosure of Accounting Policies” | January 1, 2023 (Note 1) |
| Amendments to IAS 8 “Definition of Accounting Estimates” | January 1, 2023 (Note 2) |
| Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” | January 1, 2023 (Note 3) |

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

Note 2: 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 3: 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 financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have impact on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

- c. The IFRSs issued by IASB, 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)</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 |
| Amendments to IFRS 16” Lease liabilities in a sale and leaseback” | January 1, 2024 (Note 2) |
| IFRS 17 “Insurance Contracts” | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IFRS 17 “Initial Application of IFRS 9 and IFRS 17- Comparative Information” | January 1, 2023 |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current” | January 1, 2024 |
| Amendments to IAS 1 “Noncurrent liabilities with contractual terms” | January 1, 2024 |

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

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have impact on the Company’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 present Financial Report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

- b. Basis of preparation

The 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.

When preparing the parent company only financial statements, the Company accounts for subsidiaries by using the equity method. In order to agree with the of amount of net income, other comprehensive income and equity attributable to shareholders of the parent between the consolidated financial statements and parent company financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted by the accounts of investments accounted for using equity method, share of profits of subsidiaries and share of other comprehensive income of subsidiaries in the parent company only financial statements.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

c. Standards in differentiating current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Assets expected to be realized within 12 months after the reporting period; and
- 2) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Those not as aforementioned current assets or current liabilities are classified as non-current assets or non-current liabilities.

d. Foreign currencies

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting financial statements, the functional currencies of the Company and the Group entities (including subsidiaries in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted

thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing the control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of loss of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further loss, if any.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount (net of amortization or depreciation) before any impairment loss recognized. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profit or loss resulting from downstream transactions is eliminated in full in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only to the extents that are not related to the interests between the Company and subsidiaries.

g. Property, plant and equipment

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

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Goodwill

Goodwill arising from the acquisition of a business is carried at cost, and subsequently measured at cost less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

i. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. Impairment of property, plant and equipment and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs to.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

i) Measurement category

The Company's financial assets include those measured at FVTPL, and at amortized cost.

A. Financial asset at FVTPL

The equity instruments that are not specified as FVTOCI and debt instruments that do not

meet the criteria of amortized cost or FVTOCI are mandatorily required to be measured at FVTPL.

Any dividends, interest earned and gain or loss arising from the remeasurement is recognized in profit or loss at fair value. The determination methodology of fair value of financial instruments states in Note 29.

B. Financial assets at amortized cost

Financial assets that meet both two following conditions will subsequently be measured at amortized cost:

- (3) The objective of the business model to hold the financial asset is to collect contractual cash flows; and
- (4) The cash flows from contractual terms of the financial asset on specified dates are solely matched for payments of principal and interests on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, account receivables at amortized cost, other financial assets, and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method, subtracting any impairment loss. Foreign exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from obtaining date, high liquidation level, readily convertible to a known amount of cash at any time, and low risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

ii) Impairment of financial assets

At the end of each reporting period, the impairment loss is recognized by expected credit loss method for financial assets at amortized cost (including accounts receivables).

The loss allowance for accounts receivables is determined by the expected credit losses over the lifetime. For other financial assets at amortized cost, if the credit risk on the financial instrument has not increased significantly after initial recognition, a loss allowance is determined by the expected credit losses resulting from the possible default events within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk after initial recognition, a loss allowance is determined by the expected credit losses resulting from all possible default events over the expected life of a financial instrument.

Expected credit losses (ECLS) reflect the weighted average of credit losses with the respective risks of default occurring as the weights. 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. In contrast, Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

All impairment loss of the financial instruments with a corresponding adjustment to their carrying amount are through an allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

iv) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

When a financial asset carried at amortized cost is derecognized in its entirety, the difference between the asset's carrying amount and the consideration is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by the company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. The carrying amount is calculated by weighted average of stock types. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

i) Subsequent measurement

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

ii) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

1. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

m. Revenue recognition

The Company recognizes revenue when customer's contract obligations are satisfied.

Revenue comes from sales of Human-Machine Interface devices ICs. Revenue is recognized when the ICs start to be shipped or are delivered to the specific locations instructed by customers, at which time the customer has full discretion over the ICs. Revenue and accounts receivables are recognized concurrently.

The Company considers varying contractual terms to estimate sales returns and recognize refund liabilities, which is classified under other payables.

n. Lease

The Company evaluates if the contract belongs to or includes the lease the commencement date.

The Company as a lessee

Except for the leases of low-value asset or short-term leases recognized as expenses on a straight-line basis, the Company recognizes right-of-use assets and lease liabilities for all leases on the balance sheets from the commencement date.

o. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets which are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost, including current service cost and net interest on the net defined benefit liability (asset,) is recognized as employee benefits expense in the period it occurs. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan.

q. Share-based payment arrangements

Equity-settled and share-based payment arrangements granted to employees

The fair value at the grant date of the equity-settled and share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's optimal estimate number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options.

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 Company'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 Company 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.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax on unappropriated earnings according to the Income Tax Law should be accrued in the year when the resolution regarding to the appropriated earnings is made in the shareholder meeting.

Any adjustment of prior years' tax liability is counted in the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets 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.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the deferred tax is recognized in other comprehensive income.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

| | <u>December 31</u> | |
|---|---------------------|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Cash on hand | \$ 646 | \$ 625 |
| Checking accounts and demand deposits | 779,301 | 2,914,254 |
| Cash equivalent (time deposits with original maturities less than three months) | <u>2,333,960</u> | <u>2,159,040</u> |
| | <u>\$ 3,113,907</u> | <u>\$ 5,073,919</u> |

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| <u>Current</u> | | |
| Mandatorily measured at fair value through profit or loss (FVTPL) | | |
| Listed ordinary shares | <u>\$ -</u> | <u>\$ 119,218</u> |
| <u>Non-Current</u> | | |
| Mandatorily measured at fair value through profit or loss (FVTPL) | | |
| Listed preferred shares | \$ 147,391 | \$ 151,801 |
| Private Funds | <u>178,069</u> | <u>132,470</u> |
| | <u>\$ 325,460</u> | <u>\$ 284,271</u> |

8. OTHER FINANCIAL ASSETS

| | <u>December 31</u> | |
|---|--------------------|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Time deposits with original maturities more than three months | <u>\$ 184,260</u> | <u>\$ 3,086,830</u> |

9. ACCOUNTS RECEIVABLES, NET

| | December 31 | |
|----------------------|--------------------|---------------------|
| | 2022 | 2021 |
| Accounts receivables | <u>\$ 922,393</u> | <u>\$ 2,910,667</u> |

The average credit period on sales of goods was 30-120 days. In order to minimize credit risk, management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

The Company recognizes the allowance loss for accounts receivable based on expected credit losses during the duration. The expected credit losses on accounts receivables are estimated by using an allowance matrix which references 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 among the loss patterns of different customer groups. Therefore, the allowance matrix does not further distinguish the customer groups, and only sets the expected credit loss rate based on the overdue days of accounts receivable.

The following table details the loss allowance of accounts receivables based on the Company's allowance matrix.

December 31, 2022

| | <u>Non Past Due</u> | <u>Overdue 1-60 Days</u> | <u>Overdue 61-180 Days</u> | <u>Overdue Over 181 Days</u> | <u>Total</u> |
|--|---------------------|------------------------------|--------------------------------|----------------------------------|-------------------|
| Expected credit loss rate | 0% | 0% | 0% | 0% | 0% |
| Gross carrying amount and Amortized cost | <u>\$ 876,915</u> | <u>\$ 14,143</u> | <u>\$ 31,335</u> | <u>\$ -</u> | <u>\$ 922,393</u> |

December 31, 2021

| | <u>Non Past Due</u> | <u>Overdue 1-60 Days</u> | <u>Overdue 61-180 Days</u> | <u>Overdue Over 181 Days</u> | <u>Total</u> |
|--|---------------------|------------------------------|--------------------------------|----------------------------------|---------------------|
| Expected credit loss rate | 0% | 0% | 0% | 0% | 0% |
| Gross carrying amount and Amortized cost | <u>\$2,684,629</u> | <u>\$ 226,038</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,910,667</u> |

10. INVENTORIES

| | December 31 | |
|----------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Finished goods | \$ 737,897 | \$ 861,983 |
| Work in progress | 1,823,306 | 1,301,879 |
| Raw materials and supplies | <u>1,548,724</u> | <u>490,297</u> |
| | <u>\$ 4,109,927</u> | <u>\$ 2,654,159</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2022 and 2021 was \$9,069,529 thousand and \$8,831,939 thousand, included write-down inventories of NT\$(2,018,719) thousand and reverse of write-down inventories of NT\$319,202 thousand for the years ended December 31, 2022 and 2021, respectively. Above mentioned gains from price recovery of inventories are resulted from sales of slow moving inventory.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | December 31 | |
|----------------------------------|--|---------------------|
| | 2022 | 2021 |
| Investments in subsidiaries | | |
| FocalTech Corporation, Ltd. | \$ 2,194,116 | \$ 2,500,591 |
| FocalTech Electronics, Ltd. | 1,496,253 | 1,543,791 |
| FocalTech Smart Sensors, Ltd. | <u>4,039</u> | <u>6,074</u> |
| | <u>\$ 3,694,408</u> | <u>\$ 4,050,456</u> |
| | | |
| | Percentage of Ownership as of December 31 | |
| | 2022 | 2021 |
| Investments in subsidiaries | | |
| FocalTech Corporation, Ltd. | 100% | 100% |
| FocalTech Electronics, Ltd. | 100% | 100% |
| FocalTech Smart Sensors, Ltd.(a) | 9.14% | 9.14% |

a. The Company and its subsidiary hold 9.14% and 57.31% of the issued share of FocalTech Electronics Co., Ltd.. Since the Company had control over FocalTech Electronics Co., Ltd., it was listed as a subsidiary.

The share of profit or loss and other comprehensive income of these subsidiaries accounted for using the equity method recognized in 2022 and 2021 financial statements were based on the audited subsidiaries' financial statements of the corresponding periods.

12. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Development Equipment | Office Equipment | Leasehold Improve- ments | Construction in progress | Total |
|---------------------------------------|-------------------|-------------------|--------------------------|---------------------|--------------------------------|-----------------------------|--------------------|
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2022 | \$ - | \$ - | \$ 190,003 | \$ 304 | \$ 16,878 | \$1,080,130 | \$1,287,315 |
| Additions | - | - | 25,522 | 47,754 | - | 33,803 | 107,079 |
| Disposals | - | - | (38,850) | (304) | (16,878) | - | (56,032) |
| Reclassification | <u>557,110</u> | <u>500,183</u> | - | - | - | <u>(1,057,293)</u> | - |
| Balance at December 31, 2022 | <u>\$ 557,110</u> | <u>\$ 500,183</u> | <u>\$ 176,675</u> | <u>\$ 47,754</u> | <u>\$ -</u> | <u>\$ 56,640</u> | <u>\$1,338,362</u> |
| <u>Accumulated depreciation</u> | | | | | | | |
| Balance at January 1, 2022 | \$ - | \$ - | \$ 72,610 | \$ 304 | \$ 16,878 | \$ - | \$ 89,792 |
| Depreciation | - | 5,001 | 36,706 | 1,795 | - | - | 43,502 |
| Disposals | - | - | (32,308) | (304) | (16,878) | - | (49,490) |
| Balance at December 31, 2022 | <u>\$ -</u> | <u>\$ 5,001</u> | <u>\$ 77,008</u> | <u>\$ 1,795</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 83,804</u> |
| Carrying amounts at December 31, 2022 | <u>\$ 557,110</u> | <u>\$ 495,182</u> | <u>\$ 99,667</u> | <u>\$ 45,959</u> | <u>\$ -</u> | <u>\$ 56,640</u> | <u>\$1,254,558</u> |
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2021 | \$ - | \$ - | \$ 74,551 | \$ 304 | \$ 16,878 | \$ - | \$ 91,733 |
| Additions | - | - | 120,637 | - | - | 1,080,130 | 1,200,767 |
| Disposals | - | - | (5,185) | - | - | - | (5,185) |
| Balance at December 31, 2021 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 190,003</u> | <u>\$ 304</u> | <u>\$ 16,878</u> | <u>\$1,080,130</u> | <u>\$1,287,315</u> |
| <u>Accumulated depreciation</u> | | | | | | | |
| Balance at January 1, 2021 | \$ - | \$ - | \$ 59,325 | \$ 304 | \$ 16,878 | \$ - | \$ 76,507 |
| Depreciation | - | - | 18,470 | - | - | - | 18,470 |
| Disposals | - | - | (5,185) | - | - | - | (5,185) |
| Balance at December 31, 2021 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 72,610</u> | <u>\$ 304</u> | <u>\$ 16,878</u> | <u>\$ -</u> | <u>\$ 89,792</u> |
| Carrying amounts at December 31, 2021 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 117,393</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$1,080,130</u> | <u>\$1,197,523</u> |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

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

| | |
|------------------------|-----------|
| Buildings | 50 years |
| Development equipment | 4 years |
| Office equipment | 4 years |
| Leasehold improvements | 1-4 years |

Property, plant and equipment were pledged as collateral. Refer to Note 31.

13. GOODWILL

| | December 31 | |
|----------------|---------------------|---------------------|
| | 2022 | 2021 |
| Ending balance | <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, resulting the goodwill of \$3,237,268 thousand. In 2018, the impacts of market improper competition and the shortage of wafer supply made the company a serious market share decline, which is expected to influence the market shares and gross margins in the future. Therefore, the recoverable amount from IDC (Integrated Driver Controller) less than the carrying value so the Company recognized the impairment loss of \$2,000,000 thousand. In 2019, based on the market growth and market share gain in smartphone market, the Company estimated cash flows from sales of IDC (Integrated Driver Controller), and the recoverable amount exceeded the carrying value. Therefore, the Company did not recognize any impairment on goodwill.

The recoverable amount is calculated by IDC projected net cash flows, discounted at 13.98% and 16.52% for the years ended December 31, 2022 and 2021, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin.

14. OTHER INTANGIBLE ASSETS

| | Licenses and Franchises | Software | Patents | Trademark | Total |
|---|--|------------------|------------------|------------------|-------------------|
| <u>Cost</u> | | | | | |
| Balance, January 1, 2022 | \$18,657 | \$ 8,445 | \$ 76,478 | \$ 74,000 | \$ 177,580 |
| Additions | 4,451 | 66,640 | - | - | 71,091 |
| Reclassification | - | 13,904 | - | - | 13,904 |
| Balance, December 31, 2022 | <u>\$ 23,108</u> | <u>\$88,989</u> | <u>\$ 76,478</u> | <u>\$ 74,000</u> | <u>\$ 262,575</u> |
| <u>Accumulated amortization</u> | | | | | |
| Balance at January 1, 2022 | \$ 18,657 | \$ 8,445 | \$ 54,497 | \$ 51,800 | \$ 133,399 |
| Amortization expense | 2,226 | 54,163 | 7,381 | 7,400 | 71,170 |
| Balance at December 31, 2022 | <u>\$ 20,883</u> | <u>\$62,608</u> | <u>\$ 61,878</u> | <u>\$ 59,200</u> | <u>\$ 204,569</u> |
| Carrying amounts at December 31, 2022 | <u>\$ 2,225</u> | <u>\$ 26,381</u> | <u>\$ 14,600</u> | <u>\$ 14,800</u> | <u>\$ 58,006</u> |
| <u>Cost</u> | | | | | |
| Balance at January 1, 2021 and December 31, 2021 | <u>\$ 18,657</u> | <u>\$ 8,445</u> | <u>\$ 76,478</u> | <u>\$ 74,000</u> | <u>\$ 177,580</u> |

Accumulated amortization

| | | | | | |
|--|------------------|-----------------|------------------|------------------|-------------------|
| Balance at January 1, 2021 | \$ 18,525 | \$ 8,445 | \$ 46,712 | \$ 44,400 | \$ 118,082 |
| Amortization expense | <u>132</u> | <u>-</u> | <u>7,785</u> | <u>7,400</u> | <u>15,317</u> |
| Balance at December 31, 2021 | <u>\$ 18,657</u> | <u>\$ 8,445</u> | <u>\$ 54,497</u> | <u>\$ 51,800</u> | <u>\$ 133,399</u> |
| Carrying amounts at December 31, 2021 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 21,981</u> | <u>\$ 22,200</u> | <u>\$ 44,181</u> |

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

| | |
|-------------------------|------------|
| Licenses and franchises | 1-5 years |
| Software | 1-3 years |
| Patents | 9-10 years |
| Trademark | 10 years |

15. REFUNDABLE DEPOSITS

| | <u>December 31</u> | |
|--|---------------------|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Capacity guarantee deposits and others | <u>\$ 2,648,946</u> | <u>\$ 2,826,852</u> |

Guarantee deposits mainly consists of cash paid to suppliers to ensure stable foundry capacity.

16. BORROWINGS

| a. Short-term borrowings | <u>December 31</u> | |
|--------------------------|---------------------|-------------|
| | <u>2022</u> | <u>2021</u> |
| Unsecured bank loans | <u>\$ 1,400,000</u> | <u>\$ -</u> |
| Annual interest rate | 1.30%~2.78% | - |

| b. Long-term borrowings | <u>December 31</u> | |
|--|--------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Unsecured bank loans | \$ 200,000 | \$ - |
| Secured bank loans | <u>786,840</u> | <u>786,840</u> |
| | 986,840 | 786,840 |
| Less: reclassification to Current position of long-term borrowings | <u>(25,000)</u> | <u>-</u> |
| | <u>\$ 961,840</u> | <u>\$ 786,840</u> |
| Annual interest rate | | |
| Unsecured bank loans | 1.65% | - |
| Secured bank loans | 1.625~1.75% | 1.00% |

For secured bank loans, the principals will be paid monthly or quarterly after three years from drawdown date. The period of borrowings is from September, 2021 to September, 2036.

For unsecured bank loans, the principals will be paid monthly after one year from drawdown date. The period of borrowings is from September, 2022 to September, 2025.

Commercial building is pledged as collateral for long-term loans, please refer to Note 31.

17. ACCOUNTS PAYABLES

| | <u>December 31</u> | |
|---------------------------------|---------------------|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Accounts payables | \$ 643,689 | \$ 2,292,621 |
| Accounts payables-related party | <u>582,043</u> | <u>531,758</u> |
| | <u>\$ 1,225,732</u> | <u>\$ 2,824,379</u> |

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

18. OTHER PAYABLES

| | <u>December 31</u> | |
|--|--------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Payable for salaries and bonus | \$ 469,666 | \$ 306,928 |
| Payable for labor, health and social insurance | 12,450 | 12,450 |
| Reserve for litigations | 58,919 | 28,645 |
| Payable for professional services and others | <u>48,653</u> | <u>68,402</u> |
| | <u>\$ 589,688</u> | <u>\$ 416,425</u> |

19. RETIREMENT BENEFIT

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

| | <u>December 31</u> | |
|---|--------------------|------------------|
| | <u>2022</u> | <u>2021</u> |
| Present value of defined benefit obligation | \$ 33,968 | \$ 40,265 |
| Fair value of plan assets | <u>(20,408)</u> | <u>(18,125)</u> |
| Net defined benefit liability | <u>\$ 13,560</u> | <u>\$ 22,140</u> |

Movements in net defined benefit liability were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|--|--|--|
| Balance at January 1, 2022 | \$ 40,265 | (\$ 18,125) | \$ 22,140 |
| Net interest expense (income) | 262 | (120) | 142 |
| Recognized in profit or loss | 262 | (120) | 142 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (1,426) | (1,426) |
| Actuarial gain - changes in financial assumptions | (2,453) | - | (2,453) |
| Actuarial gain - experience adjustments | (4,106) | - | (4,106) |
| Recognized in other comprehensive income | (6,559) | (1,426) | (7,985) |
| Contributions from the employer | - | (737) | (737) |
| Balance at December 31, 2022 | <u>\$ 33,968</u> | <u>(\$ 20,408)</u> | <u>\$ 13,560</u> |
| Balance at January 1, 2021 | \$ 42,275 | (\$ 18,909) | \$ 23,366 |
| Net interest expense (income) | 338 | (154) | 184 |
| Recognized in profit or loss | 338 | (154) | 184 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (90) | (90) |
| Actuarial loss - changes in financial assumptions | 764 | - | 764 |
| Actuarial gain - experience adjustments | (1,425) | - | (1,425) |
| Recognized in other comprehensive income | (661) | (90) | (751) |
| Contributions from the employer | - | (659) | (659) |
| Benefits paid | (1,687) | 1,687 | - |
| Balance at December 31, 2021 | <u>\$ 40,265</u> | <u>(\$ 18,125)</u> | <u>\$ 22,140</u> |

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|----------------------------------|--------------------|-------------|
| | 2022 | 2021 |
| Discount rate | 1.25% | 0.65% |
| Expected rate of salary increase | 4.5% | 4.5% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| | December 31 | |
|----------------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Discount rate | | |
| 0.25% increase | (<u>\$ 985</u>) | (<u>\$ 1,263</u>) |
| 0.25% decrease | <u>\$ 1,022</u> | <u>\$ 1,314</u> |
| Expected rate of salary increase | | |
| 1% increase | <u>\$ 4,180</u> | <u>\$ 5,348</u> |
| 1% decrease | (<u>\$ 3,674</u>) | (<u>\$ 4,670</u>) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|--|--------------------|---------------|
| | 2022 | 2021 |
| The expected contributions to the plan for the next year | <u>\$ 720</u> | <u>\$ 680</u> |
| The average duration of the defined benefit obligation | 14.6 years | 15.2 years |

20. GUARANTEE DEPOSITS RECEIVED

| | December 31 | |
|--|---------------------|---------------------|
| | 2022 | 2021 |
| Capacity guarantee deposits and others | <u>\$ 4,342,936</u> | <u>\$ 4,388,290</u> |

Guarantee deposit mainly consists of cash received from customers to ensure they have access to the Company's specified capacity

21. EQUITY

a. Share capital

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

| | December 31 | |
|---|---------------------|---------------------|
| | 2022 | 2021 |
| Numbers of shares authorized (in thousands) | <u>500,000</u> | <u>500,000</u> |
| Shares authorized | <u>\$ 5,000,000</u> | <u>\$ 5,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>216,111</u> | <u>216,237</u> |
| Shares issued | <u>\$ 2,161,107</u> | <u>\$ 2,162,367</u> |

The company has issued 19 thousand shares of exercised employees' share option and redeemed 146 thousand shares of issued restricted stocks for employees during the year ended December 31, 2022. The registration processes have not been completed as of December 31, 2022.

b. Capital surplus

| | Additional Paid-in Capital (1) | Treasury Shares (1) | Restricted stock for employees (2) | Employee Share Options (2) | Employee Share Options -Expired (1) | Total |
|--|---|---------------------------|---|----------------------------------|--|---------------------|
| BALANCE, JANUARY 1, 2022 | \$4,737,390 | \$ 79,917 | \$ 1,145,555 | \$ 65,873 | \$ 34,134 | \$ 6,062,869 |
| Employee treasury shares vested | - | 45,464 | - | (45,464) | - | - |
| Compensation cost of employee share options | - | - | - | 46,258 | - | 46,258 |
| Issuance of ordinary shares under employee share options | 16,449 | - | - | (4,048) | - | 12,401 |
| Employee share options expired | - | - | - | (314) | 314 | - |
| Retirement of restricted stock employees | - | - | (79,540) | - | - | (79,540) |
| BALANCE AT DECEMBER 31, 2022 | <u>\$4,753,839</u> | <u>\$ 125,381</u> | <u>\$ 1,066,015</u> | <u>\$ 62,305</u> | <u>\$ 34,448</u> | <u>\$ 6,041,988</u> |
| BALANCE, JANUARY 1, 2021 | \$4,725,556 | \$ 69,361 | \$ - | \$ 14,903 | \$ 33,933 | \$ 4,843,642 |
| Treasury shares transferred to employees | - | 1,947 | - | - | - | 1,947 |
| Employee treasury shares vested | - | 8,861 | - | (8,861) | - | - |
| Treasury shares retired | - | (252) | - | - | - | (252) |
| Compensation cost of employee share options | - | - | - | 66,351 | - | 66,351 |
| Issuance of ordinary shares under employee share options | 11,945 | - | - | (6,319) | - | 5,626 |
| Employee share options expired | - | - | - | (201) | 201 | - |
| Issuance of restricted stock for employees | - | - | 1,145,555 | - | - | 1,145,555 |
| BALANCE AT DECEMBER 31, 2021 | <u>\$4,737,390</u> | <u>\$ 79,917</u> | <u>\$ 1,145,555</u> | <u>\$ 65,873</u> | <u>\$ 34,134</u> | <u>\$ 6,062,869</u> |

3) 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 converted to share capital (at a certain percentage of the Company's capital surplus annually).

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

c. Retained earnings and dividend policy

Under the Company's Article of Incorporation, when distributing annual earnings, the Company 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 prepare a distribution proposal for the remaining earnings plus 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.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

See Note 23(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 is required to set aside additional special capital reserve equal to the total amount of items that are accounted for as deductions from stockholders' equity shall be set aside from prior-year earnings.

The appropriations of earnings for 2021 and 2020 were approved in annual shareholder's meeting held on June 9, 2022, and August 19, 2021, respectively, were as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------|--------------------|-------------------|
| Legal reserve | <u>\$ 611,332</u> | <u>\$ 101,230</u> |
| Special reserve | <u>\$ 89,163</u> | <u>\$ 122,316</u> |
| Cash dividends | <u>\$3,400,000</u> | <u>\$700,000</u> |
| Cash dividends per share | <u>\$ 15.71</u> | <u>\$ 3.32</u> |

d. Special reserve

| | <u>2022</u> | <u>2021</u> |
|------------------------------|-------------------|-------------------|
| Balance, beginning | \$ 122,316 | \$ - |
| Special reserve appropriated | <u>89,163</u> | <u>122,316</u> |
| Balance, ending | <u>\$ 211,479</u> | <u>\$ 122,316</u> |

e. Treasury shares

| | <u>Shares (In Thousands)</u> |
|---------------------------------------|--------------------------------------|
| Number of shares on January 1, 2021 | 778 |
| Decrease during the period | <u>(778)</u> |
| Number of shares on December 31, 2021 | <u>-</u> |
| Number of shares on January 1, 2022 | - |
| Decrease during the period | 4,000 |
| Decrease during the period | <u>(2,455)</u> |
| Number of shares on December 31, 2022 | <u>1,545</u> |

On February 23, 2022, the board of directors resolved the 6th treasure stock transferred to employees program no more than 4,000,000 shares for transferring to employees. From April 6 to April 19, 2021,

4,000,000 shares had been bought back, and its amount was \$507,621 thousand. The transferring price to employees would be the average purchase price.

The detailed information for other treasury stock transferred to employee programs could be found in Note 26 (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.

f. Unearned employee compensation

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Balance, beginning | (\$ 813,720) | \$ - |
| Retirement (issuance) of shares | 79,540 | (1,145,555) |
| Share-based payment expenses recognized | <u>398,351</u> | <u>331,835</u> |
| Balance, ending | <u>(\$ 335,829)</u> | <u>(\$ 813,720)</u> |

The issuance of employee restricted share plan has been approved by shareholders' meeting held on June 20, 2020. The board of directors approved to issue 5,749 thousand and 236 thousand shares on April 7, 2021 and July 29, 2021, respectively. Please refer Note 26 (c) for the detailed information.

22. REVENUE

| | <u>For the Year Ended December 31</u> | |
|--|---------------------------------------|----------------------|
| | <u>2022</u> | <u>2021</u> |
| IC for Human-Machine Interface Solutions | <u>\$ 9,642,718</u> | <u>\$ 18,335,785</u> |
| <u>Contract balances</u> | | |
| | <u>December 31</u> | |
| | <u>2022</u> | <u>2021</u> |
| Contract liabilities (classified as current liabilities) | | |
| Sales of goods | <u>\$ 39,290</u> | <u>\$ 6,951</u> |

23. NET INCOME

a. Finance costs

| | <u>For the Year Ended December 31</u> | |
|------------------------|---------------------------------------|-----------------|
| | <u>2022</u> | <u>2021</u> |
| Interest on bank loans | \$ 21,132 | \$ 7,690 |
| Interest on deposits | <u>-</u> | <u>440</u> |
| | <u>\$ 21,132</u> | <u>\$ 8,130</u> |

b. Depreciation and amortization

| | <u>For the Year Ended December 31</u> | |
|-------------------------------|---------------------------------------|------------------|
| | <u>2022</u> | <u>2021</u> |
| Property, plant and equipment | \$ 43,502 | \$ 18,470 |
| Intangible assets | <u>71,170</u> | <u>15,317</u> |
| | <u>\$ 114,672</u> | <u>\$ 33,787</u> |

| | | |
|--|-------------------|------------------|
| An analysis of depreciation and amortization by function | | |
| Operating costs | \$ 26,612 | \$ 8,892 |
| Operating expenses | <u>88,060</u> | <u>24,892</u> |
| | <u>\$ 114,672</u> | <u>\$ 33,787</u> |

c. Employee benefits expense

| | For the Year Ended December 31 | |
|--|---------------------------------------|---------------------|
| | 2022 | 2021 |
| Post-employment benefits | | |
| Defined contribution plans | \$ 32,090 | \$ 27,358 |
| Defined benefit plans (see Note 19) | 142 | 184 |
| Share-based payments (see Note 26) | 257,450 | 231,465 |
| Other employee benefits | <u>1,391,268</u> | <u>1,132,215</u> |
| Total employee benefits expense | <u>\$ 1,680,950</u> | <u>\$ 1,391,222</u> |
| An analysis of employee benefits expense by function | | |
| Operating costs | \$ 241,084 | \$ 224,807 |
| Operating expenses | <u>1,439,866</u> | <u>1,166,415</u> |
| | <u>\$ 1,680,950</u> | <u>\$ 1,391,222</u> |

d. The remuneration to 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. There was no employees' compensation accrued due to loss before income tax for the year ended December 31, 2022. The accrued employees' compensation and remuneration of directors for the year ended December 31, 2021 is as follows:

| | <u>2021</u> |
|---------------------------|------------------|
| Employees' compensation | <u>\$316,730</u> |
| Remuneration of directors | <u>\$ 30,000</u> |

If there is any change in the proposed amounts after the annual 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 for 2021 on February 23, 2022. There is no difference between the actual amount of remuneration to employees and directors resolved and the amount of remuneration to employees and directors accounted for in 2021 consolidated 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.

24. INCOME TAXES

- a. Major components of tax (benefit) expense recognized in profit or loss

| | For the Year Ended December 31 | |
|---|---------------------------------------|--------------------|
| | 2022 | 2021 |
| Current tax | | |
| In respect of the current year | <u>\$ 158,174</u> | <u>\$1,303,684</u> |
| Deferred tax | | |
| In respect of the current year | <u>(132,159)</u> | <u>59,307</u> |
| Income tax expense recognized in profit or loss | <u>\$ 26,015</u> | <u>\$1,362,991</u> |

A reconciliation of accounting profit and income tax expense is as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|---------------------|
| | 2022 | 2021 |
| (Loss) income before tax from continuing operations | <u>(\$ 1,886,024)</u> | <u>\$ 7,475,926</u> |
| (Loss) income tax expense calculated at the statutory rate and the effective tax rate | (\$264,043) | \$1,046,630 |
| Nondeductible expenses in determining taxable income | 15,187 | - |
| Tax effect of earnings to be distributed by subsidiaries | 167,231 | 429 |
| Tax exemption | (3,342) | (37,877) |
| Unrecognized temporary differences | 110,982 | 89,897 |
| Tax effects from investment tax credit rate less than 30% | - | <u>263,912</u> |
| Income tax expense recognized in profit or loss | <u>\$ 26,015</u> | <u>\$1,362,991</u> |

The company's research and development expenditure is expected to offset the corporate income tax by 30%, so the effective tax rate is 14% after considering the deduction effect.

- b. Recognized in other comprehensive income

| | December 31 | |
|--|--------------------|---------------|
| | 2022 | 2021 |
| Deferred tax | | |
| Remeasurement of defined benefit plans | <u>\$ 1,117</u> | <u>\$ 105</u> |

- c. Current tax assets and liabilities

| | December 31 | |
|---|--------------------|---------------------|
| | 2022 | 2021 |
| Current tax assets(recorded as other current assets) | | |
| Tax refund receivable | <u>\$ 5,590</u> | <u>\$ 1,501</u> |
| Current tax liabilities | | |
| Income tax payable | <u>\$327,127</u> | <u>\$ 1,366,072</u> |

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

2022

| | <u>Beginning Balance</u> | <u>Recognized in Profit or Loss</u> | <u>Recognized in Other Comprehensive Income</u> | <u>Ending Balance</u> |
|--|--------------------------|---|---|-----------------------|
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Obsolete of inventory | \$ 10,779 | \$ 272,961 | \$ - | \$ 283,740 |
| Others | (5,922) | 24,371 | (1,117) | 17,332 |
| | <u>\$ 4,857</u> | <u>\$ 297,332</u> | <u>(\$ 1,117)</u> | <u>\$ 301,072</u> |
| <u>Deferred tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Intangible assets | \$ 6,174 | (\$ 2,058) | \$ - | \$ 4,116 |
| Investment income recognized from foreign investees | 45,410 | 167,231 | - | 212,641 |
| | <u>\$ 51,584</u> | <u>\$ 165,173</u> | <u>\$ -</u> | <u>\$ 216,757</u> |

2021

| | <u>Beginning Balance</u> | <u>Recognized in Profit or Loss</u> | <u>Recognized in Other Comprehensive Income</u> | <u>Ending Balance</u> |
|--|--------------------------|---|---|-----------------------|
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Obsolete of inventory | \$ 71,336 | (\$ 60,557) | \$ - | \$ 10,779 |
| Others | (5,438) | (379) | (105) | (5,922) |
| | <u>\$ 65,898</u> | <u>(\$ 60,936)</u> | <u>(\$ 105)</u> | <u>\$ 4,857</u> |
| <u>Deferred tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Intangible assets | \$ 8,232 | (\$ 2,058) | \$ - | \$ 6,174 |
| Investment income recognized from foreign investees | 44,981 | 429 | - | 45,410 |
| | <u>\$ 53,213</u> | <u>(\$ 1,629)</u> | <u>\$ -</u> | <u>\$ 51,584</u> |

- e. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2022 and 2021, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$0 thousand and \$1,770,810 thousand, respectively.

- f. Income tax assessments

The Company's tax returns until 2019 have been assessed by the tax authorities.

25. (LOSS) EARNINGS PER SHARE

Unit: NT\$ Per Share
For the Year Ended December 31

| | 2022 | 2021 |
|---------------------------------|--------------------|-----------------|
| Basic (loss) earnings per share | (<u>\$ 9.39</u>) | <u>\$ 30.23</u> |
| Diluted earnings per share | | <u>\$ 28.62</u> |

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

Net (Loss) Profit for the Period

| | For the Year Ended December 31 | |
|--|---------------------------------------|---------------------|
| | 2022 | 2021 |
| (Loss) earnings used in the computation of basic (loss) earnings per share | (<u>\$ 1,912,039</u>) | <u>\$ 6,112,935</u> |

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

| | For the Year Ended December 31 | |
|---|---------------------------------------|----------------|
| | 2022 | 2021 |
| Weighted average number of ordinary shares used in the computation of basic (loss) earnings per share | 203,701 | 202,208 |
| Effect of potentially dilutive ordinary shares: | | |
| Treasury shares transferred to employees | - | 8,157 |
| Employee stock options (share) | - | 475 |
| Restricted stock for employees (share) | - | 785 |
| The remuneration to employees | - | <u>1,984</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>203,701</u> | <u>213,609</u> |

Note: There is no diluted effectiveness for the years ended December 31, 2022 due to operating loss.

26. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee stock option plan

The Company did not have new share option plan issued for employees for the years ended December 31, 2022 and 2021.

Information about vested options as of December 31, 2022 and 2021 are as following:

| | December 31, 2022 | | December 31, 2021 | |
|----------------------------|--------------------------------|---|--------------------------------|---|
| | Range of exercise price (NT\$) | Weighted-average contractual life remaining (years) | Range of exercise price (NT\$) | Weighted-average contractual life remaining (years) |
| Employee Stock Option Plan | | | | |
| 2006 | \$29.68 | 0.27 | \$5.37~36.17 | 0.11~1.27 |
| 2015 | 12.80 | 2.67 | 15.60 | 3.67 |

Information about outstanding options for the years ended December 31, 2022 and 2021 are as following:

2022

| Employee stock Option Plan | Beginning Balance | | Options exercised | | Options expired | | Ending Balance | |
|----------------------------|---------------------|--|---------------------|--|---------------------|--|---------------------|--|
| | Quantity of Options | Weighted-average Exercise Price (NT\$) | Quantity of Options | Weighted-average Exercise Price (NT\$) | Quantity of Options | Weighted-average Exercise Price (NT\$) | Quantity of Options | Weighted-average Exercise Price (NT\$) |
| 2006 | 198,399 | \$ 19.86 | (140,000) | \$ 20.98 | (36,000) | \$ 5.37 | 22,399 | \$ 29.68 |
| 2015 | 209,000 | 15.60 | (122,000) | 15.16 | - | - | 87,000 | 12.80 |

2021

| Employee stock Option Plan | Beginning Balance | | Options exercised | | Options expired | | Ending Balance | |
|----------------------------|---------------------|--|---------------------|--|---------------------|--|---------------------|--|
| | Quantity of Options | Weighted-average Exercise Price (NT\$) | Quantity of Options | Weighted-average Exercise Price (NT\$) | Quantity of Options | Weighted-average Exercise Price (NT\$) | Quantity of Options | Weighted-average Exercise Price (NT\$) |
| 2006 | 398,199 | \$ 26.65 | (199,800) | \$ 33.04 | - | \$ - | 198,399 | \$ 19.86 |
| 2015 | 397,500 | 15.90 | (176,500) | 15.78 | (12,000) | 15.9 | 209,000 | 15.60 |

As of December 31, 2022, the valid and outstanding employee stock option plans are as following:

| Plan | Number of Options | Valid Period | Vesting Terms |
|---------------------------------|-------------------|--------------|--|
| 2006 employee stock option plan | 12,600,000 | 10 years | (1) A certain percentages of the options defined in the plan are vested and exercisable after the first anniversary, or (2) according to the achievement level of the performance target defined in advance. |
| 2015 employee stock option plan | 2,800,000 | 10 years | (1) A certain percentage of the options defined in the plan are vested and exercisable after the second anniversary. |

For the subsequent changes in the Company's ordinary share capital, such as issuance of shares in cash, from earnings and capital surplus, consolidation, spin-off, share split, and issuance of global depository receipts, and decrease in ordinary shares which is not resulted from treasury share retired, the exercise price and the conversion ratio would be considered to adjust accordingly based on the plans.

b. Treasury shares transferred to employees

The Company acquired 4,000 thousand shares treasury stock for the years ended December 31, 2022. Information about treasury shares 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) | Retired Shares (In thousand share) | Transferred price (in dollar) |
|---------------------------------|---|------------------------------------|--|---|------------------------------------|-------------------------------|
| The 4th Shares Buy Back Program | 2018/7/26 | 8,000 | 7,952 | (46) | (2) | \$ 33.69 (Adjusted) |
| The 5th Shares Buy Back Program | 2018/8/23 | 7,689 | 7,206 | (473) | (10) | 32.93 (Adjusted) |
| The 6th Shares Buy Back Program | 2022/2/23 | 4,000 | 2,455 | - | - | 126.91 |

Information about treasury stock transferred to employee for the years ended December 31, 2022 is 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 | 181.40 | 2019/11/08 | 60 | - |
| | | | 2020/03/20 | 1,399 | 3.70 |
| | | | 2020/11/06 | 434 | 1.90 |
| | | | 2021/04/07 | 572 | 181.20 |
| | | | 2021/07/29 | 90 | 242.20 |
| Total | <u>7,952</u> | | Total | <u>7,206</u> | |

| The 6th Shares Buy Back Program | | |
|---------------------------------|-----------------------------------|---|
| Employee subscription base date | Shares transferred (In Thousands) | The fair value of the right to subscribe (NT\$) |
| 2022/06/21 | 2,315 | \$ - |
| 2022/11/11 | 140 | - |
| Total | <u>2,455</u> | |

The limitations and rights on the unvested shares were as follows:

- 1) The employees cannot sell, pledge, transfer, donate, or dispose these shares.
- 2) The Company and the employees should enter into a trust agreement with a trust and custodian institution and authorize the institution to exercise the shareholders' rights including but not limited to attendance, proposing, speaking and voting in the shareholder meetings.

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 |
| 2021/07/29 | 265 | 236 |

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:

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

The constraints of restricted stock are as follows:

- a. Employees are restricted to dispose, pledged, transferred, and give to others the granted shares until they are vested.
- b. The rights of restricted stock are the 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.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

- 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's 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 years ended December 31, 2022 and 2021 was as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2021 | 2021 |
| Shares buyback programs | \$ 15,304 | \$ 27,008 |
| Restricted stock for employees | <u>242,146</u> | <u>204,457</u> |
| | <u>\$ 257,450</u> | <u>\$ 231,465</u> |
| Adjustment account: | | |
| Capital surplus - employee stock options | \$ 15,304 | \$ 27,008 |
| Other equity - unearned employee compensation | <u>242,146</u> | <u>204,457</u> |
| | <u>\$ 257,450</u> | <u>\$ 231,465</u> |

27. OPERATING LEASE ARRANGEMENTS

The Company as a lessee

The Company has lease contracts for office, plant and some office equipment, which would be expired before December 2022. Above mentioned lease contracts are short-term lease agreement, and the Company applies practical expedients so the Company does not recognize right-of-use assets and lease liabilities. The committed payments for the short-term leases were \$0 thousand and \$12,471 thousand as of December 31, 2022 and 2021.

The lease payments recognized in profit or loss for the current period was as follows:

| | For the Year Ended December 31 | |
|---------------|---------------------------------------|------------------|
| | 2022 | 2021 |
| Lease payment | <u>\$ 14,176</u> | <u>\$ 23,011</u> |

28. CAPITAL MANAGEMENT

The capital structure of the Company consists of debt and equity. The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stockholders through the optimization of the debt and equity balance.

To define the strategy of the Company's capital structure, the Company first sets its target market share according to the industry scale, the growth of the industry and the product roadmap. Based on the projected market position, the Company plans the research and development investment and capital expenditure. Furthermore, the Company calculates working capitals and cash demands based on the long-term development plan considering the industry characteristics to build up the overall operating model. Finally, the Company evaluates not only the possible contribution margin, operating profit ratio and cash flows according to the product competitiveness but also risk factors such as the fluctuation of the business circle and the life circle of the product to decide the suitable capital structure. The management reviews capital

structures periodically and considers the possible costs and risks of different capital structures. Generally, the Company adopted prudent capital management strategy.

The Company was not restricted to other external capital requirements.

29. FINANCIAL INSTRUMENTS

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

The management believes the carrying amounts of financial assets and financial liabilities not measured of fair value approximate their fair values or cannot be reliably measured.

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

1.) Fair value hierarchy

December 31, 2022

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|-------------------|----------------|-------------------|-------------------|
| <u>Financial asset at FVTPL</u> | | | | |
| Listed preferred shares | \$ 147,391 | \$ - | \$ - | \$ 147,391 |
| Private funds | <u>-</u> | <u>-</u> | <u>178,069</u> | <u>178,069</u> |
| Total | <u>\$ 147,391</u> | <u>\$ -</u> | <u>\$ 178,069</u> | <u>\$ 325,460</u> |

December 31, 2021

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|-------------------|----------------|-------------------|-------------------|
| <u>Financial asset at FVTPL</u> | | | | |
| Listed preferred shares | \$ 271,019 | \$ - | \$ - | \$ 271,019 |
| Private funds | <u>-</u> | <u>-</u> | <u>132,470</u> | <u>132,470</u> |
| Total | <u>\$ 271,019</u> | <u>\$ -</u> | <u>\$ 132,470</u> | <u>\$ 403,489</u> |

There were no transfers between Level 1 and Level 2 in 2022 and 2021.

2) Reconciliation of financial instruments measured by Level 3 fair value

| | <u>For the Year Ended in December 31</u> | |
|--|--|-------------------|
| | <u>2022</u> | <u>2021</u> |
| <u>Financial assets at FVTPL</u> | | |
| Balance, beginning of year | \$ 132,470 | \$ 24,953 |
| Purchases | 45,778 | 100,554 |
| Disposals | (1,469) | (181) |
| Recognized in profit or loss(other income or loss) | <u>1,290</u> | <u>7,144</u> |
| Balance, end of year | <u>\$ 178,069</u> | <u>\$ 132,470</u> |

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

The unlisted equity investment is measured by the market approach, which decides fair value by referring to the recent financing activities of investees or the market transaction prices and status of the similar companies. The Company had carefully evaluated and selected the suitable evaluation method, but the use of different evaluation models or fair values may result in different evaluation results.

c. Categories of financial instruments

| | <u>December 31</u> | |
|---|--------------------|-------------|
| | <u>2022</u> | <u>2021</u> |
| <u>Financial assets</u> | | |
| Fair value through profit or loss (FVTPL) | | |
| Mandatorily at FVTPL | \$ 325,460 | \$ 403,489 |
| Amortized cost (Note 1) | 6,869,506 | 13,898,268 |
| <u>Financial liabilities</u> | | |
| Amortized cost (Note 2) | 8,545,196 | 8,415,934 |

- 1) The amounts include financial instruments measured at amortized cost, which comprise cash and cash equivalents, accounts receivables, other financial assets and refundable deposits.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payables, other payables, current position of long-term borrowings, long-term borrowings, and guaranteed deposits received.

d. Financial risk management objectives and policies

The Company's major financial instruments include cash and cash equivalents, accounts receivable, other financial assets, financial assets at FVTPL, accounts and other payables. The Company'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 Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The board of directors is solely responsible for established and monitored the framework of risk management of the Company, the board of directors authorized the chairman develop and monitored the risk management policy of the Company with the operation center of the Company, and regularly reported the situation to the board of directors.

The Company's financial risk management policies are developed for identifying and analyzing the financial risks to the Company, evaluating the impacts of the financial risks, and executing the financial-risk aversion policies. The financial risk management is periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Company is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Company's board of directors monitors the management on managing the compliance to the financial risk management policies and procedures and reviews the appropriateness of risk management structure. To assist the board of directors, the internal auditors perform period and exceptional reviews on the controls and procedures of financial risk management and report the result of reviews to the board of directors.

1) Market risk

The major financial risks from the Company's operation were foreign currency exchange risk referred to a) and interest rate risk referred to b).

a) Foreign currency risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Company at the end of the reporting period are shown in Note 33.

Sensitivity analysis

The Company was mainly exposed to the U.S. dollar. The following table details the Company'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 for 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 Year Ended December 31 | |
| | 2022 | 2021 |
| Profit or loss/ equity | <u>\$ 50,349</u> (i) | <u>\$308,819</u> (i) |

(i) This was mainly attributable to the outstanding balances of USD deposits, accounts receivables, accounts payables, other payables, other current assets, refundable deposits, other current liability and guarantee deposits received.

b) Interest rate risk

The Company was exposed to interest risk primarily related to its investments in fixed-rate time deposits, current position of long-term borrowings, borrowings, floating-rate demand deposits, structured investments and short-term borrowing. The time deposits were at fixed interest rates, and other financial assets were at fixed rates or with guaranteed minimal interest rates and carried at amortized costs. Therefore, changes in interest rates would not affect future cash flows.

The carrying amount of the Company's financial assets exposed to interest rates at the end of the reporting period were as follows:

| | December 31 | |
|-------------------------------|---------------------|---------------------|
| | 2022 | 2021 |
| Fair value interest rate risk | | |
| Financial assets | <u>\$ 2,518,220</u> | <u>\$ 5,245,870</u> |
| Financial liabilities | <u>\$ 1,400,000</u> | <u>\$ -</u> |
| Cash flow interest rate risk | | |
| Financial assets | <u>\$ 775,974</u> | <u>\$ 2,910,927</u> |
| Financial liabilities | <u>\$ 986,840</u> | <u>\$ 786,840</u> |

Sensitivity analysis

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

If interest rates had been 25 basis points higher/lower and the Company hold all variables constantly, the Company's post-tax profit for the years ended December 31, 2022 and 2021 would decrease/increase by \$(527) thousand and \$5,310 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 from the carrying amounts of the financial assets as recognized in the balance sheets.

The Company's concentration of credit risk was related to the five largest clients of accounts receivables. Ongoing credit evaluation is performed on the financial condition of accounts receivables.

As of December 31, 2022, the Company's five largest customers took 59% of total accounts receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining adequate cash and cash equivalents to fund its operations and mitigate the impacts of fluctuations in cash flows. In addition, bank loans are a significant resource of liquidity for the Company.

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

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

December 31, 2022

| | On Demand or Less than 1 Year | 1-5 Years | More than 5 Years |
|------------------------------------|--|---------------------|------------------------------|
| Non-interest bearing | \$ 1,814,082 | \$ 4,342,936 | \$ - |
| Fixed interest rate liabilities | 1,401,338 | - | - |
| Floating interest rate liabilities | <u>25,000</u> | <u>395,556</u> | <u>566,284</u> |
| | <u>\$ 3,240,420</u> | <u>\$ 4,738,492</u> | <u>\$ 566,284</u> |

December 31, 2021

| | On Demand or Less than 1 Year | 1-5 Years | More than 5 Years |
|------------------------------------|--|---------------------|------------------------------|
| Non-interest bearing | \$ 3,240,590 | \$ 4,388,290 | \$ - |
| Fixed interest rate liabilities | 214 | - | - |
| Floating interest rate liabilities | <u>-</u> | <u>155,832</u> | <u>631,008</u> |
| | <u>\$ 3,240,804</u> | <u>\$ 4,544,122</u> | <u>\$ 631,008</u> |

This is the translation of the financial statements. CPAs do not audit or review on this translation.

30. TRANSACTIONS WITH RELATED PARTIES

Except for information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

| <u>Related Party Name</u> | <u>Related Party Category</u> |
|--|-------------------------------|
| FocalTech Systems, Ltd. | Subsidiary |
| FocalTech Electronics, Ltd. | Subsidiary |
| FocalTech Electronics (Shenzhen) Co., Ltd. | Subsidiary |

b. Purchases of goods

| <u>Line Item</u> | <u>Related Party Category/Name</u> | <u>For the Year Ended December 31</u> | |
|------------------|------------------------------------|---------------------------------------|------------------|
| | | <u>2022</u> | <u>2021</u> |
| Purchase | Subsidiaries | \$ <u>10,290</u> | \$ <u>38,340</u> |

Purchases were made by the Company at market prices and conditions similar with the non-related parties.

c. Payables to related parties

| <u>Line Item</u> | <u>Related Party Category/Name</u> | <u>December 31</u> | |
|-------------------|------------------------------------|--------------------|-------------------|
| | | <u>2022</u> | <u>2021</u> |
| | Subsidiaries | | |
| Accounts payables | FocalTech Electronics, Ltd. | \$ 581,936 | \$ 515,551 |
| | Others | <u>107</u> | <u>16,207</u> |
| | | <u>\$ 582,043</u> | <u>\$ 531,758</u> |

The outstanding accounts payables to related parties are unpledged.

d. Advances (accounted for other current liabilities)

| <u>Line Item</u> | <u>Related Party Category/Name</u> | <u>December 31</u> | |
|------------------|------------------------------------|--------------------|-------------------|
| | | <u>2022</u> | <u>2021</u> |
| | Subsidiaries | | |
| Advances | FocalTech Systems, Ltd. | <u>\$ -</u> | <u>\$ 198,797</u> |

The Company accounted for service revenue from related parties in advance.

e. Compensation of key management personnel

| | <u>For the Year Ended December 31</u> | |
|------------------------------|---------------------------------------|-------------------|
| | <u>2022</u> | <u>2021</u> |
| Long-term employee benefits | \$ 41,727 | \$ 3,145 |
| Short-term employee benefits | 32,847 | 81,536 |
| Post-employment benefits | 378 | 488 |
| Share-based payments | <u>68,554</u> | <u>33,657</u> |
| | <u>\$ 143,506</u> | <u>\$ 118,826</u> |

31. PLEDGED ASSETS

The following assets were provided as collateral for bank loans:

| | For the Year Ended December 31 | |
|---|---------------------------------------|---------------------|
| | 2021 | 2020 |
| Properties, plants and equipment – Net of buildings | \$ 495,182 | \$ - |
| Properties, plants and equipment – Land | 557,110 | - |
| Properties, plants and equipment – Construction in progress | - | 1,071,400 |
| | <u>\$ 1,052,292</u> | <u>\$ 1,071,400</u> |

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

NOVATEK MICROELECTRONICS CORP. (“NOVATEK”) filed five patent infringement actions with Intellectual Property and Commercial Court on August 9, 2021, asking the court to prohibit the Company from manufacturing, offering for sale, selling, utilizing or importing, for the aforementioned purposes, products infringing on such patents and asking for indemnification for any losses. The Claims were dismissed by the Intellectual Property and Commercial Court on February 18, 2023.

33. 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:

December 31, 2022

| | Foreign Currencies (thousand) | Exchange Rate | NTS (thousand) |
|------------------------------|--|----------------------|---------------------------|
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 215,813 | 30.71 (USD:NTD) | \$ 6,627,613 |
| <u>Non-Monetary items</u> | | | |
| USD | 120,300 | 30.71 (USD:NTD) | 3,694,408 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 183,023 | 30.71 (USD:NTD) | 5,620,630 |

December 31, 2021

| | <u>Foreign Currencies (thousand)</u> | <u>Exchange Rate</u> | <u>NT\$ (thousand)</u> |
|------------------------------|--|----------------------|----------------------------|
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 491,587 | 27.68 (USD:NTD) | \$ 13,607,140 |
| <u>Non-Monetary items</u> | | | |
| USD | 146,331 | 27.68 (USD:NTD) | 4,050,456 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 268,452 | 27.68 (USD:NTD) | 7,430,763 |

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: See Table 1 attached;
- 2) Endorsements/guarantees provided: See Table 2 attached;
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): See Table 3 attached;
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None;
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None;
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
- 9) Trading in derivative instruments: None;

b. Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in mainland China): See Table 4 attached.

c. Information on investments in mainland China

- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: See Table 5 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: None.

d. Information of major shareholder

List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder: None.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

FocalTech Systems Co., Ltd.

**FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2022**

(Amounts in Thousands; Currency denomination in NTD or in foreign currencies)

| No (Note 1) | Financing Company | Counterparty | Financial Statement Account | Related Party | Maximum Balance for the Period (Note 4) | Ending Balance (Note 4) | Amount Actually Drawn (Note 4) | Interest Rate | Nature for Financing | Transaction Amounts | Reason for Financing | Allowance for Bad Debt | Collateral | | Financing Limits for Each Borrowing Company (Note 2) | Financing Company's Total Financing Amount Limits (Note 2) | Note |
|----------------|----------------------------|-----------------------------------|--|------------------|--|-------------------------------|--------------------------------------|------------------|---------------------------------------|------------------------|-------------------------|---------------------------|------------|-------|--|--|--------|
| | | | | | | | | | | | | | Item | Value | | | |
| 1 | FocalTech Systems, Ltd. | FocalTech Systems Co., Ltd. | Other receivables from related parties | Yes | \$ 1,842,600 (USD 60,000) | \$ 1,842,600 (USD 60,000) | \$ - | - | The need for short- term financing | \$ - | Operating capital | \$ - | - | \$ - | \$ 2,071,047 | \$ 2,071,047 | Note 3 |

Note 1: The parent company and its subsidiaries are coded as follows:

- 1) The parent company is coded "0".
- 2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The lending limits:

- 1) The total amount available for lending purpose shall not exceed 20% of the net worth of the Company.
- 2) The lending limits for any borrowers are set forth as below:
 - A. The total amount for lending to a company having a business relationship with the company shall not exceed the total transaction amount between the parties during the period of twelve months prior to the time of lending (the transaction amount shall mean the sales or purchasing amount between the parties, whichever is higher), and shall not exceed 20% of the net worth of the financing company or 30% of the net worth of the counterparty, whichever is lower.
 - B. The total amount for lending to a company in need of funds for a short-term period shall not exceed 20% of the net worth of the financing company. The lending limits for any borrower shall not exceed 10% of the net worth of the creditor or 30% of the net worth of the borrower, whichever is lower.
- 3) For financing needs between offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, or financing needs to the Company by offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, the total amount for such fund-lending shall not be subject to the limit of 100% of the net worth of the creditor
- 4) Where the Company's financial reports are prepared in accordance with the International Financial Reporting Standards, "net worth" in the Procedures means the equity attributable to shareholders of the parent in the balance sheet.

Note 3: The balances have been eliminated on consolidation.

Note 4: Using the exchange rate of 1 USD: 30.71 NTD as of December 31, 2022.

FocalTech Systems Co., Ltd.

ENDORSEMENTS/GUARANTEES PROVIDED FOR THE YEAR ENDED DECEMBER 31, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| No. (Note1) | Endorsement/ Guarantee Provider | Guaranteed Party | | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2) | Maximum Balance for the Period (Note 5) | Ending Balance | Amount Actually Drawn | Amount of Endorsement/ Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements(%) | Maximum Endorsement/ Guarantee Amount Allowable (Note 2) | Guarantee Provided by Parent Company | Guarantee Provided by A Subsidiary | Guarantee Provided to Subsidiaries in Mainland China | Note |
|----------------|------------------------------------|--|--|---|---|------------------------------|--------------------------|---|--|---|---|--|--|----------------|
| | | Name | Nature of Relationship | | | | | | | | | | | |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Systems, Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed company. | \$ 4,415,715 | \$ 1,381,950 (USD 45,000) | \$ 1,381,950 (USD 45,000) | \$ - | \$ - | 15.65% | \$ 4,415,715 | Y | N | N | (Note 3) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Electronics, Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed company. | 4,415,715 | 1,400,507 (USD 45,604) | 1,400,507 (USD 45,604) | - | - | 15.86% | 4,415,715 | Y | N | N | (Note 3) |
| 0 | FocalTech Systems Co., Ltd. | Hefei PineTech Electronics Co., Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed company. | 4,415,715 | 1,750,470 (USD 57,000) | 1,750,470 (USD 57,000) | 63,549 | - | 19.82% | 4,415,715 | Y | N | Y | (Note 3 and 5) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Electronics (Shenzhen) Co., Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed company. | 4,415,715 | 2,118,990 (USD 69,000) | 2,118,990 (USD 69,000) | 19,571 | - | 23.99% | 4,415,715 | Y | N | Y | (Note 3 and 5) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Smart Sensors Co., Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed company. | 4,415,715 | 107,485 (USD 3,500) | 107,485 (USD 3,500) | - | - | 1.22% | 4,415,715 | Y | N | N | (Note 4) |
| 0 | FocalTech Systems Co., Ltd. | FocalTech Smart Sensors, Ltd. | The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed company. | 4,415,715 | 107,485 (USD 3,500) | 107,485 (USD 3,500) | - | - | 1.22% | 4,415,715 | Y | N | N | (Note 4) |

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transaction

1) 0 for parent company.

2) Subsidiaries are given a number in sequence starting with No. 1.

Note 2: Limits on Endorsement/ Guarantee Amount

1) The ceilings on the amount of endorsements/guarantees due to business transaction are as below:

2) The total amount of endorsements/guarantees and the amount of endorsements/guarantees for any single entity shall not exceed 50% of the net worth of the Company.

3) The total amount of endorsements/guarantees between the Company owns directly or indirectly 100% voting shares shall not exceed 100% of the net worth of the Company.

4) The total amount of endorsement/guarantee provided by the Company or by the Company and its subsidiaries shall not exceed 50% of the net worth of the Company. The total amount of the endorsement/guarantee provided by the Company and the subsidiaries to any individual entity shall not exceed 50% of the net worth of the Company.

5) The net worth referred to above are based on the latest reviewed financial statements. Where the Company's financial reports are prepared in accordance with the International Financial Reporting Standards, "net worth" in the Procedures means the equity attributable to shareholders of the parent in the balance sheet.

Note 3: FocalTech Systems Co., Ltd. provided USD 45,000 thousand of endorsements/guarantees for FocalTech Electronics Ltd., FocalTech Systems, Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$0, NT\$0, NT\$0, and NT\$ 19,164 thousand respectively.

Note 4: FocalTech Systems Co., Ltd. provided USD 3,500 thousand of endorsements/guarantees for FocalTech Smart Sensors Ltd. and FocalTech Smart Sensors Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 5: FocalTech Systems Co., Ltd. provided USD 5,000 thousand of endorsements/guarantees for Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 6: Using the exchange rate of 1 USD: 30.71 NTD and 1 RMB: 4.4094 NTD as of December 31, 2022.

FocalTech Systems Co., Ltd.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2022

(Amount in thousand; Currency denomination in NTD)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2021 | | | | Note |
|--|---|-------------------------------|---|-------------------|----------------|-----------------------------|--------------|------|
| | | | | Shares/Units | Carrying Value | Percentage of Ownership (%) | Fair Value | |
| FocalTech Systems Co., Ltd. | <u>Stock</u> | | | | | | | |
| | Series B Preferred Stock of Fubon Financial Holding Co., Ltd. | - | Financial assets at fair value through profit or loss - non current | 170,000 | NT\$ 9,775 | 0.03 | NT\$ 9,775 | - |
| | Series A Preferred Stock of WT Microelectronics Co., Ltd. | - | " | 2,882,000 | NT\$ 137,616 | 2.13 | NT\$ 137,616 | - |
| | <u>Privately Offered Fund</u> | | | | | | | |
| | CDIB Capital Healthcare Ventures II Limited Partnership | - | Financial assets at fair value through profit or loss - non current | - | NT\$ 23,926 | 0.96 | NT\$ 23,926 | - |
| | CDIB Capital Growth Partners L.P. | - | " | - | NT\$ 30,202 | 0.66 | NT\$ 30,202 | - |
| | CDIB-Innolux Limited Partnership | - | " | - | NT\$ 36,457 | 4.37 | NT\$ 36,457 | - |
| Cathay Private Equity Smart Tech Limited Partnership | - | " | - | NT\$ 87,484 | 24.59 | NT\$ 87,484 | - | |

Note 1: The percentage of ownership is calculated by preferred shares the Company owned divided by outstanding preferred shares.

TABLE 4

FocalTech Systems Co., Ltd.

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA) (Note 1)
FOR THE YEAR ENDED DECEMBER 31, 2022**

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2022 | | | Net Income (Losses) of the Investee (Note 4) | Share of Profits/Losses of Investee (Note 4) | Note |
|---------------------------------|-----------------------------------|----------------|--|----------------------------------|----------------------------------|---------------------------------|-------------------------|---------------------------------|--|--|---------------|
| | | | | December 31,2022 (Note 2) | December 31,2021 (Note 3) | Shares | Percentage of Ownership | Carrying Value (Note 2) | | | |
| FocalTech Systems Co., Ltd. | FocalTech Corporation, Ltd. | Cayman Islands | Investment activity | NT\$ 7,059,264 | NT\$ 7,059,264 | 5,491,200 | 100% | NT\$ 2,194,116 (USD 71,446) | (NT\$ 638,033) (USD 21,407) | (NT\$ 638,033) (USD 21,407) | Subsidiary |
| FocalTech Systems Co., Ltd. | FocalTech Electronics, Ltd. | Cayman Islands | Investment activity | NT\$ 3,071 (USD 100) | NT\$ 2,768 (USD 100) | 2 | 100% | NT\$ 1,496,253 (USD 48,722) | (NT\$ 151,395) USD 5,080 | (NT\$ 151,395) USD 5,080 | Subsidiary |
| FocalTech Systems Co., Ltd. | FocalTech Smart Sensors, Ltd. | Cayman Islands | Investment activity | NT\$ 85,350 | NT\$ 85,350 | 3,000,000 | 9.14% | NT\$ 4,039 (USD 132) | (NT\$ 50,241) (USD 1,686) | (NT\$ 4,592) (USD 154) | Subsidiary |
| FocalTech Systems Co., Ltd. | Vitrio Technology Corporation | Taiwan | Research, development, manufacturing and sale of integrated circuits | NT\$ 4,970 | NT\$ 4,970 | 142,000 | 50.00% | NT\$ - | (NT\$ 491) | NT\$ - | Joint Venture |
| FocalTech Electronics Co., Ltd. | FocalTech Smart Sensors, Ltd. | Cayman Islands | Investment activity | NT\$ 238,821 | NT\$ 238,821 | 18,813,050 | 57.31% | NT\$ 25,330 (USD 825) | (NT\$ 50,241) (USD 1,686) | (NT\$ 28,793) (USD 966) | Subsidiary |
| FocalTech Smart Sensors, Ltd. | FocalTech Smart Sensors Co., Ltd. | Taiwan | Research, development, manufacturing and sale of integrated circuits | NT\$ 11,990 | NT\$ 11,990 | 17,417,000 | 100% | NT\$ 21,690 | NT\$ 311,039 | NT\$ 311,039 | Subsidiary |
| FocalTech Corporation, Ltd. | FocalTech Systems, Inc. | U.S.A | Investment activity | NT\$ 3,141,414 (USD 102,293) | NT\$ 2,831,466 (USD 102,293) | 100 | 100% | NT\$ 1,999,406 (USD 65,106) | (NT\$ 631,856) (USD 21,200) | (NT\$ 631,856) (USD 21,200) | Subsidiary |
| FocalTech Systems, Inc. | FocalTech Systems, Ltd. | Cayman Islands | Investment activity | NT\$ 717,080 (USD 23,350) | NT\$ 646,330 (USD 23,350) | 2 | 100% | NT\$ 2,071,047 (USD 67,439) | (NT\$ 638,826) (USD 21,434) | (NT\$ 638,826) (USD 21,434) | Subsidiary |
| FocalTech Systems, Ltd. | FocalTech Electronics Co., Ltd. | Taiwan | Import and export of integrated circuits | NT\$ 20,000 | NT\$ 20,000 | 2,000,000 | 100% | NT\$ 107,257 (USD 3,493) | (NT\$ 19,079) (USD 640) | (NT\$ 19,079) (USD 640) | Subsidiary |

Note 1: Please refer to the table 6 for the information on investment in Mainland China.

Note 2: Using the exchange rate of 1 USD: 30.71 NTD as of December 31, 2022.

Note 3: Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

Note 4: Using the average exchange rate of 1 USD: 29.8045 NTD for the year ended December 31, 2022.

FocalTech Systems Co., Ltd.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

| Investee company | Main businesses and products | Total amount of paid-in capital (Note 1) | Method of investment | Accumulated outflow of investment from Taiwan as of January 1, 2022 (Note 1) | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2022 (Note 1) | Net income (loss) of investee company (Note 2) | Percentage of ownership | Investment income (loss) recognized (Note 2) | Carrying amount as of December 31, 2022 (Note 1) | Accumulated inward remittance of earnings as of December 31, 2022 | Note |
|--|--|--|----------------------|--|------------------|--------|--|--|-------------------------|--|--|---|------|
| | | | | | Outflow | Inflow | | | | | | | |
| FocalTech Electronics (Shanghai) Co., Ltd. | Sales support and post-sales service for affiliates' IC products | NT\$ 61,420 (USD 2,000) | (Note 3 and 4) | NT\$ 30,710 (USD 1,000) | \$ - | \$ - | NT\$ 30,710 (USD 1,000) | NT\$ 4,458 (USD 150) | 100% | (NT\$ 4,458) (USD 150) | NT\$ 34,419 (USD 1,121) | \$- | - |
| FocalTech Electronics (Shenzhen) Co., Ltd. | Research, development, manufacturing and sale of integrated circuits | NT\$ 285,603 (USD 9,300) | (Note 3) | NT\$ 30,710 (USD 1,000) | - | - | NT\$ 30,710 (USD 1,000) | NT\$ 3,140 (USD 105) | 100% | NT\$ 3,140 (USD 105) | NT\$ 467,913 (USD 15,237) | - | - |
| FocalTech Systems (Shenzhen) Co., Ltd. | Design and research of integrated circuits | NT\$ 1,136,275 (USD 37,000) | (Note 4) | - | - | - | - | (NT\$ 579,627) (USD 19,448) | 100% | (NT\$ 579,627) (USD 19,448) | NT\$ 829,582 (USD 27,013) | - | - |
| Hefei PineTech Electronics Co., Ltd. | Research, development and sale of integrated circuits | NT\$ 132,282 (RMB 30,000) | (Note 4) | - | - | - | - | NT\$ 15,375 (USD 516) | 100% | NT\$ 15,375 (USD 516) | NT\$ 248,231 (USD 8,083) | - | - |

| Accumulated Investment in Mainland China as of December 31, 2021 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| \$61,420 (USD2,000) | \$1,856,945 (USD60,467) | \$5,298,858 |

Note 1: Using the exchange rate of 1 USD: 30.71 NTD and 1 RMB :4.4094 NTD as of December 31, 2022.

Note 2: Using the average exchange rate of 1 USD: 29.8045 NTD and 1 RMB :4.4347 NTD for the year ended December 31, 2022.

Note 3: Indirect investment in Mainland China through a holding company established in other countries.

Note 4: The investment is through the foreign subsidiaries, has not been remitted from Taiwan.

FocalTech Systems Co., Ltd.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

| Item | Statements Index |
|---|------------------|
| Major Accounting Items in Assets, Liabilities and Equity | |
| Major accounting items in assets, liabilities and equity | |
| Statement of cash and cash equivalents | 1 |
| Statement of Financial assets at fair value through profit or loss | Table 3 |
| Statement of accounts receivables, net | 2 |
| Statement of inventories | 3 |
| Statement of changes in investments accounted for using equity method | 4 |
| Statement of changes in property, plant and equipment | Note 12 |
| Statement of changes in accumulated depreciation of property, plant and equipment | Note 12 |
| Statement of changes in intangible assets | Note 14 |
| Statement of deferred tax assets | Note 24 |
| Statement of short-term loans | 5 |
| Statement of accounts payables | 6 |
| Statement of other payables | Note 18 |
| Statement of long-term loans | 7 |
| Statement of deferred tax liabilities | Note 24 |
| Major accounting items in profit or loss | |
| Statement of revenues | 8 |
| Statement of operating costs | 9 |
| Statement of operating expenses | 10 |
| Statement of finance costs | Note 23 |
| Statement of employee benefit, depreciation and amortization by function | 11 |

FocalTech Systems Co., Ltd.**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2022****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Item | Description | Amount |
|--|---|---------------------|
| Petty cash and cash on hand | Including EUR 3 thousand @32.72, HKD 23 thousand @3.938, RMB 47 thousand @4.4094, JPY 530 thousand @0.2324 ,USD 3 thousand @30.71 and NTD 40 thousand | \$ <u>646</u> |
| Cash in banks | | |
| Checking accounts and current accounts | | 220,885 |
| Foreign currency current accounts | Including USD 18,167 thousand @30.71 ,JPY 1,001 thousand @0.2324, RMB 56 thousand @4.4094 and EUR 1 thousand @32.72 | <u>558,416</u> |
| | | <u>779,301</u> |
| Cash equivalents | | |
| Time Deposits | Which would be expired before March 22, 2023, interest rates at 3.88%-5%, including USA 76,000 thousand @30.71 | <u>2,333,960</u> |
| | | <u>\$ 3,113,907</u> |

FocalTech Systems Co., Ltd.

**STATEMENT OF ACCOUNTS RECEIVABLES, NET
DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---------------------------------------|-------------------|
| Client A | \$ 162,222 |
| Client B | 141,194 |
| Client C | 105,486 |
| Client D | 69,054 |
| Client E | 68,321 |
| Client F | 59,323 |
| Client G | 53,615 |
| Client H | 44,863 |
| Others (Note) | <u>218,315</u> |
| | 922,393 |
| Less: Allowance for doubtful accounts | <u>-</u> |
| | <u>\$ 922,393</u> |

Note: The amount of each individual client included in others does not exceed 5% of the account balance.

FocalTech Systems Co., Ltd.**STATEMENT OF INVENTORIES****DECEMBER 31, 2022****(In Thousands of New Taiwan Dollars)**

| Item | Amount | |
|-----------------|--------------------|-----------------------------|
| | Book value | Net Realizable Value |
| Finished goods | \$ 737,897 | \$ 781,127 |
| Work in process | 1,823,306 | 1,871,740 |
| Raw materials | <u>1,548,724</u> | <u>1,703,941</u> |
| | <u>\$4,109,927</u> | <u>\$4,356,808</u> |

FocalTech Systems Co., Ltd.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
 FOR THE YEAR ENDED DECEMBER 31, 2022
 (In Thousands of New Taiwan Dollars)

| | Balance, January 1, 2022 | | | Share of Profit (Loss) of the Investee | Other Comprehensive Income | Other Adjustment | Balance, December 31, 2022 | | | Collateral | Note |
|-------------------------------|--------------------------|-------------------------------|--------------------|--|----------------------------------|---------------------|----------------------------|-------------------------------|--------------------|------------|--------|
| | Shares (In thousand) | Percentage of Ownership(%) | Amount | | | | Shares (In thousand) | Percentage of Ownership(%) | Amount | | |
| FocalTech Corporation, Ltd. | 5,491 | 100 | \$2,500,591 | (\$ 638,033) | \$ 144,399 | \$ 187,159 | 5,491 | 100 | \$2,194,116 | Nil | Note 1 |
| FocalTech Electronics, Ltd. | 2 shares | 100 | 1,543,791 | (151,395) | 103,857 | - | 2 shares | 100 | 1,496,253 | Nil | |
| FocalTech Smart Sensors, Ltd. | 3,000 | 9.14 | 6,074 | (4,592) | 2,557 | - | 3,000 | 9.14 | 4,039 | Nil | |
| Vitrio Technology Corporation | 142 | 50 | - | - | - | - | 142 | 50 | - | Nil | |
| | | | <u>\$4,050,456</u> | <u>(\$ 794,020)</u> | <u>\$ 250,813</u> | <u>\$ 187,159</u> | | | <u>\$3,694,408</u> | | |

Note 1: Other adjustment is compensation cost of employee share options, NT\$187,159 thousand.

FocalTech Systems Co., Ltd.**STATEMENT OF SHORT-TERM LOANS
DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)**

| <u>Type</u> | <u>Balance, End of Year</u> | <u>Contract Period</u> | <u>Range of Interest Rates (%)</u> | <u>Collateral</u> |
|-----------------------------|---------------------------------|---------------------------|--|-------------------|
| <u>Unsecured bank loans</u> | | | | |
| Mega Bank | \$ 200,000 | 2021/11/11~ 2023/02/09 | 2.775% | Nil |
| Yuanta Bank | 300,000 | 2022/12/15~ 2023/01/16 | 1.65% | Nil |
| Yuanta Bank | 300,000 | 2022/12/20~ 2023/01/19 | 1.65% | Nil |
| CTBC Bank | <u>600,000</u> | 2022/08/19~ 2023/02/15 | 1.3% | Nil |
| Total | <u>\$ 1,400,000</u> | | | |

FocalTech Systems Co., Ltd.

STATEMENT OF ACCOUNTS PAYABLES

DECEMBER 31, 2022

(In Thousands of New Taiwan Dollars)

| Item | Amount |
|---------------------------------|--------------------|
| Accounts payables-related party | |
| FocalTech Electronics, Ltd. | \$ 581,936 |
| Others(Note) | <u>107</u> |
| | <u>582,043</u> |
| Accounts payables-others | |
| Vendor A | \$ 219,058 |
| Vendor B | 147,549 |
| Vendor C | 121,601 |
| Vendor D | 69,841 |
| Others (Note) | <u>85,640</u> |
| | <u>643,689</u> |
| | <u>\$1,225,732</u> |

Note: The amount of each individual vendor included in others does not exceed 5% of the account balance.

FocalTech Systems Co., Ltd.

STATEMENT OF LONG-TERM LOANS

DECEMBER 31, 2022

(In Thousands of New Taiwan Dollars)

| Type | Balance, End of Year | Contract Period | Range of Interest Rates (%) | Collateral |
|-----------------------------|-------------------------|---------------------------|--------------------------------|---|
| <u>Unsecured bank loans</u> | | | | |
| Esun Bank | \$ 200,000 | 2022/09/16~ 2025/09/16 | 1.65% | Nil |
| <u>Secured bank loans</u> | | | | |
| Mega Bank | 500,000 | 2021/09/24~ 2031/09/24 | 1.625% | Land and buildings pledged as collateral |
| Chang Hwa Bank | 286,840 | 2021/09/24~ 2036/09/24 | 1.75% | Land and buildings pledged as collateral |
| | 786,840 | | | |
| | (25,000) | | | |
| Total | \$ 961,840 | | | |

FocalTech Systems Co., Ltd.**STATEMENT OF REVENUES****FOR THE YEAR ENDED DECEMBER 31, 2022****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Item | Quantity (in thousand units) | Amount |
|--|---|---------------------|
| Net sales | | |
| IC for Human-Machine Interface Solutions | 139,049 | \$ 9,933,071 |
| Less: Sales discounts | | (277,863) |
| Sales returns | | <u>(12,490)</u> |
| | | <u>\$ 9,642,718</u> |

FocalTech Systems Co., Ltd.**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|------------------------------------|----------------------|
| Raw materials, beginning of year | \$ 490,297 |
| Raw materials purchased | 8,701,618 |
| Transferred to expenses | (3,126) |
| Raw materials balance, end of year | (<u>1,548,724</u>) |
| Raw materials used | 7,640,065 |
| Manufacturing expenses | <u>1,925,945</u> |
| Manufacturing cost | 9,566,010 |
| Work in process, beginning of year | 1,301,879 |
| Transferred to expenses and others | (43,602) |
| Work in process, end of year | (<u>1,823,306</u>) |
| Cost of finished goods | 9,000,981 |
| Finished goods, beginning of year | 861,983 |
| Finished goods purchased | 31,499 |
| Transferred to expenses and others | (87,037) |
| Finished goods, end of year | (<u>737,897</u>) |
| Operating costs | <u>\$ 9,069,529</u> |

FocalTech Systems Co., Ltd.
**STATEMENT OF OPERATING EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2022
 (In Thousands of New Taiwan Dollars)**

| Item | Selling Expenses | General and Administrative Expenses | Research and Development Expenses |
|---------------------------|-------------------------|--|--|
| Payroll | \$ 164,410 | \$ 164,967 | \$1,008,791 |
| Freight | 13,097 | 186 | - |
| Insurance fees | 5,209 | 28,222 | 21,600 |
| Mask expense | - | - | 166,162 |
| Professional service fees | 666 | 25,753 | 32,551 |
| Miscellaneous fees | 121 | 26,706 | 4,100 |
| Others (Note) | 13,621 | 88,040 | 337,898 |
| | \$ 197,124 | \$ 333,874 | \$1,571,102 |

Note: Expected credit loss is included and the amount of each item in others does not exceed 5% of the account balance.

FocalTech Systems Co., Ltd.

**STATEMENT OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Thousands of New Taiwan Dollars)**

| | 2022 | | | 2021 | | |
|----------------------------|----------------------------------|--|---------------------|----------------------------------|--|---------------------|
| | Classified as Operating Costs | Classified as Operating Expenses | Total | Classified as Operating Costs | Classified as Operating Expenses | Total |
| Employee benefits | | | | | | |
| Salary and bonus | \$ 226,188 | \$ 1,331,269 | \$ 1,557,457 | \$ 209,572 | \$ 1,036,199 | \$ 1,245,771 |
| Labor and health insurance | 7,200 | 54,397 | 61,597 | 7,200 | 43,715 | 50,915 |
| Pension | 5,160 | 27,072 | 32,232 | 5,538 | 22,004 | 27,542 |
| Board compensation | - | 6,899 | 6,899 | - | 36,741 | 36,741 |
| Others | 2,536 | 20,229 | 22,765 | 2,497 | 27,756 | 30,253 |
| | <u>\$ 241,084</u> | <u>\$ 1,439,866</u> | <u>\$ 1,680,950</u> | <u>\$ 224,807</u> | <u>\$ 1,166,415</u> | <u>\$ 1,391,222</u> |
| Depreciation | <u>\$ 26,007</u> | <u>\$ 17,495</u> | <u>\$ 43,502</u> | <u>\$ 8,892</u> | <u>\$ 9,578</u> | <u>\$ 18,470</u> |
| Amortization | <u>\$ 605</u> | <u>\$ 70,565</u> | <u>\$ 71,170</u> | <u>\$ -</u> | <u>\$ 15,317</u> | <u>\$ 15,317</u> |

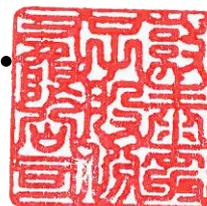
Note 1: The Company's average employees totaled to 451 and 423 as of December 31, 2022 and 2021, respectively, including 7 and 6 non-employee directors, respectively.

Note 2: Listed Company at Taiwan Stock Exchange and over-the-counter company at Taipei Exchange should disclose additional information below:

- a. The average amount of employee benefits for the years ended December 31, 2022 and 2021 was NT\$3,770 thousand and NT\$3,248 thousand, respectively. ("Total employee benefit - Total board compensation"/ "Total employee headcount - Total non-employee director headcount")
- b. The average amount of salary and bonus for the years ended December 31, 2022 and 2021 was NT\$3,508 thousand and NT\$2,987 thousand, respectively. (Total salary and bonus/ "Total employee headcount - Total non-employee director headcount")
- c. The average salary and bonus increased by 17% year over year. ("Average salary and bonus in current year - Average salary and bonus in previous year"/Average salary and bonus in previous year)
- d. The Company did not have supervisors for the years ended December 31, 2022 and 2021. Therefore, there was no compensation to the supervisors.
- e. The compensation paid to board of directors and the executive officers is based on their contribution and market trends. It is reviewed by the Compensation Committee. The compensation paid to the employees is based on their contribution and market trends.

This is the translation of the financial statements. CPAs do not audit or review on this translation.

FocalTech Systems Co., Ltd.



Chairman : Genda Hu

