

FocalTech Systems Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2020 and 2019**

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of FocalTech Systems Co., Ltd. as of and for the year ended December 31, 2020, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, “Consolidated Financial Statements.” In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, FocalTech Systems Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

FocalTech Systems Co., Ltd.



By

Genda James Hu

Chairman



March 29, 2021

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
FocalTech Systems Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2020 and 2019, 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 Company as of December 31, 2020 and 2019, 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 auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements in the current period 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 exist 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 listed in the Key Audit Matters in 2020.

Refer to Notes 4,21 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 2020, 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

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exception.

4. We sampled purchase orders, shipping documents bills of lading, and collection records in revenue breakdown to ensure the occurrence of sales revenue.

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, 2020 and 2019 on which we have issued an unmodified opinion.

Responsibilities of Corporate Management and Governance hierarchy For the Consolidated Financial Statements

Management Level 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 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.

Corporate governance level (including members of the Audit Committee) is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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.
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.

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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, 2020 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 Shiow-Ming Shue and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 29, 2021

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2020		2019	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	\$ 4,011,682	33	\$ 3,461,503	30
Financial asset at fair value through other comprehensive income-current(Note 4 and 8)	-	-	120,475	1
Trade receivables, net (Note 4 and 10)	1,633,900	13	1,420,459	12
Inventories (Note 4 and 11)	1,755,142	14	1,570,753	14
Other financial assets (Note 4 and 9)	1,385,936	11	1,596,292	14
Other current assets	<u>184,262</u>	<u>2</u>	<u>361,925</u>	<u>3</u>
Total current assets	<u>8,970,922</u>	<u>73</u>	<u>8,531,407</u>	<u>74</u>
NON-CURRENT ASSETS				
Financial asset at fair value through profit or loss - non-current (Note 4 and 7)	234,662	2	56,354	-
Financial asset at fair value through other comprehensive income - non-current (Note 4 and 8)	247,974	2	60,898	1
Property, plant and equipment (Note 4 and 13)	1,321,940	11	1,361,478	12
Goodwill (Notes 4 , 5 and 14)	1,237,268	10	1,237,268	11
Other intangible assets (Notes 4 and 15)	63,202	-	99,189	1
Deferred income tax assets (Notes 4 and 23)	85,154	1	120,782	1
Other non-current assets (Note 29)	<u>183,931</u>	<u>1</u>	<u>135,593</u>	<u>1</u>
Total non-current assets	<u>3,374,131</u>	<u>27</u>	<u>3,071,562</u>	<u>26</u>
TOTAL	<u>\$ 12,345,053</u>	<u>100</u>	<u>\$ 11,602,969</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ 523,648	4	\$ -	-
Trade payables (Note 17)	1,731,109	14	1,986,219	17
Other payables (Note 18)	1,037,431	8	954,449	8
Current tax liabilities (Notes 4 and 23)	433,121	4	363,172	3
Other current liabilities(Note 21)	<u>230,944</u>	<u>2</u>	<u>108,584</u>	<u>1</u>
Total current liabilities	<u>3,956,253</u>	<u>32</u>	<u>3,412,424</u>	<u>29</u>
NON-CURRENT LIABILITIES				
Deferred income tax liabilities (Notes 4 and 23)	53,213	1	33,537	-
Net defined benefit liabilities - non-current (Notes 4 and 19)	23,366	-	24,078	-
Guarantee deposits received	490,361	4	394,360	4
Other non-current liabilities	<u>10,400</u>	<u>-</u>	<u>10,400</u>	<u>-</u>
Total non-current liabilities	<u>577,340</u>	<u>5</u>	<u>462,375</u>	<u>4</u>
Total liabilities	<u>4,533,593</u>	<u>37</u>	<u>3,874,799</u>	<u>33</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 20 and 25)				
Share capital				
Ordinary shares	<u>2,103,532</u>	<u>17</u>	<u>2,996,759</u>	<u>26</u>
Capital surplus				
Additional paid-in capital	4,725,445	38	5,037,671	43
Treasury shares	69,361	1	48,662	1
Employee share options	14,903	-	25,510	-
Employee share options - expired	<u>33,933</u>	<u>-</u>	<u>33,534</u>	<u>-</u>
Total capital surplus	<u>4,843,642</u>	<u>39</u>	<u>5,145,377</u>	<u>44</u>
Undistributed earnings (deficits to be offset)	<u>1,012,301</u>	<u>8</u>	<u>(183,307)</u>	<u>(1)</u>
Other equity				
Exchange differences from translating the financial statements of foreign operations	(125,038)	(1)	4,057	-
Unrealized loss on financial assets at fair value through other comprehensive income	<u>2,722</u>	<u>-</u>	<u>1,750</u>	<u>-</u>
Total other equity	<u>(122,316)</u>	<u>(1)</u>	<u>5,807</u>	<u>-</u>
Treasury shares	<u>(24,316)</u>	<u>-</u>	<u>(267,158)</u>	<u>(2)</u>
Equity attributable to owners of the company	<u>7,812,843</u>	<u>63</u>	<u>7,697,478</u>	<u>67</u>
NON-CONTROLLING INTERESTS	<u>(1,383)</u>	<u>-</u>	<u>30,692</u>	<u>-</u>
Total equity	<u>7,811,460</u>	<u>63</u>	<u>7,728,170</u>	<u>67</u>
TOTAL	<u>\$ 12,345,053</u>	<u>100</u>	<u>\$ 11,602,969</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 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
REVENUE (Note 4 and 21)	\$ 13,800,348	100	\$ 9,160,261	100
COSTS OF SALES (Notes 4,11 and 22)	<u>(10,371,572)</u>	<u>(75)</u>	<u>(7,167,061)</u>	<u>(78)</u>
GROSS PROFIT	<u>3,428,776</u>	<u>25</u>	<u>1,993,200</u>	<u>22</u>
OPERATING EXPENSES (Notes 23, 25,27 and 30)				
Selling and marketing expenses	(398,828)	(3)	(469,272)	(5)
General and administrative expenses	(363,193)	(3)	(312,638)	(4)
Research and development expenses	<u>(1,636,018)</u>	<u>(12)</u>	<u>(1,551,946)</u>	<u>(17)</u>
Total operating expenses	<u>(2,398,039)</u>	<u>(18)</u>	<u>(2,333,856)</u>	<u>(26)</u>
OPERATIONS LOSS	<u>1,030,737</u>	<u>7</u>	<u>(340,656)</u>	<u>(4)</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 22)	(2,009)	-	(1,152)	-
Share of loss of subsidiaries and joint ventures(Note4)	(4,970)	-	-	-
Interest income (Note 4)	51,835	-	111,144	1
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Notes 4)	(5,607)	-	1,077	-
Other gains and losses, net	92,446	1	71,949	1
Loss on foreign currency exchange(Note 4)	<u>(5,335)</u>	<u>-</u>	<u>(22,723)</u>	<u>-</u>
Total non-operating income and expenses	<u>126,360</u>	<u>1</u>	<u>160,295</u>	<u>2</u>
INCOME (LOSS) BEFORE INCOME TAX	1,157,097	8	(180,361)	(2)
INCOME TAX EXPENSE (Notes 4 and 23)	<u>(173,639)</u>	<u>(1)</u>	<u>(25,319)</u>	<u>-</u>
NET INCOME (LOSS)	<u>983,458</u>	<u>7</u>	<u>(205,680)</u>	<u>(2)</u>
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans(Notes 4 and 19)	359	-	1,677	-
Income tax related to items that will not be reclassified subsequently to profit or loss(Notes 4 and 23)	<u>(50)</u>	<u>-</u>	<u>(235)</u>	<u>-</u>
	<u>309</u>	<u>-</u>	<u>1,442</u>	<u>-</u>

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	\$ (132,636)	(1)	\$ (147,153)	(2)
Unrealized gains from debt instrument investments measured at fair value through other comprehensive income (Notes 4)	<u>972</u>	<u>-</u>	<u>4,040</u>	<u>-</u>
	<u>(131,664)</u>	<u>(1)</u>	<u>(143,113)</u>	<u>(2)</u>
Total other comprehensive loss (net of income tax)	<u>(131,355)</u>	<u>(1)</u>	<u>(141,671)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	<u>\$ 852,103</u>	<u>6</u>	<u>\$ (347,351)</u>	<u>(4)</u>
NET LOSS ATTRIBUTABLE TO:				
Owners of the Company	\$ 1,011,992	7	\$ (175,249)	(2)
Non-controlling interests	<u>(28,534)</u>	<u>-</u>	<u>(30,431)</u>	<u>-</u>
	<u>\$ 983,458</u>	<u>7</u>	<u>\$ (205,680)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Owners of the Company	\$ 884,178	6	\$ (315,164)	(4)
Non-controlling interests	<u>(32,075)</u>	<u>-</u>	<u>(32,187)</u>	<u>-</u>
	<u>\$ 852,103</u>	<u>6</u>	<u>\$ (347,351)</u>	<u>(4)</u>
LOSS PER SHARE (Note 24)				
Basic	<u>\$ 3.97</u>		<u>\$ (0.63)</u>	
Diluted	<u>\$ 3.73</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
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company									
	Retained Earnings(Accumulated Deficits)				Other Equity			Total	Non-controlling Interests	Total Equity
	Share Capital Ordinary Shares	Capital Surplus	Legal Reserve	Undistributed Earnings (Deficits to be offset)	Exchange Differences from Translating Financial Statement of Foreign Operations	Unrealized gains(losses) from financial assets measured at fair value through other comprehensive income	Treasury Shares			
BALANCE, JANUARY 1, 2019	\$ 2,987,432	\$ 6,551,481	\$ 186,154	\$ (1,434,755)	\$ 149,454	\$ (2,290)	\$ (191,998)	\$ 8,044,273	\$ 33,342	\$ 8,077,615
Legal reserve used to cover accumulated deficits	-	-	(186,154)	186,154	-	-	-	-	-	-
Capital surplus used to cover accumulated deficits	-	(1,248,601)	-	1,248,601	-	-	-	-	-	-
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	(150,000)	-	(150,000)
Net loss for the year ended December 31, 2019	-	-	-	(175,249)	-	-	-	(175,249)	(30,431)	(205,680)
Other comprehensive income for the year ended December 31, 2019, net of income tax	-	-	-	1,442	(145,397)	4,040	-	(139,915)	(1,756)	(141,671)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	(173,807)	(145,397)	4,040	-	(315,164)	(32,187)	(347,351)
Treasury stock transferred to employees (Note 20 and 25)	-	-	-	-	-	-	126,045	126,045	-	126,045
Changes in ownership interests in subsidiaries (Note 26)	-	(20,448)	-	(9,500)	-	-	-	(29,948)	29,948	-
Compensation cost of employee share options (Note 20 and 25)	-	9,787	-	-	-	-	-	9,787	-	9,787
Issue of ordinary shares under employee share options (Note 20 and 25)	9,327	3,158	-	-	-	-	-	12,485	-	12,485
Decrease in non-controlling interests (Note 26)	-	-	-	-	-	-	-	-	(411)	(411)
BALANCE AT DECEMBER 31, 2019	2,996,759	5,145,377	-	(183,307)	4,057	1,750	(267,158)	7,697,478	30,692	7,728,170
Capital surplus used to cover accumulated deficits	-	(183,307)	-	183,307	-	-	-	-	-	-
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	(150,000)	-	(150,000)
Net income for the year ended December 31, 2020	-	-	-	1,011,992	-	-	-	1,011,992	(28,534)	983,458
Other comprehensive loss for the year ended December 31, 2020, net of income tax	-	-	-	309	(129,095)	972	-	(127,814)	(3,541)	(131,355)
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	1,012,301	(129,095)	972	-	884,178	(32,075)	852,103
Reduction of capital (Note 20)	(899,721)	-	-	-	-	-	5,191	(894,530)	-	(894,530)
Compensation cost of employee share options (Note 20 and 25)	-	21,279	-	-	-	-	-	21,279	-	21,279
Treasury stock transferred to employees (Note 20 and 25)	-	1,228	-	-	-	-	237,651	238,879	-	238,879
Issue of ordinary shares under employee share options(Note 20 and 25)	6,494	9,065	-	-	-	-	-	15,559	-	15,559
BALANCE AT DECEMBER 31, 2020	\$ 2,103,532	\$ 4,843,642	\$ -	\$ 1,012,301	\$ (125,038)	\$ 2,722	\$ (24,316)	\$ 7,812,843	\$ (1,383)	\$ 7,811,460

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax from continuing operation	\$ 1,157,097	\$ (180,361)
Adjustments for:		
Depreciation expenses	77,433	81,185
Amortization expenses	35,903	50,186
Loss (gain) on financial assets and liabilities at fair value through profit or loss	5,607	(1,077)
Finance costs	2,009	1,152
Interest income	(51,835)	(111,144)
Compensation cost of employee share options	21,279	9,787
Share of loss of subsidiaries and joint ventures	4,970	-
Loss on disposal of property, plant and equipment	1,264	-
Loss on disposal of investments	40,928	-
Write-down of inventories	(229,556)	(115,912)
Unrealized gain on foreign currency exchange	(37,330)	(8,917)
Changes in operating assets and liabilities		
Increase in financial assets mandatorily classified as at fair value through profit or loss	(230,416)	56,476
Trade receivables	(233,170)	(461,962)
Inventories	19,988	646,063
Other current assets	165,670	(209,611)
Trade payables	(228,551)	394,137
Other payables	113,845	181,302
Other current liabilities	125,308	47,295
Net defined benefit liabilities	(353)	(341)
Cash generated from operations	760,090	378,258
Interest paid	(1,792)	(1,152)
Income tax paid	(31,382)	(31,938)
Net cash generated from operating activities	<u>726,916</u>	<u>345,168</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial asset at fair value through other comprehensive income	(197,216)	-
Proceeds from disposal of financial asset at fair value through other comprehensive income	118,197	132,921
Acquisition of investments accounted for using equity method	(4,970)	-
Purchase for property, plant and equipment	(22,860)	(101,704)
Purchase of intangible assets	(147)	(825)
Decrease in other financial assets	155,603	651,819
Increases in other non-current assets	(48,937)	(80,012)
Interest received	63,648	114,389
Net cash generated from investing activities	<u>63,318</u>	<u>716,588</u>

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Increases in short-term borrowings	\$ 522,827	\$ -
Increase in guarantee deposits received	99,862	126,134
Cash dividends	(150,000)	(150,000)
Capital reduction payments to shareholders	(894,530)	-
Proceeds from issuance ordinary shares under employee share options	15,559	12,485
Treasury stock transferred to employees	238,879	126,045
Decrease in non-controlling interests	<u>-</u>	<u>(411)</u>
Net cash (used) generated in financing activities	<u>(167,403)</u>	<u>114,253</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(72,652)</u>	<u>(70,432)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	550,179	1,105,577
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>3,461,503</u>	<u>2,355,926</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 4,011,682</u>	<u>\$ 3,461,503</u>

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 4, 2021.

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

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

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

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2021

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021

The Group assessed the application of abovementioned standards and interpretations do not have significant impact on the Group’s accounting policies.

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

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: 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.

As of the date the financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have 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

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into effect by Financial Supervisory Commission.

b. Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, except for the financial instruments measured at fair value and the net defined benefit liabilities recognized in the fair value of the estimated assets, and explained in the accounting policies below.

The evaluation of fair value could be classified into level 1 to level 3 based on the degree of 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.

See Note 12, Table 5 and Table 6 for the detailed information of the subsidiaries (including the percentage of ownership and main business).

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; 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 tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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

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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 29.

B. Financial assets at amortized cost

Financial assets that meet both two following conditions will subsequently be measured at 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 trade receivables) and for investments in debt instruments in FVTOCI.

The loss allowance for trade 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. 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.

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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.

l. 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 trade 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

2020

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

The Group as 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. 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.

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 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.

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 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 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 are 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 Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2020	2019
Cash on hand	\$ 2,182	\$ 4,381
Checking accounts and demand deposits	3,668,013	2,103,526
Cash equivalent (investments with original maturities less than three months)	<u>341,487</u>	<u>1,353,596</u>
	<u>\$ 4,011,682</u>	<u>\$ 3,461,503</u>

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2020	2019
Demand deposits	0.001%-0.35%	0.001%-0.35%
Time deposits	0.1%-0.35%	1.56%-2.32%

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

	December 31 2020	December 31 2019
Mandatorily at fair value through profit or loss (FVTPL)		
Listed preferred shares	\$ 72,186	\$ 10,931
Private Funds	52,579	45,423
Structured Investments	<u>109,897</u>	<u>-</u>
	<u>\$234,662</u>	<u>\$ 56,354</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2020	December 31, 2019
Investments in debt instruments		
<u>Current</u>		
Foreign investments		
Fixed income bonds	\$ <u>-</u>	\$ <u>120,475</u>
<u>Non – Current</u>		
Foreign investments		
Fixed income bonds	\$ <u>247,974</u>	\$ <u>60,898</u>
Yield rates	1.801% ~ 4.117%	2.307% ~ 4.117%

9. OTHER FINANCIAL ASSETS

	<u>December 31</u>	
	2020	2019
Time deposits with original maturities more than three months	\$ <u>1,385,936</u>	\$ <u>1,596,292</u>
Market rate intervals	<u>0.2% ~ 4.18%</u>	<u>1.5% ~ 4.18%</u>

10. TRADE RECEIVABLES, NET

	<u>December 31</u>	
	2020	2019
Trade receivables	\$ <u>1,633,900</u>	\$ <u>1,420,459</u>

The average credit period on sales of goods was 60-120 days. In order to minimize credit risk, management of the Group 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 Group 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 Group's credit risk was significantly reduced.

The Group recognizes the allowance loss for accounts receivable based on expected credit losses during the duration. The expected credit losses on trade 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 trade receivable.

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

December 31, 2020

	<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>\$1,593,485</u>	<u>\$ 40,401</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 1,633,900</u>

December 31, 2019

	<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>\$1,420,085</u>	<u>\$ 374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,420,459</u>

11. INVENTORIES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Finished goods	\$ 418,694	\$ 476,430
Work in progress	1,025,201	775,899
Raw materials and supplies	<u>311,247</u>	<u>318,424</u>
	<u>\$ 1,755,142</u>	<u>\$ 1,570,753</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2020 and 2019 was \$10,371,572 thousand and \$7,167,061 thousand, included gain from price recovery of inventory of \$229,556 thousand and \$115,912 thousand for the years ended December 31, 2020 and 2019, respectively.

12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statement were as follows:

<u>Investor</u>	<u>Investee</u>	<u>Nature of Activities</u>	<u>Proportion of Ownership</u>	
			<u>2020</u>	<u>2019</u>
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd. FocalTech Electronics, Ltd.	Investment activity Investment activity	100% 100%	100% 100%
FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	67.15% (a)	67.15%
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. FocalTech Electronics Co., Ltd.	Design and research of integrated circuits Import and export of integrated circuits	100% 100%	100% 100%
FocalTech Electronics,	FocalTech Electronics	Sales support and post-sales service for	100%	100%

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Ltd.	(Shanghai) Co., Ltd.	affiliates' IC products		
	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%

- a. FocalTech Smart Sensors, Ltd. is owned solely by FocalTech Electronics Co., Ltd. which was held by The company and FocalTech Electronics Co., Ltd.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Total
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,375,563	\$ 192,558	\$ 15,970	\$ 42,675	\$ 38,956	\$ 1,665,722
Additions	578	99,552	54	1,520	-	101,704
Effect of foreign currency exchange differences	(53,180)	(6,450)	(476)	(1,574)	(568)	(62,248)
Balance at December 31, 2019	<u>\$ 1,322,961</u>	<u>\$ 285,660</u>	<u>\$ 15,548</u>	<u>\$ 42,621</u>	<u>\$ 38,388</u>	<u>\$ 1,705,178</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2019	\$ 51,610	\$ 138,166	\$ 11,635	\$ 31,508	\$ 38,431	\$ 271,350
Depreciation	36,526	39,537	1,142	3,454	526	81,185
Effect of foreign currency exchange differences	(3,375)	(3,335)	(346)	(1,210)	(569)	(8,835)
Balance at December 31, 2019	<u>\$ 84,761</u>	<u>\$ 174,368</u>	<u>\$ 12,431</u>	<u>\$ 33,752</u>	<u>\$ 38,388</u>	<u>\$ 343,700</u>
Carrying amounts at December 31, 2019	<u>\$ 1,238,200</u>	<u>\$ 111,292</u>	<u>\$ 3,117</u>	<u>\$ 8,869</u>	<u>\$ -</u>	<u>\$ 1,361,478</u>
<u>Cost</u>						
Balance at January 1, 2020	\$ 1,322,961	\$ 285,660	\$ 15,548	\$ 42,621	\$ 38,388	\$ 1,705,178
Additions	-	19,431	97	3,332	-	22,860
Reclassification	-	(259)	(76)	335	-	-
Disposals	-	(5,965)	(4,123)	(7,935)	-	(18,023)
Effect of foreign currency exchange differences	20,129	(5,890)	111	516	216	15,082
Balance at December 31, 2020	<u>\$ 1,343,090</u>	<u>\$ 292,977</u>	<u>\$ 11,557</u>	<u>\$ 38,869</u>	<u>\$ 38,604</u>	<u>\$ 1,725,097</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2020	\$ 84,761	\$ 174,368	\$ 12,431	\$ 33,752	\$ 38,388	\$ 343,700
Depreciation	35,022	39,020	798	2,593	-	77,433
Reclassification	-	-	10	(10)	-	-
Disposals	-	(5,868)	(3,750)	(7,141)	-	(16,759)
Effect of foreign currency exchange differences	1,913	(3,798)	85	367	216	(1,217)
Balance at December 31, 2020	<u>\$ 121,696</u>	<u>\$ 203,722</u>	<u>\$ 9,574</u>	<u>\$ 29,561</u>	<u>\$ 38,604</u>	<u>\$ 403,157</u>
Carrying amounts at December 31, 2020	<u>\$ 1,221,394</u>	<u>\$ 89,255</u>	<u>\$ 1,983</u>	<u>\$ 9,308</u>	<u>\$ -</u>	<u>\$ 1,321,940</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 31.

14. GOODWILL

	For the Year Ended December 31	
	2020	2019
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 Group estimated cash flows from sales of IDC (Integrated Driver Controller), and the recoverable amount exceeded the carrying value. Therefore, the Group did not recognize any impairment on goodwill.

The recoverable amount is calculated by IDC projected net cash flows, discounted at 15.45% and 10.66% for the years ended December 31, 2020 and 2019, 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 at January 1, 2019	\$ 130,393	\$ 157,801	\$ 76,714	\$ 74,000	\$ 438,908
Additions	-	825	-	-	825
Effect of foreign currency exchange differences	(2,674)	(3,656)	(10)	-	(6,340)
Balance at December 31, 2019	<u>\$ 127,719</u>	<u>\$ 154,970</u>	<u>\$ 76,704</u>	<u>\$ 74,000</u>	<u>\$ 433,393</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2019	\$ 95,724	\$ 133,210	\$ 31,376	\$ 29,600	\$ 289,910
Amortization expense	16,296	18,704	7,786	7,400	50,186
Effect of foreign currency exchange differences	(2,344)	(3,538)	(10)	-	(5,892)
Balance at December 31, 2019	<u>\$ 109,676</u>	<u>\$ 148,376</u>	<u>\$ 39,152</u>	<u>\$ 37,000</u>	<u>\$ 334,204</u>
Carrying amounts at December 31, 2019	<u>\$ 18,043</u>	<u>\$ 6,594</u>	<u>\$ 37,552</u>	<u>\$ 37,000</u>	<u>\$ 99,189</u>
<u>Cost</u>					
Balance at January 1, 2020	\$ 127,719	\$ 154,970	\$ 76,704	\$ 74,000	\$ 433,393
Additions	-	147	-	-	147
Effect of foreign currency exchange differences	(5,457)	(6,870)	4	-	(12,323)
Balance at December 31, 2020	<u>\$ 122,262</u>	<u>\$ 148,247</u>	<u>\$ 76,708</u>	<u>\$ 74,000</u>	<u>\$ 421,217</u>

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Accumulated amortization

Balance at January 1, 2020	\$ 109,676	\$ 148,376	\$ 39,152	\$ 37,000	\$ 334,204
Amortization expense	17,660	3,057	7,786	7,400	35,903
Effect of foreign currency exchange differences	(5,206)	(6,890)	4	-	(12,092)
Balance at December 31, 2020	<u>\$ 122,130</u>	<u>\$ 144,543</u>	<u>\$ 46,942</u>	<u>\$ 44,400</u>	<u>\$ 358,015</u>
Carrying amounts at December 31, 2020	<u>\$ 132</u>	<u>\$ 3,704</u>	<u>\$ 29,766</u>	<u>\$ 29,600</u>	<u>\$ 63,202</u>

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

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

16. SHORT-TERM BORROWINGS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Unsecured bank loans	\$ 480,000	\$ -
Secured bank loans	<u>43,648</u>	<u>-</u>
	<u>\$ 523,648</u>	<u>\$ -</u>
Annual interest rate		
Unsecured bank loans	0.88~1.06%	
Secured bank loans	4.1%	

17. TRADE PAYABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Trade payables	<u>\$ 1,731,109</u>	<u>\$ 1,986,219</u>

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

18. OTHER PAYABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Payable for rebates	\$ 423,800	\$ 408,291
Payable for salaries and bonus	467,979	411,236
Payable for labor, health and social insurance	13,977	12,367
Reserve for litigations	47,598	50,105
Payable for professional services and others	<u>84,077</u>	<u>72,450</u>
	<u>\$1,037,431</u>	<u>\$ 954,449</u>

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19. 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	
	2020	2019
Present value of defined benefit obligation	\$ 42,275	\$ 45,235
Fair value of plan assets	(18,909)	(21,157)
Net defined benefit liability	<u>\$ 23,366</u>	<u>\$ 24,078</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, 2019	\$ 45,590	(\$ 19,494)	\$ 26,096
Service cost			
Current service cost	125	-	125
Net interest expense (income)	<u>570</u>	<u>(248)</u>	<u>322</u>
Recognized in profit or loss	<u>695</u>	<u>(248)</u>	<u>447</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(627)	(627)
Actuarial loss - changes in financial assumptions	1,421	-	1,421
Actuarial loss - experience adjustments	<u>(2,471)</u>	<u>-</u>	<u>(2,471)</u>
Recognized in other comprehensive income	<u>(1,050)</u>	<u>(627)</u>	<u>(1,677)</u>
Contributions from the employer	<u>-</u>	<u>(788)</u>	<u>(788)</u>

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Balance at December 31, 2019	<u>45,235</u>	<u>(21,157)</u>	<u>24,078</u>
Service cost			
Current service cost	126	-	126
Net interest expense (income)	<u>452</u>	<u>(215)</u>	<u>237</u>
Recognized in profit or loss	<u>578</u>	<u>(215)</u>	<u>363</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(619)	(619)
	1,436	-	1,436
Actuarial loss - changes in financial assumptions	1,151	-	1,151
Actuarial loss - experience adjustments	<u>(2,327)</u>	<u>-</u>	<u>(2,327)</u>
Recognized in other comprehensive income	<u>260</u>	<u>(619)</u>	<u>(359)</u>
Contributions from the employer	-	(716)	(716)
Benefits paid	<u>(3,798)</u>	<u>3,798</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 42,275</u>	<u>(\$ 18,909)</u>	<u>\$ 23,366</u>

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:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Discount rate	0.8%	1%
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:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Discount rate		
0.25% increase	<u>(\$ 1,501)</u>	<u>(\$ 1,422)</u>
0.25% decrease	<u>\$ 1,566</u>	<u>\$ 1,481</u>
Expected rate of salary increase		

1% increase	<u>\$ 6,441</u>	<u>\$ 6,141</u>
1% decrease	<u>(\$ 5,567)</u>	<u>(\$ 5,334)</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.

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
The expected contributions to the plan for the next year	<u>\$ 717</u>	<u>\$ 770</u>
The average duration of the defined benefit obligation	16.1 years	14.9 years

20. EQUITY

a. Share capital

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
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>210,353</u>	<u>299,676</u>
Shares issued	<u>\$ 2,103,532</u>	<u>\$ 2,996,759</u>

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Changes in ownership interests in subsidiaries (2)	Employee Share Options (3)	Employee Share Options -Expired (2)	Total
BALANCE, JANUARY 1, 2019	\$ 6,422,355	\$ 40,868	\$ 20,448	\$ 47,476	\$ 20,334	\$ 6,551,481
Capital surplus used to cover accumulated deficits	(1,248,601)	-	-	-	-	(1,248,601)
Cash distribution from additional paid-in capital	(150,000)	-	-	-	-	(150,000)
Changes in ownership interests in subsidiaries	-	-	(20,448)	-	-	(20,448)
Employee treasury share vested	-	7,794	-	(7,794)	-	-
Compensation cost of employee share options	-	-	-	9,787	-	9,787
Issue of ordinary shares under employee share options	13,917	-	-	(10,759)	-	3,158
Employee share options expired	-	-	-	(13,200)	(13,200)	-
BALANCE AT DECEMBER 31, 2019	<u>5,037,671</u>	<u>48,662</u>	<u>-</u>	<u>25,510</u>	<u>33,534</u>	<u>5,145,377</u>
Capital surplus used to cover accumulated deficits	(183,307)	-	-	-	-	(183,307)
Cash distribution from additional paid-in capital	(150,000)	-	-	-	-	(150,000)
Employee treasury share vested	-	19,471	-	(19,471)	-	-
Treasury shares transferred to employees	-	1,228	-	-	-	1,228
Compensation cost of employee share options	-	-	-	21,279	-	21,279
Issue of ordinary shares under employee share options	21,081	-	-	(12,016)	-	9,065
Employee share options expired	-	-	-	(399)	399	-
BALANCE AT DECEMBER 31, 2020	<u>\$ 4,725,445</u>	<u>\$ 69,361</u>	<u>\$ -</u>	<u>\$ 14,903</u>	<u>\$ 33,933</u>	<u>\$ 4,843,642</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 converted to share capital (at a certain percentage of the Company's capital surplus annually).

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

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

c. Retained earnings and dividend policy

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

The Company's amended Articles of Incorporation provides that, when distributing earnings belonging to the first three quarter, the Company shall first estimate and reserve taxes to be paid, offset its deficits, estimate and reserve employees' compensation and remuneration to directors, then set aside a legal capital reserve at 10% of the remaining earnings and set aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings at the beginning shall be used by the Company's board of directors as the basis for proposing a distribution plan after the Company's board of directors consider operational situation and retain proper amount. By the way of stock dividends, it shall be approved by the Company's shareholders in its meeting; by the way of cash dividends, it shall be approved by the Company's board of directors.

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.

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

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

See Note 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.

NT\$186,154 thousand from legal reserve and NT\$1,248,601 thousand from capital surplus for loss offsetting as well as the cash distribution of NT\$150,000 thousand, i.e. NT\$0.52010840 per share, from additional paid-in capital of share issue premium had been approved in the Company's shareholders' meeting on June 20, 2019.

NT\$183,307 thousand from additional paid-in capital for loss offsetting as well as the cash distribution of NT\$150,000 thousand, i.e. NT\$0.50291032 per share, from additional paid-in capital of share issue premium had been approved in the Company's shareholders' meeting on June 20, 2020.

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

d. Treasury stock

	Shares (In Thousands)
Number of shares at January 1, 2019	15,970
Decrease during the period	(4,992)
Number of shares at December 31, 2019	<u>10,978</u>
Number of shares at January 1, 2020	10,978
Decrease during the period	(9,681)
Decrease due to capital reduction during the period	(519)
Number of shares at December 31, 2020	<u>778</u>

The detailed information for other Shares Buy Back Programs could be found in Note 25 (b).

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

e. Non - controlling interests

	December 31	
	2020	2019
Balance at the beginning of the year	\$ 30,692	\$ 33,342
Non - controlling interests: net loss for the year	(28,534)	(30,431)
Exchange differences from translating the financial statements of foreign operations	(3,541)	(1,756)
Changes in ownership interests of subsidiaries	-	29,948
Other (Note 26)	-	(411)
Balance at the end of the year	<u>(\$ 1,383)</u>	<u>\$ 30,692</u>

21. REVENUE

	For the Year Ended December 31	
	2020	2019
IC for human and machine interface devices	<u>\$ 13,800,348</u>	<u>\$ 9,160,261</u>
<u>Contract balances</u>		
	December 31	
	2020	2019
Contract liabilities (classified as current liabilities)		
Sales of goods	<u>\$ 149,430</u>	<u>\$ 53,847</u>

22. NET INCOME

a. Finance costs

	For the Year Ended December 31	
	2020	2019
Interest on deposits	\$ 1,078	\$ 1,150
Interest on bank loans	<u>931</u>	<u>2</u>
	<u>\$ 2,009</u>	<u>\$ 1,152</u>

b. Depreciation and amortization

	For the Year Ended December 31	
	2020	2019
Property, plant and equipment	\$ 77,433	\$ 81,185
Intangible assets	<u>35,903</u>	<u>50,186</u>
	<u>\$ 113,336</u>	<u>\$ 131,371</u>
An analysis of depreciation and amortization by function		
Operating costs	\$ 722	\$ 1,299
Operating expenses	<u>112,614</u>	<u>130,072</u>
	<u>\$ 113,336</u>	<u>\$ 131,371</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2020	2019
Post-employment benefits		
Defined contribution plans	\$ 28,022	\$ 28,771
Defined benefit plans (see Note 19)	363	447
Share-based payments (see Note 25)	21,279	9,787
Other employee benefits	<u>1,442,245</u>	<u>1,431,412</u>
Total employee benefits expense	<u>\$ 1,491,909</u>	<u>\$ 1,470,417</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 124,636	\$ 111,910
Operating expenses	<u>1,367,273</u>	<u>1,358,237</u>
	<u>\$ 1,491,909</u>	<u>\$ 1,470,147</u>

d. The remuneration to employees and directors

The Company stipulates to distribute employees' compensation and remuneration to directors at the rates no less than 1% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors. In 2020 and 2019, due to the net loss before tax, there was no accrual for any remuneration to employees and directors. The accrued employees' compensation and remuneration to directors for the year ended December 31, 2020 are as follows:

	December 31, 2020
The remuneration to employees	9.4%
The remuneration to directors	0.6%
	December 31, 2020
The remuneration to employees	<u>\$123,450</u>
The remuneration to directors	<u>\$ 7,214</u>

If there is a 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.

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 2020 financial statements.

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

23. INCOME TAXES

a. Income tax expense (benefit) recognized in profit or loss

	For the Year Ended December 31	
	2020	2019
Current tax		
In respect of the current year	\$ 114,160	\$ 8,318
Adjustments for prior years	<u>4,006</u>	<u>1,199</u>
	<u>118,166</u>	<u>9,517</u>
Deferred tax		
In respect of the current year	54,139	16,654
Adjustments for prior years	<u>1,334</u>	<u>(852)</u>
	<u>55,473</u>	<u>15,802</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ 173,639</u>	<u>\$ 25,319</u>

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

	For the Year Ended December 31	
	2020	2019
Loss before tax from continuing operations	<u>\$1,157,097</u>	<u>\$(180,361)</u>
Income tax expense calculated at the statutory rate and the effective tax rate	\$ 156,784	\$ 3,775
Nondeductible expenses in determining taxable income	7,510	1,409
Tax effect of earnings to be distributed by subsidiaries	21,734	4,597
Unrecognized temporary differences	(31,207)	-
Unrecognized loss carryforwards	13,478	13,591
Adjustments for prior years' tax	5,340	347
Others	<u>-</u>	<u>1,600</u>
Income tax expense recognized in profit or loss	<u>\$ 173,639</u>	<u>\$ 25,319</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.

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Obsolete of inventory	\$ 109,571	\$ (19,872)	\$ -	\$ -	\$ 89,699
Others	<u>3,350</u>	<u>(1,004)</u>	<u>(235)</u>	<u>-</u>	<u>2,111</u>
	112,921	(20,876)	(235)	-	91,810
Loss carryforwards	<u>21,937</u>	<u>7,613</u>	<u>-</u>	<u>(578)</u>	<u>28,972</u>
	<u>\$ 134,858</u>	<u>\$ (13,263)</u>	<u>\$ (235)</u>	<u>\$ (578)</u>	<u>\$ 120,782</u>
<u>Deferred tax liabilities</u>					
Intangible assets	\$ 12,348	\$ (2,058)	\$ -	\$ -	\$ 10,290
Temporary differences					
Investment income recognized from foreign investees	<u>18,650</u>	<u>4,597</u>	<u>-</u>	<u>-</u>	<u>23,247</u>
	<u>\$ 30,998</u>	<u>\$ 2,539</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,537</u>

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

Loss carryforwards as of December 31, 2020 comprised of:

Unused Amount	Expiry Year
\$ 623	2021
2,321	2023
5,405	2024
22,897	2026
73,861	2027
92,564	2028
69,519	2029
<u>91,287</u>	2030
<u>\$ 358,477</u>	

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

As of December 31, 2020 and 2019, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$2,480,872 thousand and \$2,742,072 thousand, respectively.

f. Income tax assessments

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

24. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2020	2019
Basic earnings (loss) per share	<u>\$ 3.97</u>	<u>\$ (0.63)</u>
Diluted earnings per share	<u>\$ 3.73</u>	

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

	For the Year Ended December 31	
	2020	2019
losses used in the computation of basic earnings (loss) per share	<u>\$1,011,992</u>	<u>\$(175,249)</u>

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

	For the Year Ended December 31	
	2020	2019
Weighted average number of ordinary shares used in the computation of basic earnings per share	<u>254,897</u>	<u>276,714</u>
Effect of potentially dilutive ordinary shares:		
Employee shares buyback program(note)	14,592	-
Employee share options (note)	569	-
The remuneration to employees	<u>1,322</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>271,380</u>	<u>276,714</u>

The Company may settle the compensation of employees in cash or shares; therefore, the Company assumes that the entire amount of the compensation will be settled in shares, and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

Note: The Group has a net loss after tax, so there is no dilutive effect in 2019.

25. SHARE-BASED PAYMENT ARRANGEMENTS

The company did not issue any additional employee stock option plan in 2020 and 2019.

The Company's shareholders' meeting resolved to issue restricted stocks for employees up to 6,000 thousand shares on June 20, 2020. There was no restricted stock granted to employees by the end of 2020 while the restricted stocks plan was approved by Financial Supervisory Commission on August 12, 2020.

a. Employee stock option plan

Information about vested options of 2020 and 2019 are as following:

Employee Stock Option Plan	December 31, 2020		December 31, 2019	
	Range of exercise price (NT\$)	Weighted-aver age remaining contractual life (years)	Range of exercise price (NT\$)	Weighted-aver age remaining contractual life (years)
2006	\$5.46~36.8	1.1~2.27	\$4.2~32.10	1.32~3.48
2015	15.9	4.67	12.2	5.67

Information about outstanding options in 2020 and 2019 is as following:

2020

Employee Stock Option Plan	Beginning	Balance	Options unvested		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\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)
2006	805,599	\$ 23.49	-	\$ -	(407,400)	\$ 29.68	-	\$ -	398,199	\$ 26.65
2015	677,500	12.20	-	-	(242,000)	14.33	(38,000)	13.56	397,500	15.90

2019

Employee Stock Option Plan	Beginning	Balance	Options unvested		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\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)
2006	1,594,999	\$ 19.86	-	\$ -	(660,200)	\$ 13.86	(129,200)	\$ 27.80	805,599	\$ 23.49
2013	627,250	37.90	-	-	-	-	(627,250)	37.90	-	-
2015	985,750	12.2	(35,750)	12.2	(272,500)	12.2	-	-	677,500	12.2

As of December 31, 2020, 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.
	2,800,000	10 years	(1) A certain percentage of the options defined in the plan are vested and exercisable after the second anniversary.
2015 employee stock option plan			

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. Shares Buy Back Program

Information about the Company buyback its shares 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)
The 2nd Shares Buy Back Program	2016/4/28	5,000	5,000	-	-	\$ 26.53
The 3rd Shares Buy Back Program	2017/5/12	6,808	6,808	-	-	36.11
The 4th Shares Buy Back Program	2018/7/26	8,000	7,848	(46)	106	33.81 (Adjusted)

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 5th Shares Buy Back Program	2018/8/23	7,689	6,544	(473)	672	34.09

Information about Shares Buy Back Programs is as follows:

The 2nd Shares Buy Back Program			The 3rd 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\$)
2016/10/28	2,624	\$ 11.26	2017/07/24	3,198	\$ 12.85
2017/02/24	50	11.26	2018/07/26	3,515	-
2018/02/08	120	4.20	2019/05/07	95	-
2018/04/24	255	4.30			
2018/07/26	1,765	-			
2019/05/07	186	-			
Total	5,000		Total	6,808	

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	\$ 11.26	2019/05/07	4,651	\$ -
			2019/11/08	60	-
			2020/03/20	1,399	3.70
			2020/11/06	434	1.90
Total	7,848		Total	6,544	

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.
- 3) The unvested shares are entitled to receive cash and/or share dividends and the derivatives.

If an employee fails to meet the vesting conditions, the trust institution would dispose the unvested shares and return proceeds to the employee no more than the original purchase price.

c. Options of the share transfer plan granted were measured by using the Black-Scholes pricing model
Compensation cost recognized for share-based payments above in 2020 and 2019 were as follows:

	For the Year Ended December 31	
	2020	2019
Employee share option plans	\$ -	\$ 669
Shares buy back program	21,279	9,118
	<u>\$ 21,279</u>	<u>\$ 9,787</u>

	For the Year Ended December 31	
	2020	2019
Capital surplus - employee share options	\$ 21,279	\$ 9,787

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26. Equity transactions with non - controlling interests

In November 2019, the Group ownership interest over FocalTech Smart Sensors Co., Ltd. increase to 67.15% from 61.88% Due to capital injection and no pro rata subscription in new shares.

The transactions did not change the controlling status. FocalTech Smart Sensors Co., Ltd. was treated as a subsidiary under equity method.

27. OPERATING LEASE ARRANGEMENTS

The Group is Lessee

The Company and its subsidiaries have lease contracts for office, plant and some office equipment, which would be expired before December 2021. Above mentioned lease contracts are short-term lease agreement, and the Group applies practical expedients so the Group does not recognize right-of-use assets and lease liabilities. The amount of short-term commitment which the Group apply practical expedients is \$16,702 thousand and \$16,611 thousand for the years ended December 31,2020 and 2019,respectively.

The lease payments recognized in profit or loss for the current period was as follows:

	For the Year Ended December 31	
	2020	2019
lease payment	<u>\$ 35,178</u>	<u>\$ 36,524</u>

28. CAPITAL MANAGEMENT

The capital structure of the Group is consisted by 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.

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, 2020

	Level 1	Level 2	Level 3	Total
<u>Financial asset at FVTPL</u>				
Listed preferred shares	\$ 72,186	\$ -	\$ -	\$ 72,186
Private funds	-	-	52,579	52,579
Structured Investments	-	109,897	-	109,897
Total	<u>\$ 72,186</u>	<u>\$ 109,897</u>	<u>\$ 52,579</u>	<u>\$ 234,662</u>
<u>Financial assets at FVTOCI assets</u>				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 247,974</u>	<u>\$ -</u>	<u>\$ 247,974</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial asset at FVTPL</u>				
Listed preferred shares	\$ 10,931	\$ -	\$ -	\$ 10,931
Private funds	-	-	45,423	45,423
Total	<u>\$ 10,931</u>	<u>\$ -</u>	<u>\$ 45,423</u>	<u>\$ 56,354</u>
<u>Financial assets at FVTOCI assets</u>				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 181,373</u>	<u>\$ -</u>	<u>\$ 181,373</u>

There were no transfers between Level 1 and Level 2 in 2020 and 2019.

2) Reconciliation of financial instruments measured by Level 3 fair value

	December 31	
	2020	2019
<u>Financial assets at FVTPL</u>		
Balance at January 1, 2020	\$ 45,423	\$ 41,023
Purchases	10,000	5,355
Disposals	(483)	(7)
Recognized in profit or loss (other income or loss)	(914)	(251)
Effect of foreign currency exchange differences	(1,447)	(697)
Balance at December 31, 2020	<u>\$ 52,579</u>	<u>\$ 45,423</u>

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

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

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

The 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>	
	2020	2019
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 234,662	\$ 56,354
Amortized cost (Note 1)	7,203,983	6,597,902
Financial assets at FVTOCI		
Investments in debt instruments	247,974	181,373
<u>Financial liabilities</u>		
Amortized cost (Note 2)	3,782,549	3,335,028

- 1) The amounts include financial instruments measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other financial assets and refundable deposits, booked in other non-current assets.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, trade and other payables and deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, trade receivable, other financial assets, financial assets at FVTPL, financial assets at FVTOCI, trade and other payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including 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 Group, the board of directors authorized the chairman develop and monitored the risk management policy of the Company 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 developed for identifying and analyzing the financial risks to the Group, 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 Group is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Group'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 i) and interest rate risk referred to ii).

i) Foreign currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Group entity at the end of the reporting period are shown in Note 33.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar and RMB.

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 at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit and other equity associated with New Taiwan dollars strengthen 5% against the relevant currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	USD Impact		RMB Impact	
	For the Year Ended December 31		For the Year Ended December 31	
	2020	2019	2020	2019
Profit or loss/ equity	\$ <u>59,478</u> (1)	\$ <u>26,976</u> (1)	\$ <u>2,699</u> (2)	\$ <u>1,630</u> (2)

(1). This was mainly attributable to the exposure outstanding on USD time deposits, trade receivables, trade payables, other payables, other current assets and other current liability.

(2). This was mainly attributable to the exposure to outstanding RMB time deposits.

ii) Interest rate risk

The Group was exposed to interest risk arising from fixed rate time deposits, bond investments and floating rate demand deposits and structured investments. The time deposits were at fixed interest rates, and bonds were at fixed rates or with guaranteed minimal interest rates and carried at amortized costs, and, therefore, the variations to interest rates did not affect future cash flows.

The carrying amount of the Group's financial assets with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2020	2019
Fair value interest rate risk		
Financial assets	\$ <u>1,975,397</u>	\$ <u>3,131,261</u>
Financial liabilities	\$ <u>523,648</u>	\$ <u>-</u>
Cash flow interest rate risk		
Financial assets	\$ <u>3,777,910</u>	\$ <u>2,103,526</u>

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Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis was prepared assuming the amount of the assets outstanding at the end of the reporting period was outstanding for the whole year. 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 all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2020 and 2019 would decrease/increase by \$9,445 thousand and \$5,259 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 Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation from the carrying amounts of the financial assets as recognized in the balance sheets.

The Group's concentration of credit risk was related to the five largest clients of trade receivables. Ongoing credit evaluation is performed on the financial condition of trade receivables.

As of December 31, 2020, the Group's five largest customers took 65% of total trade receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

Credit risk management for investments in debt instruments

The Group's investments in debt instruments are financial assets at fair value through other comprehensive income. The Company policy allows only to invest the targets 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 the debtor's material information 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 from 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, 2020</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 247,974</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, 2019</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 181,373</u>

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, bank loans are a significant resource of liquidity for the Group.

As of December 31, 2020 and 2019, the available unutilized short-term bank loan facilities refer to (ii) Financing facilities.

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

The Group's remaining contractual maturity for its financial liabilities was based on the undiscounted cash flows, including interest and principal cash flow, of financial liabilities from the earliest date on which the Group can be required to pay.

December 31, 2020

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

December 31, 2019

	On Demand or Less than 1 Year	1-5 Years
Non-interest bearing	<u>\$ 2,940,668</u>	<u>\$ 394,360</u>

ii) Financing facilities

	December 31, 2020	December 31, 2019
Unsecured bank line of credits		
Amount used	\$ 495,665	\$ -
Amount unused	<u>204,335</u>	<u>800,000</u>
	<u>\$ 700,000</u>	<u>\$ 800,000</u>

Secured bank loans credits

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Amount used	\$ 43,648	\$ -
Amount unused	<u>392,832</u>	<u>-</u>
	<u>\$ 436,480</u>	<u>\$ -</u>

30. TRANSACTIONS WITH RELATED PARTIES

- Balances and transactions 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.
- Compensation of key management personnel

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Long-term employee benefits	\$ 20,629	\$ 21,855
Short-term employee benefits	54,148	39,224
Post-employment benefits	459	540
Share-based payments	<u>3,888</u>	<u>2,921</u>
	<u>\$ 72,124</u>	<u>\$ 64,540</u>

31. ASSETS PLEDGED AS COLLATERAL

The following assets were provided as collateral for bank loans and legal proceedings of import customs duties:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Properties, plants and equipments – net of buildings	\$ 524,487	\$ -
Pledge deposits	<u>4,000</u>	<u>4,000</u>
	<u>\$ 528,487</u>	<u>\$ 4,000</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

FocalTech Electronics, Ltd., a subsidiary of the Company, filed a litigation of patent infringement against Novatek Microelectronics Corp. in September 2018. As of the report issue date, the result of litigation and the effect on financial statements still could not be inferred.

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, 2020

<u>Financial assets</u>	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
Monetary items			
USD	\$ 147,429	28.48 (USD:NTD)	\$ 4,198,767

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USD	2,459	6.5249 (USD:RMB)	70,018
RMB	12,369	0.1533 (RMB:USD)	53,988

Financial liabilities

Monetary items			
USD	105,765	28.48 (USD:NTD)	3,012,178
USD	2,354	6.5249 (USD:RMB)	67,049

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 55,218	29.98 (USD:NTD)	\$ 1,655,432
USD	6,641	6.9762 (USD:RMB)	199,101
RMB	7,588	0.1433 (RMB:USD)	32,610

Financial liabilities

Monetary items			
USD	38,218	29.98 (USD:NTD)	1,145,788
USD	5,644	6.9762 (USD:RMB)	169,222

35. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 3)
- 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)
- 10) Others: The business relationship between the parent and the subsidiaries and significant transactions between them: (Table 4)

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11) Information on investees (Table 5)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 6)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (None)

c. 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: (Table 7)

36. SEGMENT INFORMATION

a. Operating segments

Segment information is provided to those who allocate resources and assess segment performance separately. The Company's operation focuses on the selling and developing human and machine interface devices related IC under a single operation unit. Thus, the information of operating segment should not be disclosed individually.

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.

	<u>For the Year Ended December 31</u>	
	2020	2019
IC for human and machine interface devices	<u>\$ 13,800,348</u>	<u>\$ 9,160,261</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.

	<u>Revenue from External Customers</u>		<u>Non-current Assets</u>	
	<u>For the Year Ended December 31</u>		<u>December 31</u>	
	2020	2019	2020	2019
China	\$ 12,527,084	\$ 7,848,830	\$ 1,304,279	\$ 1,339,365
Taiwan	1,121,492	1,007,669	253,328	240,950
Others	<u>151,772</u>	<u>303,762</u>	-	-
	<u>\$ 13,800,348</u>	<u>\$ 9,160,261</u>	<u>\$ 1,557,607</u>	<u>\$ 1,580,315</u>

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

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:

	<u>For the Year Ended December 31</u>	
	2020	2019
	\$	NA
Custom A and subsidiaries	Note 1	\$ 1,793,388
Custom B and subsidiaries	1,539,211	1,292,221
Custom C and subsidiaries	2,060,074	1,193,501
Custom D and subsidiaries	1,666,900	1,054,709

Note 1: The sale amount is under 10% of the Group's revenue.

TABLE 1**FocalTech Systems Co., Ltd.****FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Amount Actually Drawn	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	Yes	\$ 1,708,800 (USD 60,000)	\$ 1,708,800 (USD 60,000)	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	\$ -	\$ 2,922,964	\$ 2,922,964	Note 3

Note 1: The items are numbered as follows:

- a. Issuer is numbered as "0".
- b. Investee companies are numbered from "1".

Note 2: The maximum amount for financing provided to others:

- a. The maximum amount of financing provided by the Company and its subsidiaries shall not exceed 20% of total of the Company and its subsidiaries' net worth.
- b. The maximum amount of financing provided by the Company and its subsidiaries to each individual is as follows:
 - i. The maximum amount of financing provided to all businesses shall not exceed 20% of the Company's net worth. The maximum amount of financing provided to an individual shall not exceed 10% of the lending company's net worth, 30% of the borrowing company's net worth, or the gross transaction amount (the higher of purchase amount or sales amount between the two parties) for the past year.
 - ii. In the case of financing companies with short-term financing needs, the total maximum amount of financing provided to such companies shall not exceed 20% of their net worth; the maximum amount of financing provided to an individual shall not exceed 10% of the lending company's net worth or 30% of the borrowing company's net worth.
- c. The maximum amount of financing provided by the Company and its subsidiaries shall not exceed 100% of the Company' net worth.
- d. Net worth is based on latest financial statements audited or reviewed by independent auditors. The Company prepared financial report according to IFRSs, The Company's net worth is the amount attributed to parent's equity in the Company's balance sheet.

Note 3: The transactions between the Company and subsidiaries were all eliminated.

Note 4: The exchange rate is US\$1=\$28.48 on December 31, 2020.

FocalTech Systems Co., Ltd.

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 2)	Maximum Amount Endorsed/ Guaranteed During the Period (Note 6)	Outstanding Endorsement/ Guarantee at the End of the Period (Note 6)	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship											
0	FocalTech Systems Co., Ltd.	FocalTech Systems, Ltd.	A subsidiary in which the Parent Company holds directly and indirectly over 50% of an equity interest.	\$3,906,421	\$ 1,281,600 (USD 45,000)	\$ 1,281,600 (USD 45,000)	\$9,398	\$ -	16.4%	\$3,906,421	Y	N	N	(Note 3)
		FocalTech Electronics, Ltd.		\$3,906,421	1,298,810 (USD 45,604)	1,298,810 (USD 45,604)	3,097	-	16.62%	3,906,421	Y	N	N	(Note 3)
		Hefei PineTech Electronics Co., Ltd.		\$3,906,421	1,281,600 (USD 45,000)	1,281,600 (USD 45,000)	-	-	16.4%	3,906,421	Y	N	Y	(Note 3)
		FocalTech Electronics (Shenzhen) Co., Ltd.		\$3,906,421	1,737,280 (USD 61,000)	1,737,280 (USD 61,000)	19,638	-	22.24%	3,906,421	Y	N	Y	(Note 3)
		FocalTech Smart Sensors Co., Ltd.		\$3,906,421	199,680	199,680	-	-	2.56%	3,906,421	Y	N	N	(Note 4 and 5)
		FocalTech Smart Sensors, Ltd.		\$3,906,421	99,680 (USD 3,500)	99,680 (USD 3,500)	-	-	1.28%	3,906,421	Y	N	N	(Note 4)
1	FocalTech Systems (Shenzhen) Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	A subsidiary in which the Parent Company holds directly and indirectly 100% of an equity interest.	\$1,277,307	436,480 (RMB100,000)	436,480 (RMB100,000)	43,648	436,480 (RMB100,000)	34.17%	1,277,307	N	N	Y	

Note 1: The items are numbered as follows:

- a. Issuer is numbered as "0".
- b. Investee companies are numbered from "1".

Note 2: The maximum amount for guarantees provided to others:

- a. The Company provides guarantees due to business, the amount shall not exceed as follows.
- b. The maximum amount of guarantees provided to all subsidiaries and an individual shall not exceed 50% of the Company's net worth.
- c. The maximum amount of guarantees provided between subsidiaries shall not exceed 100% of the subsidiary's net worth.
- d. The total amount of guarantees of the Company and its subsidiaries shall not exceed 50% of the Company's net worth. The maximum amount of guarantees provided to an individual by the Company and its subsidiaries shall not exceed 50% of the Company's net worth.
- e. Net worth is based on the latest financial statements audited or reviewed by independent auditors. The Company prepared financial report according to IFRSs, The Company's net worth is the amount attributed to parent's equity in the Company's balance sheet.

Note 3: The Company provides USD 45,000 thousand sharing guarantee to FocalTech Electronics, Ltd., FocalTech Systems, Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. to purchase materials. 3,097 thousand, 9,398 thousand, 0 thousand and 1,304 thousand were used in this period.

Note 4: The Company provides USD 3,500 thousand sharing guarantee to both FocalTech Smart Sensors, Ltd. and FocalTech Smart Sensors Co., Ltd. to purchase materials. There is no actual usage in this period.

Note 5: The Company provides \$100,000 thousand guarantee for common financing usage.

Note 6: The exchange rate is US\$1=\$28.48 and RMB=\$4.3648 on December 31, 2020.

FocalTech Systems Co., Ltd.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2020

(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2019				Note
				Shares	Carrying Value	Percentage of Ownership	Fair Value	
FocalTech Systems Co., Ltd.	<u>Shares</u>							
	Fubon Financial Holding Co., Ltd. Preferred Shares B	-	Financial assets at fair value through profit or loss – non-current	170,000	\$ 10,625	0.03%	10,625	
	WT MICROELECTRONICS CO., LTD. Preferred Shares A	-	"	1,268,000	61,561	0.94%	61,561	
	<u>Beneficiary certificates</u>							
	CDIB Capital Growth Partners	-	Financial assets at fair value through profit or loss – non-current	-	20,016	0.66%	20,016	
FocalTech Systems, Ltd.	CDIB Capital Healthcare Ventures II	-	"	-	4,937	0.96%	4,937	
	<u>structured investments</u>							
	CLN Link HSBC SUB	-	Financial assets at fair value through profit or loss – non-current	-	54,996		54,996	
						(USD 1,931)	(USD 1,931)	
	CLN Link Barclays SUB	-	"	-	54,901		54,901	
						(USD 1,928)	(USD 1,928)	
	<u>Corporate bond</u>							
Bank of China Maturity date:2024/11/13	-	Financial assets at fair value through other comprehensive income – non-current	-	135,878		135,878		
					(USD 4,771)	(USD 4,771)		
Industrial and Commercial Bank of China Ltd Maturity date:2025/9/21	-	"	-	53,770		53,770		
					(USD 1,888)	(USD 1,888)		
Azure Nova International Finance Limited Maturity date:2022/3/21	-	"	-	58,326		58,326		
					(USD 2,048)	(USD 2,048)		
FocalTech Electronics, Ltd.	<u>Beneficiary certificates</u> TIEF FUND, L.P.	-	Financial assets at fair value through profit or loss – non-current	-	27,626	4.83	27,626	
					(USD 970)	(USD 970)		

Note 1: The percentage of ownership is calculated by preferred shares the Company owned divided by outstanding preferred shares.

Note 2: The exchange rate is US\$1=\$28.48 on December 31, 2020.

FocalTech Systems Co., Ltd.

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 3)	Intercompany Transactions			Percentage of Consolidated Net Revenue or Total Assets
				Financial statements Item	Amount (Note 4)	Terms	
0	FocalTech Systems Co., Ltd.	FocalTech Systems, Ltd.	1	Advances from related parties	\$ 247,263	Note 2	1.02%
				Service revenue	43,670	Note 2	0.32%
				Trade payables	19,394	Note 2	0.08%
				Costs of sales	46,550	Note 2	0.34%
0	FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	1	Trade payables	518,851	Note 2	2.15%
0	FocalTech Systems Co., Ltd.	FocalTech Smart Sensors, Ltd.	1	Prepayments to related parties	85,440	Note 2	0.35%
1	FocalTech Electronics, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	2	Research and development expenses	431,535	Note 2	3.13%
				Trade payables	27,945	Note 2	0.12%
1	FocalTech Electronics, Ltd.	FocalTech Systems, Ltd.	2	Service revenue	30,256	Note 2	0.22%
1	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Research and development expenses	20,247	Note 2	0.15%
2	FocalTech Systems, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	2	Trade payables	22,156	Note 2	0.09%
				Research and development expenses	72,658	Note 2	0.53%
2	FocalTech Systems, Ltd.	Hefei PineTech Electronics Co., Ltd.	2	Research and development expenses	46,811	Note 2	0.34%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	2	Trade payables	34,918	Note 2	0.14%
				Service revenue	25,858	Note 2	0.19%
4	FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	2	Other receivables	242,734	Note 2	1.00%
5	FocalTech Systems, Inc.	FocalTech Systems, Ltd.	2	Service revenue	25,117	Note 2	0.18%

Note 1: The items are numbered as follows:

- a. Issuer is numbered as "0".
- b. Investee companies are numbered from "1".

Note 2: The intercompany transactions provide services of manufacturing, sales and research and development. Terms are determined in accordance with mutual agreements.

Note 3:

- 1. Represents the transactions from parent company to subsidiary.
- 2. Represents the transactions between subsidiaries.

Note 4: The intercompany transactions are eliminated when prepare consolidated financial statements.

TABLE 5

FocalTech Systems Co., Ltd.

**INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2020
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss) of the Investee	Note
				December 31, 2020	December 31, 2019	Shares	Percentage of Ownership	Carrying Amount			
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Cayman Islands	Investment activity	TWD 7,059,264	TWD 7,059,264	5,491 (in thousand)	100%	TWD2,974,195 (USD 104,431)	TWD 26,164 (USD 885)	TWD 26,164 (USD 885)	Subsidiaries
	FocalTech Electronics, Ltd.	Cayman Islands	Investment activity	TWD 2,848 (USD 100)	TWD 452,698 (USD 15,100)	2	100%	TWD1,562,878 (USD 54,876)	TWD 2,732 (USD 92)	TWD 2,732 (USD 92)	Subsidiaries
	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	-	TWD 205,305	-	-	-	(TWD 86,850) (USD 2,939)	(TWD 39,998) (USD 1,354)	Subsidiaries (Note 5)
	Vitrio Technology Corporation	Taiwan	Research, development, manufacturing and sale of integrated circuits	TWD 4,970	-	142 (in thousand)	50%	-	(TWD 5,769)	(TWD 4,970)	Joint venture
FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	TWD 238,821	TWD 33,516	18,813 (in thousand)	67.15%	(TWD 2,828) (USD 99)	(TWD 86,850) (USD 2,939)	(TWD 18,322) (USD 620)	Subsidiaries (Note 5)
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Taiwan	Research, development, manufacturing and sale of integrated circuits	TWD 11,990	TWD 11,990	17,417 (in thousand)	100%	(TWD 202,039)	(TWD 62,102)	(TWD 62,102)	Subsidiaries (Note 5)
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	U.S.	Investment activity	TWD 2,913,300 (USD 102,293)	TWD 3,066,740 (USD 102,293)	100	100%	TWD2,849,019 (USD 100,036)	TWD 35,774 (USD 1,211)	TWD 35,774 (USD 1,211)	Subsidiaries
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Cayman Islands	Investment activity	TWD 665,010 (USD 23,350)	TWD 700,035 (USD 23,350)	2	100%	TWD2,922,964 (USD 102,632)	TWD 34,840 (USD 1,179)	TWD 34,840 (USD 1,179)	Subsidiaries
FocalTech Systems, Ltd.	FocalTech Electronics Co., Ltd.	Taiwan	Import and export of integrated circuits	TWD 20,000	TWD 20,000	2,000 (in thousand)	100%	TWD 144,340 (USD 5,068)	(TWD 20,731) (USD 702)	(TWD 20,731) (USD 702)	Subsidiaries

Note 1: Information of investments in mainland China is listed in Table 6.

Note 2: The exchange rate is US\$1=\$28.48 on December 31, 2020.

Note 3: The exchange rate is US\$1=\$29.98 on December 31, 2019.

Note 4: The average exchange rate average rate US\$1=\$29.5492 during 2020/1/1~2020/12/31.

Note 5: FocalTech Smart Sensors, Ltd. is owned solely by FocalTech Electronics Co., Ltd. which was held by The company and FocalTech Electronics Co., Ltd.. The original investment amount of FocalTech Electronics Co., Ltd. includes the amount invested by the Company.

FocalTech Systems Co., Ltd.

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2020
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investee Company	Main Businesses and Products	Paid-in Capital (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020 (Note 1)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2020 (Note 1)	Net Income (Loss) of the Investee (Note 2)	Percentage of Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2020 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2020	note
					Outward	Inward							
FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	TWD 56,960 (USD 2,000)	(Note 3 and 4)	TWD 28,480 (USD 1,000)	\$ -	\$ -	TWD 28,480 (USD 1,000)	TWD 2,032 (USD 69)	100%	TWD 2,032 (USD 69)	TWD 35,750 (USD 1,255)	\$ -	
FocalTech Electronics (Shenzhen) Co., Ltd.	Research, manufacturing and sale of integrated circuits	TWD 65,504 (USD 2,300)	(Note 3)	TWD 28,480 (USD 1,000)	-	-	TWD 28,480 (USD 1,000)	TWD 13,801 (USD 467)	100%	TWD 13,801 (USD 467)	TWD 58,274 (USD 2,046)		
FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	TWD1,053,764 (USD 37,000)	(Note 4)	-	-	-	-	TWD 20,761 (USD 703)	100%	TWD 20,761 (USD 703)	TWD1,227,307 (USD 44,849)		
Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	TWD 130,944 (RMB 30,000)	(Note 4)	-	-	-	-	TWD 57,091 (USD 1,932)	100%	TWD 57,091 (USD 1,932)	TWD 217,145 (USD 7,624)		

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2020	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$56,960 (US\$2,000)	\$1,722,104 (US\$60,467)	\$4,687,707

Note 1: The exchange rate is US\$1=NT\$29.48 and RMB\$1=\$4.3648 on December 31, 2020.

Note 2: The average exchange rate is US\$1=NT\$29.5492 and RMB\$1=4.2827 on December 31, 2020.

Note 3: The Company founded a subsidiary in other area and then invested in mainland china.

Note 4: It was founded by the oversea subsidiary, so the paid-in capital did not remit from Taiwan.

TABLE 7

FocalTech Systems Co., Ltd.

**INFORMATION ON MAJOR SHAREHOLDERS
DECEMBER 31, 2020**

Shareholders	Shares	
	Total Shares Owned	Ownership Percentage
Egis Technology Inc.	33,966,575	16.14%

Note 1: Major shareholders showed in the list above include those owned the ownership of 5 percent or more.