

**FocalTech Systems Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2022 and 2021**

Notice to Readers

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

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

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (collectively, the "Company") as of September 30, 2022 and 2021, the related consolidated statements of comprehensive income for the three months ended September 30, 2022 and 2021 and for the nine months ended September 30, 2022 and 2021, the consolidated statements of changes in equity and of cash flows for the six months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Basis for Qualified Conclusion

As disclosed in Note 12 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph were not reviewed. As of September 30, 2022 and 2021, combined total assets of these non-significant subsidiaries were NT\$2,265,707 thousand and NT\$427,255 thousand, respectively, representing 10% and 2%, respectively, of the consolidated total assets, and combined total liabilities of these subsidiaries were NT\$1,071,062 thousand and NT\$68,590 thousand, respectively, representing 8% and 1%, respectively, of the consolidated total liabilities; for the three months and nine months ended September 30, 2022 and 2021, the amounts of combined comprehensive income (loss) of these subsidiaries were NT(\$7,509) thousand, NT(\$43,894) thousand, NT(\$72,307) thousand and NT(\$159,576) thousand, respectively, representing 0%, (2%), 5%, (3%).

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of September 30, 2022 and 2021, its consolidated financial performance and its consolidated cash flows for the three months ended September 30, 2022 and 2021 and for the nine months ended September 30, 2022 and 2021 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China
November 11, 2022

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	September 30, 2022 (Reviewed)		December 31, 2021 (Audited)		September 30, 2021 (Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 5,651,666	25	\$ 6,456,988	26	\$ 8,028,997	37
Financial assets at fair value through profit or loss - current (Note 7)	-	-	119,218	1	118,195	1
Financial assets at fair value through other comprehensive income - current (Note 8)	-	-	55,590	-	56,302	-
Accounts receivables, net (Note 10)	1,215,112	5	3,255,081	13	2,575,410	12
Inventories (Note 11)	7,064,135	31	3,822,218	15	2,493,821	12
Other financial assets (Note 9)	696,913	3	3,879,862	15	963,546	5
Other current assets	361,778	2	536,459	2	486,573	2
Total current assets	<u>14,989,604</u>	<u>66</u>	<u>18,125,416</u>	<u>72</u>	<u>14,722,844</u>	<u>69</u>
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss - non-current (Note 7)	466,459	2	412,779	1	336,632	2
Financial assets at fair value through other comprehensive income - non-current (Note 8)	187,345	1	178,404	1	181,941	1
Property, plant and equipment (Note 13)	2,530,122	11	2,468,605	10	1,325,179	6
Goodwill (Notes 14)	1,237,268	6	1,237,268	5	1,237,268	6
Other intangible assets (Note 15)	67,676	-	47,228	-	51,214	-
Deferred tax assets	352,747	2	9,914	-	42,188	-
Refundable deposits (Note 16)	2,746,308	12	2,841,745	11	2,481,317	11
Other non-current assets (Note 32)	57,316	-	10,575	-	1,089,813	5
Total non-current assets	<u>7,645,241</u>	<u>34</u>	<u>7,206,518</u>	<u>28</u>	<u>6,745,552</u>	<u>31</u>
TOTAL	<u>\$ 22,634,845</u>	<u>100</u>	<u>\$ 25,331,934</u>	<u>100</u>	<u>\$ 21,468,396</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ 3,426,058	15	\$ 301,712	1	\$ 859,664	4
Accounts payables (Note 18)	2,046,843	9	2,620,160	10	2,166,241	10
Other payables (Note 19)	1,762,469	8	1,596,958	6	1,319,945	6
Dividends payables (Note 28)	-	-	-	-	700,000	3
Current tax liabilities (Notes 4)	694,543	3	1,786,309	7	1,327,561	6
Other current liabilities (Notes 23)	67,242	-	110,356	1	117,312	1
Total current liabilities	<u>7,997,155</u>	<u>35</u>	<u>6,415,495</u>	<u>25</u>	<u>6,490,723</u>	<u>30</u>
NON-CURRENT LIABILITIES						
Long-term borrowings (Note 17)	986,840	5	786,840	3	786,840	4
Deferred tax liabilities	238,547	1	51,584	-	59,531	-
Net defined benefit liabilities - non-current (Note 4)	21,682	-	22,140	-	23,015	-
Guarantee deposits received (Notes 21)	4,579,403	20	4,397,513	18	1,902,874	9
Other non-current liabilities	10,400	-	10,400	-	10,400	-
Total non-current liabilities	<u>5,836,872</u>	<u>26</u>	<u>5,268,477</u>	<u>21</u>	<u>2,782,660</u>	<u>13</u>
Total liabilities	<u>13,834,027</u>	<u>61</u>	<u>11,683,972</u>	<u>46</u>	<u>9,273,383</u>	<u>43</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 22 and 27)						
Share capital						
Ordinary shares	2,162,377	9	2,162,367	9	2,165,215	10
Capital surplus						
Additional paid-in capital	4,751,572	21	4,737,390	19	4,736,211	22
Treasury shares	124,926	1	79,917	-	79,963	1
Employee share options	59,331	-	65,873	-	45,871	-
Restricted stock for employees	1,095,945	5	1,145,555	5	1,212,385	6
Employee share options - expired	34,448	-	34,134	-	34,134	-
Total capital surplus	<u>6,066,222</u>	<u>27</u>	<u>6,062,869</u>	<u>24</u>	<u>6,108,564</u>	<u>29</u>
Retained earnings						
Legal reserve	712,562	3	101,230	-	101,230	-
Special reserve	211,479	1	122,316	-	122,316	1
Undistributed earnings	159,998	1	6,202,079	25	4,873,886	23
Total retained earnings	<u>1,084,039</u>	<u>5</u>	<u>6,425,625</u>	<u>25</u>	<u>5,097,432</u>	<u>24</u>
Other equity	(314,847)	(1)	(1,025,199)	(4)	(1,193,149)	(6)
Treasury shares	(213,824)	(1)	-	-	(371)	-
Equity attributable to owners of the parent	8,783,967	39	13,625,662	54	12,177,691	57
NON-CONTROLLING INTERESTS (Note 22)	<u>16,851</u>	<u>-</u>	<u>22,300</u>	<u>-</u>	<u>17,322</u>	<u>-</u>
Total equity	<u>8,800,818</u>	<u>39</u>	<u>13,647,962</u>	<u>54</u>	<u>12,195,013</u>	<u>57</u>
TOTAL	<u>\$ 22,634,845</u>	<u>100</u>	<u>\$ 25,331,934</u>	<u>100</u>	<u>\$ 21,468,396</u>	<u>100</u>

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
REVENUE (Note 23)	\$ 2,370,317	100	\$ 6,272,422	100	\$ 9,590,291	100	\$ 16,394,543	100
COSTS OF SALES (Note 11 and 24)	<u>(4,369,610)</u>	<u>(184)</u>	<u>(2,857,205)</u>	<u>(46)</u>	<u>(8,921,002)</u>	<u>(93)</u>	<u>(8,442,986)</u>	<u>(51)</u>
GROSS (LOSS) PROFIT	<u>(1,999,293)</u>	<u>(84)</u>	<u>3,415,217</u>	<u>54</u>	<u>669,289</u>	<u>7</u>	<u>7,951,557</u>	<u>49</u>
OPERATING EXPENSES (Note 24, 27, 29 and 31)								
Selling and marketing expenses	(137,921)	(6)	(153,340)	(3)	(399,398)	(4)	(398,136)	(2)
General and administrative expenses	(145,431)	(6)	(190,348)	(3)	(437,569)	(5)	(449,917)	(3)
Research and development expenses	<u>(671,579)</u>	<u>(28)</u>	<u>(654,004)</u>	<u>(10)</u>	<u>(2,091,413)</u>	<u>(22)</u>	<u>(1,721,637)</u>	<u>(11)</u>
Total operating expenses	<u>(954,931)</u>	<u>(40)</u>	<u>(997,692)</u>	<u>(16)</u>	<u>(2,928,380)</u>	<u>(31)</u>	<u>(2,569,690)</u>	<u>(16)</u>
OPERATING (LOSS) INCOME	<u>(2,954,224)</u>	<u>(124)</u>	<u>2,417,525</u>	<u>38</u>	<u>(2,259,091)</u>	<u>(24)</u>	<u>5,381,867</u>	<u>33</u>
NON-OPERATING INCOME AND EXPENSES								
Finance costs(Note 24)	(15,025)	(1)	(2,724)	-	(25,183)	-	(7,481)	-
Interest income	18,807	1	9,069	-	45,467	-	23,647	-
Gain (loss) on financial assets and liabilities at fair value through profit or loss	(28,213)	(1)	(179,102)	(3)	(79,468)	(1)	80,219	-
Other gains and losses - net	25,155	1	151,615	3	174,220	2	347,445	2
Gain (loss) on foreign exchange	<u>(14,956)</u>	<u>(1)</u>	<u>8,719</u>	<u>-</u>	<u>279,178</u>	<u>3</u>	<u>(41,160)</u>	<u>-</u>
Total non-operating income and expenses	<u>(14,232)</u>	<u>(1)</u>	<u>(12,423)</u>	<u>-</u>	<u>394,214</u>	<u>4</u>	<u>402,670</u>	<u>2</u>
(LOSS) INCOME BEFORE INCOME TAX	(2,968,456)	(125)	2,405,102	38	(1,864,877)	(20)	5,784,537	35
INCOME TAX EXPENSE (BENEFIT) (Note 25)	<u>198,222</u>	<u>8</u>	<u>(577,633)</u>	<u>(9)</u>	<u>(99,713)</u>	<u>(1)</u>	<u>(1,021,027)</u>	<u>(6)</u>
NET (LOSS) INCOME	<u>(2,770,234)</u>	<u>(117)</u>	<u>1,827,469</u>	<u>29</u>	<u>(1,964,590)</u>	<u>(21)</u>	<u>4,763,510</u>	<u>29</u>
OTHER COMPREHENSIVE INCOME								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences from translating the financial statements of foreign operations	168,225	7	(7,945)	-	380,081	4	(95,003)	(1)

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Unrealized (loss) gain from debt instrument investments measured at fair value through other comprehensive loss	(3,314)	-	(1,082)	-	(12,415)	-	(878)	-
Items that may be reclassified subsequently to profit or loss	164,911	7	(9,027)	-	367,666	4	(95,881)	(1)
Total other comprehensive loss	164,911	7	(9,027)	-	367,666	4	(95,881)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ (2,605,323)</u>	<u>(110)</u>	<u>\$ 1,818,442</u>	<u>29</u>	<u>\$ (1,596,924)</u>	<u>(17)</u>	<u>\$ 4,667,629</u>	<u>28</u>
NET (LOSS) INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$ (2,760,461)	(117)	\$ 1,833,297	29	\$ (1,941,586)	(20)	\$ 4,785,388	29
Non-controlling interests	(9,773)	-	(5,828)	-	(23,004)	-	(21,878)	-
	<u>\$ (2,770,234)</u>	<u>(117)</u>	<u>\$ 1,827,469</u>	<u>29</u>	<u>\$ (1,964,590)</u>	<u>(20)</u>	<u>\$ 4,763,510</u>	<u>29</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$ (2,604,307)	(110)	\$ 1,824,311	29	\$ (1,591,475)	(17)	\$ 4,691,940	28
Non-controlling interests	(1,016)	-	(5,869)	-	(5,449)	-	(24,311)	-
	<u>\$ (2,605,323)</u>	<u>(110)</u>	<u>\$ 1,818,442</u>	<u>29</u>	<u>\$ (1,596,924)</u>	<u>(17)</u>	<u>\$ 4,667,629</u>	<u>28</u>
(LOSS) EARNINGS PER SHARE (Note 26)								
Basic	<u>\$ (13.57)</u>		<u>\$ 9.02</u>		<u>\$ (9.53)</u>		<u>\$ 23.73</u>	
Diluted			<u>\$ 8.58</u>				<u>\$ 22.52</u>	

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Parent												
	Share Capital		Retained Earnings			Other Equity				Treasury Shares	Total	Non-controlling Interests	Total Equity
	Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Undistributed Earnings	Exchange Differences from Translating the Financial Statement of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unearned employee compensation					
BALANCE, JANUARY 1, 2021	\$ 2,103,532	\$ 4,843,642	\$ -	\$ -	\$ 1,012,301	\$ (125,038)	\$ 2,722	\$ -	\$ (24,316)	\$ 7,812,843	\$ (1,383)	\$ 7,811,460	
Appropriation of 2020 earnings													
Legal reserve	-	-	101,230	-	(101,230)	-	-	-	-	-	-	-	
Special reserve	-	-	-	122,316	(122,316)	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(700,000)	-	-	-	-	(700,000)	-	(700,000)	
Net income for the nine months ended September 30, 2021	-	-	-	-	4,785,388	-	-	-	-	4,785,388	(21,878)	4,763,510	
Other comprehensive income (loss) for the nine months ended September 30, 2021, net of income tax	-	-	-	-	-	(92,570)	(878)	-	-	(93,448)	(2,433)	(95,881)	
Total comprehensive income (loss) for the nine months ended September 30, 2021	-	-	-	-	4,785,388	(92,570)	(878)	-	-	4,691,940	(24,311)	4,667,629	
Compensation cost of employee share options	-	45,261	-	-	-	-	-	-	-	45,261	-	45,261	
Treasury shares transferred to employees	-	1,948	-	-	-	-	-	-	23,945	25,893	-	25,893	
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	42,759	42,759	
Changes in ownership interests in subsidiaries	-	-	-	-	(257)	-	-	-	-	(257)	257	-	
Issuance of ordinary shares from exercise of employee share options	3,233	5,328	-	-	-	-	-	-	-	8,561	-	8,561	
Issuance of restricted stock employees	58,450	1,212,385	-	-	-	-	-	(1,212,385)	-	58,450	-	58,450	
Compensation cost of restricted stock to employees	-	-	-	-	-	-	-	235,000	-	235,000	-	235,000	
BALANCE, SEPTEMBER 30, 2021	<u>\$ 2,165,215</u>	<u>\$ 6,108,564</u>	<u>\$ 101,230</u>	<u>\$ 122,316</u>	<u>\$ 4,873,886</u>	<u>\$ (217,608)</u>	<u>\$ 1,844</u>	<u>\$ (977,385)</u>	<u>\$ (371)</u>	<u>\$ 12,177,691</u>	<u>\$ 17,322</u>	<u>\$ 12,195,013</u>	
BALANCE, JANUARY 1, 2022	\$ 2,162,367	\$ 6,062,869	\$ 101,230	\$ 122,316	\$ 6,202,079	\$ (211,648)	\$ 169	\$ (813,720)	\$ -	\$ 13,625,662	\$ 22,300	\$ 13,647,962	
Appropriation of 2021 earnings													
Legal reserve	-	-	611,332	-	(611,332)	-	-	-	-	-	-	-	
Special reserve	-	-	-	89,163	(89,163)	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	(3,400,000)	-	-	-	-	(3,400,000)	-	(3,400,000)	
Net loss for the nine months ended September 30, 2022	-	-	-	-	(1,941,586)	-	-	-	-	(1,941,586)	(23,004)	(1,964,590)	
Other comprehensive income (loss) for the nine months ended September 30, 2022, net of income tax	-	-	-	-	-	362,526	(12,415)	-	-	350,111	17,555	367,666	
Total comprehensive income (loss) for the nine months ended September 30, 2022	-	-	-	-	(1,941,586)	362,526	(12,415)	-	-	(1,591,475)	(5,449)	(1,596,924)	
Compensation cost of employee share options	-	42,511	-	-	-	-	-	-	-	42,511	-	42,511	
Treasury shares acquired	-	-	-	-	-	-	-	-	(507,621)	(507,621)	-	(507,621)	
Treasury shares transferred to employees	-	-	-	-	-	-	-	-	293,797	293,797	-	293,797	
Issuance of ordinary shares from exercise of employee share options	2,430	10,452	-	-	-	-	-	-	-	12,882	-	12,882	
Retirement of restricted stock employees	(2,420)	(49,610)	-	-	-	-	-	49,610	-	(2,420)	-	(2,420)	
Compensation cost of restricted stock to employees	-	-	-	-	-	-	-	310,631	-	310,631	-	310,631	
BALANCE, SEPTEMBER 30, 2022	<u>\$ 2,162,377</u>	<u>\$ 6,066,222</u>	<u>\$ 712,562</u>	<u>\$ 211,479</u>	<u>\$ 159,998</u>	<u>\$ 150,878</u>	<u>\$ (12,246)</u>	<u>\$ (453,479)</u>	<u>\$ (213,824)</u>	<u>\$ 8,783,967</u>	<u>\$ 16,851</u>	<u>\$ 8,800,818</u>	

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

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) income before income tax	\$ (1,864,877)	\$ 5,784,537
Adjustments for:		
Depreciation expenses	86,332	59,929
Amortization expenses	48,369	11,933
Net gain (loss) on financial assets at fair value through profit or loss	79,468	(80,219)
Finance costs	25,183	7,481
Interest income	(45,467)	(23,647)
Compensation cost of employee share options	42,511	45,261
Loss on disposal of property plant and equipment	265	-
Gain on disposal of investments	(97,765)	(183,272)
Loss (reversal gain) on write-down of inventories	2,518,144	(177,808)
Unrealized loss on foreign exchange	176,784	(20,626)
Compensation cost of restricted stock to employees	310,631	235,000
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	102,575	40,286
Accounts receivables	2,049,694	(947,252)
Inventories	(5,719,297)	(577,197)
Other current assets	179,114	(304,763)
Accounts payables	(583,028)	443,052
Other payables	22,976	299,999
Other current liabilities	(46,775)	(111,372)
Net defined benefit liabilities	(458)	(351)
Cash (used) generated from operations	(2,715,621)	4,500,971
Interest paid	(24,282)	(7,378)
Income tax paid	(1,392,777)	(70,484)
Net cash (outflow) inflow from operating activities	<u>(4,132,680)</u>	<u>4,423,109</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial asset at fair value through other comprehensive income	58,569	-
Acquisition of property, plant and equipment	(109,565)	(83,728)
Increase (decrease) in refundable deposits	96,163	(2,309,367)
Acquisition of intangible assets	(54,825)	-
Decrease in other financial assets	3,263,993	401,101
Increase in other non-current assets	(46,444)	(1,078,451)
Interest received	42,213	26,384
Net cash inflow (outflow) from investing activities	<u>3,250,104</u>	<u>(3,044,061)</u>

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	\$ 3,105,555	\$ 339,139
Increase in long-term borrowings	200,000	786,840
Increase in guarantee deposits	181,641	1,412,648
Dividends paid to owners of the Company	(3,400,000)	-
Exercise of employee share options	12,882	8,561
Treasury shares acquired	(507,621)	-
Treasury shares transferred to employees	293,797	25,893
Increase in non-controlling interests	-	42,759
Issuance of restricted stock employees	-	58,450
Retirement of restricted stock employees	<u>(2,420)</u>	<u>-</u>
Net cash (outflow) inflow financing activities	<u>(116,166)</u>	<u>2,674,290</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>193,420</u>	<u>(36,023)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(805,322)	4,017,315
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>6,456,988</u>	<u>4,011,682</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,651,666</u>	<u>\$ 8,028,997</u>

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

(Concluded)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on November 11, 2022.

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

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

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

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

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

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

Note 2: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 3: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note)</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
Amendments to IFRS 16" Lease liabilities in a sale and leaseback"	January 1, 2024 (Note 2)
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17-Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2024
Amendments to IAS 1 "Noncurrent liabilities with contractual terms"	January 1, 2024

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

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

- b. Basis of Preparation

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

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

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

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

c. Basis of consolidation

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

d. Other significant accounting policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2021.

1) Retirement benefits

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

2) Taxation

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgments, estimations and assumptions applied in these consolidated financial statements are consistent with those in the consolidated financial statements for the year ended December 31, 2021.

6. CASH AND CASH EQUIVALENTS

	September 30, 2022	December 31, 2021	September 30, 2021
Cash on hand	\$ 8,809	\$ 24,233	\$ 3,401
Checking accounts and demand deposits	1,469,762	4,141,003	5,329,409
Cash equivalent (time deposits with original maturities within three months)	<u>4,173,095</u>	<u>2,291,752</u>	<u>2,696,187</u>
	<u>\$ 5,651,666</u>	<u>\$ 6,456,988</u>	<u>\$ 8,028,997</u>

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

	September 30, 2022	December 31, 2021	September 30, 2021
<u>Current</u>			
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed ordinary shares	<u>\$ -</u>	<u>\$ 119,218</u>	<u>\$ 118,195</u>
<u>Non – Current</u>			
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed preferred shares	\$ 148,637	\$ 151,801	\$ 149,088

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Private Funds	205,102	156,075	80,002
Structured Investments	<u>112,720</u>	<u>104,903</u>	<u>107,542</u>
	<u>\$466,459</u>	<u>\$412,779</u>	<u>\$336,632</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2022	December 31, 2021	September 30, 2021
Investments in debt instruments			
<u>Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ -</u>	<u>\$ 55,590</u>	<u>\$ 56,302</u>
<u>Non – Current</u>			
Foreign investments			
Fixed income bonds	<u>\$187,345</u>	<u>\$178,404</u>	<u>\$181,941</u>

9. OTHER FINANCIAL ASSETS

	September 30, 2022	December 31, 2021	September 30, 2021
Time deposits with original maturities more than three months	<u>\$ 696,913</u>	<u>\$ 3,879,862</u>	<u>\$ 963,546</u>

10. ACCOUNTS RECEIVABLES, NET

	September 30, 2022	December 31, 2021	September 30, 2021
Accounts receivables	<u>\$ 1,215,112</u>	<u>\$ 3,255,081</u>	<u>\$ 2,575,410</u>

The average credit term for sales of goods was 30-120 days. In order to minimize credit risk, management of the Group has delegated a team responsible for determining line of credit, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual accounts receivable at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the Group's management believes the Group's credit risk was significantly reduced.

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

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

September 30, 2022

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	\$ 1,174,955	\$ 31,072	\$ 9,085	\$ -	\$ 1,215,112

December 31, 2021

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	\$ 3,023,207	\$ 231,874	\$ -	\$ -	\$ 3,255,081

September 30, 2021

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	\$ 2,481,578	\$ 93,832	\$ -	\$ -	\$ 2,575,410

11. INVENTORIES

	September 30, 2022	December 31, 2021	September 30, 2021
Finished goods	\$ 1,641,247	\$ 1,233,626	\$ 747,063
Work in process	2,834,302	1,622,781	1,194,552
Raw materials and supplies	<u>2,588,586</u>	<u>965,811</u>	<u>552,206</u>
	<u>\$ 7,064,135</u>	<u>\$ 3,822,218</u>	<u>\$ 2,493,821</u>

The cost of goods sold were NT\$4,369,610 thousand and NT\$2,857,205 thousand, including write-down inventories of NT\$(2,497,481) thousand and reverse of write-down inventories of NT\$84,207 thousand for the three months ended September 30, 2022 and 2021. The cost of goods sold were NT\$8,921,002 thousand and NT\$8,442,986 thousand, including the write-down inventories of NT\$(2,518,144) thousand and reverse of write-down inventories of NT\$177,808 thousand for the nine months ended September 30, 2022 and 2021. Above mentioned gains from price recovery of inventory are resulted from sales of slow moving inventory.

12. SUBSIDIARIES

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

Investor	Investee	Main Businesses	Percentage of Ownership			Note
			September 30, 2022	December 31, 2021	September 30, 2021	
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%	100%	-
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Investment activity	100%	100%	100%	Note
FocalTech Systems Co., Ltd. And FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	66.45%	66.45%	66.45%	Note
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%	Note
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%	100%	-
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Investment activity	100%	100%	100%	Note
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%	100%	-
FocalTech Systems, Ltd.	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%	100%	Note
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%	100%	Note
FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%	-
FocalTech Electronics, Ltd.	Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	100%	100%	100%	Note

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

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Construction In progress	Total
Cost								
Balance, January 1, 2022	\$ -	\$ 1,336,121	\$ 434,688	\$ 12,349	\$ 44,540	\$ 38,530	\$ 1,080,130	\$ 2,946,358
Additions	-	-	57,824	16,181	1,757	-	33,803	109,565
Disposals	-	-	(19,383)	-	(2,344)	(6,479)	-	(28,206)
Reclassification	557,110	500,183	-	-	-	-	(1,057,293)	-
Effect of foreign currency exchange differences	-	39,032	22,425	265	1,195	417	-	63,334
Balance, September 30, 2022	<u>\$ 557,110</u>	<u>\$ 1,875,336</u>	<u>\$ 495,554</u>	<u>\$ 28,795</u>	<u>\$ 45,148</u>	<u>\$ 32,468</u>	<u>\$ 56,640</u>	<u>\$ 3,091,051</u>
Accumulated depreciation								
Balance, January 1, 2022	\$ -	\$ 156,566	\$ 240,423	\$ 10,107	\$ 32,127	\$ 38,530	\$ -	\$ 477,753
Depreciation	-	29,702	53,535	899	2,196	-	-	86,332
Disposals	-	-	(19,383)	-	(2,079)	(6,479)	-	(27,941)
Effect of foreign currency exchange differences	-	4,717	18,621	200	830	417	-	24,785
Balance, September 30, 2022	<u>\$ -</u>	<u>\$ 190,985</u>	<u>\$ 293,196</u>	<u>\$ 11,206</u>	<u>\$ 33,074</u>	<u>\$ 32,468</u>	<u>\$ -</u>	<u>\$ 560,929</u>
Carrying amounts as of December 31, 2021 and January 1, 2022	<u>\$ -</u>	<u>\$ 1,179,555</u>	<u>\$ 194,265</u>	<u>\$ 2,242</u>	<u>\$ 12,413</u>	<u>\$ -</u>	<u>\$ 1,080,130</u>	<u>\$ 2,468,605</u>
Carrying amounts as of September 30, 2022	<u>\$ 557,110</u>	<u>\$ 1,684,351</u>	<u>\$ 202,358</u>	<u>\$ 17,589</u>	<u>\$ 12,074</u>	<u>\$ -</u>	<u>\$ 56,640</u>	<u>\$ 2,530,122</u>
Cost								
Balance, January 1, 2021	\$ -	\$ 1,343,090	\$ 292,977	\$ 11,557	\$ 38,869	\$ 38,604	\$ -	\$ 1,725,097
Additions	-	-	77,932	731	5,065	-	-	83,728
Disposals	-	-	(5,041)	-	-	-	-	(5,041)
Reclassification	-	-	(158)	105	53	-	-	-
Effect of foreign currency exchange differences	-	(21,116)	(4,209)	(138)	(606)	(226)	-	(26,295)
Balance, September 30, 2021	<u>\$ -</u>	<u>\$ 1,321,974</u>	<u>\$ 361,501</u>	<u>\$ 12,255</u>	<u>\$ 43,381</u>	<u>\$ 38,378</u>	<u>\$ -</u>	<u>\$ 1,777,489</u>
Accumulated depreciation								
Balance, January 1, 2021	\$ -	\$ 121,696	\$ 203,722	\$ 9,574	\$ 29,561	\$ 38,604	\$ -	\$ 403,157
Depreciation	-	26,598	30,952	431	1,948	-	-	59,929
Disposals	-	-	(5,041)	-	-	-	-	(5,041)
Effect of foreign currency exchange differences	-	(2,144)	(2,841)	(101)	(423)	(226)	-	(5,735)
Balance, September 30, 2021	<u>\$ -</u>	<u>\$ 146,150</u>	<u>\$ 226,792</u>	<u>\$ 9,904</u>	<u>\$ 31,086</u>	<u>\$ 38,378</u>	<u>\$ -</u>	<u>\$ 452,310</u>
Carrying amounts as of September 30, 2021	<u>\$ -</u>	<u>\$ 1,175,824</u>	<u>\$ 134,709</u>	<u>\$ 2,351</u>	<u>\$ 12,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,325,179</u>

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

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

Property, plant and equipment were pledged as collateral. Refer to Note 32.

14. GOODWILL

	September 30, 2022	December 31, 2021	September 30, 2021
<u>Ending balance</u>	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>

Considering the synergy of integration of LCD driver and touch controller under the industry trend, the reverse merger was triggered by FocalTech Corporation, Ltd. on January 2, 2015, accounted for goodwill according to business combination. The Group estimated cash flows from sales of IDC (Integrated Driver Controller) based on smartphone market growth rate and market share. Refer to Note 14 in consolidated financial statements in 2021 for related information.

15. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance, January 1, 2022	\$ 128,012	\$ 135,839	\$ 76,707	\$ 74,000	\$ 414,558
Additions	4,451	50,374	-	-	54,825
Reclassification	-	13,904	-	-	13,904
Effect of foreign currency exchange differences	<u>16,079</u>	<u>17,810</u>	<u>6</u>	<u>-</u>	<u>33,895</u>
Balance, September 30, 2022	<u>\$ 148,542</u>	<u>\$ 217,927</u>	<u>\$ 76,713</u>	<u>\$ 74,000</u>	<u>\$ 517,182</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2022	\$ 128,012	\$ 132,792	\$ 54,726	\$ 51,800	\$ 367,330
Amortization expenses	1,113	36,150	5,556	5,550	48,369
Effect of foreign currency exchange differences	<u>16,079</u>	<u>17,722</u>	<u>6</u>	<u>-</u>	<u>33,807</u>
Balance, September 30, 2022	<u>\$ 145,204</u>	<u>\$ 186,664</u>	<u>\$ 60,288</u>	<u>\$ 57,350</u>	<u>\$ 449,506</u>
Carrying amounts as of December 31, 2021 and January 1, 2022	<u>\$ -</u>	<u>\$ 3,047</u>	<u>\$ 21,981</u>	<u>\$ 22,200</u>	<u>\$ 47,228</u>
Carrying amounts as of September 30, 2022	<u>\$ 3,338</u>	<u>\$ 31,263</u>	<u>\$ 16,425</u>	<u>\$ 16,650</u>	<u>\$ 67,676</u>
<u>Cost</u>					
Balance, January 1, 2021	\$ 122,262	\$ 148,247	\$ 76,708	\$ 74,000	\$ 421,217
Effect of foreign currency exchange differences	<u>(2,293)</u>	<u>(3,023)</u>	<u>(4)</u>	<u>-</u>	<u>(5,320)</u>
Balance, September 30, 2021	<u>\$ 119,969</u>	<u>\$ 145,224</u>	<u>\$ 76,704</u>	<u>\$ 74,000</u>	<u>\$ 415,897</u>

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

Accumulated amortization

Balance, January 1, 2021	\$ 122,130	\$ 144,543	\$ 46,942	\$ 44,400	\$ 358,015
Amortization expenses	119	425	5,839	5,550	11,933
Effect of foreign currency exchange differences	<u>(2,293)</u>	<u>(2,968)</u>	<u>(4)</u>	<u>-</u>	<u>(5,265)</u>
Balance, September 30, 2021	<u>\$ 119,956</u>	<u>\$ 142,000</u>	<u>\$ 52,777</u>	<u>\$ 49,950</u>	<u>\$ 364,683</u>
Carrying amounts as of September 30, 2021	<u>\$ 13</u>	<u>\$ 3,224</u>	<u>\$ 23,927</u>	<u>\$ 24,050</u>	<u>\$ 51,214</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	1-10 years
Patents	7-10 years
Trademark	10 years

16. REFUNDABLE DEPOSITS

	September 30, 2022	December 31, 2021	September 30, 2021
Capacity guarantee deposits and others	<u>\$ 2,746,308</u>	<u>\$2,841,745</u>	<u>\$2,481,317</u>

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

17. BORROWINGS

a. Short-term borrowings

	September 30, 2022	December 31, 2021	September 30, 2021
Unsecured bank loans	\$ 3,426,058	\$ -	\$ 580,000
Secured bank loans	<u>-</u>	<u>301,712</u>	<u>279,664</u>
	<u>\$ 3,426,058</u>	<u>\$ 301,712</u>	<u>\$ 859,664</u>
Annual interest rate			
Unsecured bank loans	1.2~4.25%	-	0.88-0.92%
Secured bank loans	-	1.74~1.81%	1.73-4.52%

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

b. Long-term borrowings

	September 30, 2022	December 31, 2021	September 30, 2021
Unsecured bank loans	\$ 200,000	\$ -	\$ -
Secured bank loans	<u>786,840</u>	<u>786,840</u>	<u>786,840</u>
	<u>\$ 986,840</u>	<u>\$ 786,840</u>	<u>\$ 786,840</u>

For secured bank loans, the principals will be paid monthly or quarterly after three years from drawdown date. The period of borrowings is from September, 2021 to September, 2036, and the interest rate are 1.5% on September 30, 2022 and 1% on December 31, 2021 and September 30, 2021.

For unsecured bank loans, the principals will be paid monthly after one year from drawdown date. The period of borrowings is from September, 2022 to September, 2025, and the interest rate are 1.51% on September 30, 2022.

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

18. ACCOUNTS PAYABLES

	September 30, 2022	December 31, 2021	September 30, 2021
Accounts payables	<u>\$ 2,046,843</u>	<u>\$ 2,620,160</u>	<u>\$ 2,166,241</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.

19. OTHER PAYABLES

	September 30, 2022	December 31, 2021	September 30, 2021
Payable for rebates	\$ 863,405	\$ 610,291	\$ 549,142
Payable for salaries and bonus	654,714	777,747	590,683
Payable for labor, health and social insurance	17,856	15,913	13,592
Reserve for litigations	53,064	46,261	46,545
Payable for professional services and others	<u>173,430</u>	<u>146,746</u>	<u>119,983</u>
	<u>\$1,762,469</u>	<u>\$1,596,958</u>	<u>\$1,319,945</u>

20. RETIREMENT BENEFIT

Pension expenses under the defined benefit plans, calculated using the actuarially determined pension cost rate as of December 31, 2021 and 2020, were NT\$23 thousand, NT\$46 thousand, NT\$94 thousand and NT\$138 thousand for the three months ended September 30, 2022 and 2021, and nine months ended September 30, 2022 and 2021, respectively.

21. GUARANTEE DEPOSITS RECEIVED

	September 30, 2022	December 31, 2021	September 30, 2021
Capacity guarantee deposits and others	<u>\$ 4,579,403</u>	<u>\$4,397,513</u>	<u>\$ 1,902,874</u>

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

22. EQUITY

a. Share capital

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

	September 30, 2022	December 31, 2021	September 30, 2021
Numbers of shares authorized (in thousands)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>216,238</u>	<u>216,237</u>	<u>216,522</u>
Shares issued	<u>\$ 2,162,377</u>	<u>\$ 2,162,367</u>	<u>\$ 2,165,215</u>

The company has redeemed 226 thousand shares of issued restricted stocks for employees during the year ended September 30, 2022. The registration processes have not been completed as of September 30, 2022.

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Restricted stock for employees (2)	Employee Share Options (2)	Employee Share Options -Expired (1)	Total
BALANCE, JANUARY 1, 2022	\$ 4,737,390	\$ 79,917	\$ 1,145,555	\$ 65,873	\$ 34,134	\$ 6,062,869
Employee treasury share vested	-	45,009	-	(45,009)	-	-
Compensation cost of employee share options	-	-	-	42,511	-	42,511
Issuance of ordinary shares from exercise of employee share options	14,182	-	-	(3,730)	-	10,452
Employee share options expired	-	-	-	(314)	314	-
Retirement of restricted stock employees	-	-	(49,610)	-	-	(49,610)
BALANCE, September 30, 2022	<u>\$ 4,751,572</u>	<u>\$ 124,926</u>	<u>\$ 1,095,945</u>	<u>\$ 59,331</u>	<u>\$ 34,448</u>	<u>\$ 6,066,222</u>
BALANCE, JANUARY 1, 2021	\$ 4,725,445	\$ 69,361	\$ -	\$ 14,903	\$ 33,933	\$4,843,642
Treasury shares transferred to employees	-	1,948	-	-	-	1,948
Employee treasury share vested	-	8,654	-	(8,654)	-	-
Compensation cost of employee share options	-	-	-	45,261	-	45,261
Issuance of ordinary shares from exercise of employee share options	10,766	-	-	(5,438)	-	5,328
Employee share options expired	-	-	-	(201)	201	-
Issuance of restricted stock for employees	-	-	1,212,385	-	-	1,212,385
BALANCE, September 30, 2021	<u>\$ 4,736,211</u>	<u>\$ 79,963</u>	<u>\$ 1,212,385</u>	<u>\$ 45,871</u>	<u>\$ 34,134</u>	<u>\$ 6,108,564</u>

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

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

c. Retained earnings and dividend policy

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

See Note 24(d) for policy stipulated in the Articles of Incorporation regarding to the remuneration for employees and directors.

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

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

The Company is required to set aside additional special capital reserve equal to the total amount of items that are accounted for as deductions from stockholders' equity shall be set aside from prior-year earnings.

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

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

d. Special reserve

	For the Nine Months Ended September 30	
	2022	2021
Balance, beginning	\$ 122,316	\$ -
Special reserve appropriated	<u>89,163</u>	<u>122,316</u>
Balance, ending	<u>\$ 211,479</u>	<u>\$ 122,316</u>

e. Treasury stock

	Shares (In Thousands)
Number of shares on January 1, 2021	778
Decrease during the period	<u>(766)</u>
Number of shares on September 30, 2021	<u>12</u>
Number of shares on January 1, 2022	-
Increase during the period	4,000
Decrease during the period	<u>(2,315)</u>
Number of shares on September 30, 2022	<u>1,685</u>

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

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

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

f. Unearned employee compensation

	For the Nine Months Ended September 30	
	2022	2021
Balance, beginning	(\$ 813,720)	\$ -
Retirement (issuance) of shares	49,610	(1,212,385)
Share-based payment expenses recognized	<u>310,631</u>	<u>235,000</u>
Balance, ending	<u>(\$ 453,479)</u>	<u>(\$ 977,385)</u>

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

g. Non-controlling interests

	For the Nine Months Ended September 30	
	2022	2021
Balance, beginning	\$ 22,300	(\$ 1,383)
Net loss	(23,004)	(21,878)
Other comprehensive income (loss)		
Exchange differences from translating the financial statements of foreign operations	17,555	(2,433)
Non-controlling interests subscribing subsidiary new shares issuing for cash	-	42,759
Changes in ownership interests in subsidiaries	<u>-</u>	<u>257</u>
Balance, ending	<u>\$ 16,851</u>	<u>\$ 17,322</u>

23. REVENUE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
IC for human and machine interface devices	\$ <u>2,370,317</u>	\$ <u>6,272,422</u>	\$ <u>9,590,291</u>	\$ <u>16,394,543</u>
<u>Contract balances</u>				
		September 30, 2022	December 31, 2021	September 30, 2021
Contract liabilities(classified as current liabilities)				
Sales of goods		\$ <u>22,582</u>	\$ <u>49,099</u>	\$ <u>46,386</u>

24. NET INCOME

a. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
Interest on bank loans	\$ 15,025	\$ 2,724	\$ 25,183	\$ 7,041
Interest on deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>440</u>
	\$ <u>15,025</u>	\$ <u>2,724</u>	\$ <u>25,183</u>	\$ <u>7,481</u>

b. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
Property, plant and equipment	\$ 31,614	\$ 21,446	\$ 86,332	\$ 59,929
Intangible assets	<u>21,567</u>	<u>3,941</u>	<u>48,369</u>	<u>11,933</u>
	\$ <u>53,181</u>	\$ <u>25,387</u>	\$ <u>134,701</u>	\$ <u>71,862</u>
An analysis of depreciation by function				
Operating costs	\$ 6,821	\$ 2,012	\$ 20,091	\$ 2,280
Operating expenses	<u>46,360</u>	<u>23,375</u>	<u>114,610</u>	<u>69,582</u>
	\$ <u>53,181</u>	\$ <u>25,387</u>	\$ <u>134,701</u>	\$ <u>71,862</u>

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

c. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
Post-employment benefits				
Defined contribution plans	\$ 8,662	\$ 8,483	\$ 24,255	\$ 22,689
Defined benefit plans (Note 20)	23	46	94	138
Share-based payments (Note 27)	104,269	155,644	353,142	280,261
Other employee benefits	<u>588,637</u>	<u>617,038</u>	<u>1,899,809</u>	<u>1,590,232</u>
Total employee benefits expense	<u>\$ 701,591</u>	<u>\$ 781,211</u>	<u>\$ 2,277,300</u>	<u>\$ 1,893,320</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 65,557	\$ 68,646	\$ 210,655	\$ 156,268
Operating expenses	<u>636,034</u>	<u>712,565</u>	<u>2,066,645</u>	<u>1,737,052</u>
	<u>\$ 701,591</u>	<u>\$ 781,211</u>	<u>\$ 2,277,300</u>	<u>\$ 1,893,320</u>

d. The remuneration of employees and directors

According to the Company's Articles of Incorporation, the distributable compensation to employees and remuneration to directors shall not be less than 1% and not more than 1.5%, respectively, of net profit before income tax. There were no employees' compensation accrued due to loss before income tax for the nine months ended September 30, 2022. The accrued employees' compensation and remuneration of directors for the three months and nine months ended September 30, 2022 and 2021 are as follows:

Amount

	For the Three Months Ended September 30 2021	For the Nine Months Ended September 30 2021
Employees' compensation	<u>\$ 22,778</u>	<u>\$ 126,292</u>
Remuneration of directors	<u>\$ 1,199</u>	<u>\$ 7,223</u>

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

The board of directors resolved the remuneration of employees and directors for 2021 and 2020 had been approved by the Board of Directors of the Company, as illustrated follows:

	<u>2021</u>	<u>2020</u>
Resolution Date of the Company's Board of Directors in its meeting	February 23,2022	February 4,2021
Employees' compensation	<u>\$ 316,730</u>	<u>\$ 123,450</u>
Remuneration of directors	<u>\$ 30,000</u>	<u>\$ 7,214</u>

There is no difference between the actual amount of remuneration to employees and directors resolved and the amount of remuneration to employees and directors accounted for in 2021 and 2020 consolidated financial statements.

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

25. INCOME TAXES

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

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current income tax expense				
In respect of the current year	\$ 35,500	\$ 558,953	\$ 218,908	\$ 971,866
Income tax on undistributed earnings	(81,702)	-	-	-
Other income tax adjustments	<u>-</u>	<u>-</u>	<u>36,675</u>	<u>-</u>
	<u>(46,202)</u>	<u>558,953</u>	<u>255,583</u>	<u>971,866</u>
Deferred income tax expense				
In respect of the current year	(152,020)	<u>18,680</u>	(155,870)	<u>49,161</u>
Income tax (benefit) expense recognized in profit or loss	<u>(\$198,222)</u>	<u>\$ 577,633</u>	<u>\$ 99,713</u>	<u>\$1,021,027</u>

- b. Income tax assessments

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

26. (LOSS) EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Basic (loss) earnings per share	<u>(\$ 13.57)</u>	<u>\$ 9.02</u>	<u>(\$ 9.53)</u>	<u>\$ 23.73</u>
Diluted earnings per share		<u>\$ 8.58</u>		<u>\$ 22.52</u>

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

Net (Loss) Profit for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
(Loss) earnings used in the computation of basic (loss) earnings per share	<u>(\$2,760,461)</u>	<u>\$1,833,297</u>	<u>(\$1,941,586)</u>	<u>\$4,785,388</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
Weighted average number of ordinary shares in computation of basic (loss) earnings per share	203,387	203,235	203,656	201,648
Effect of potentially dilutive ordinary shares:				
Treasure share issued to employee	-	7,376	-	8,604
Employees stock options (share)	-	438	-	507
Restricted stock for employees(share)	-	2,498	-	780
The compensation to employees	<u>-</u>	<u>147</u>	<u>-</u>	<u>999</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>203,387</u>	<u>213,694</u>	<u>203,656</u>	<u>212,538</u>

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

Note: There is no diluted effectiveness for the nine months ended September 30, 2022 due to operating loss.

27. SHARE-BASED PAYMENT ARRANGEMENTS

The Group did not have new share option plan issued for employees for the nine months ended September 30, 2022 and 2021. The detailed information could be found in Note 27 of the consolidated financial statements of the year ended December 31, 2021.

a. Employee share option plan

Information on outstanding options for the nine months ended September 30, 2022 and 2021 is as follows:

September 30, 2022

Employee Stock Option Plan	Beginning Balance		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)
2006	198,399	\$19.86	(140,000)	\$20.98	(36,000)	\$ 5.37	22,399	\$29.68
2015	209,000	15.60	(103,000)	15.60	-	-	106,000	12.80

September 30, 2021

Employee Stock Option Plan	Beginning Balance		Options exercised		Options expired		Ending Balance	
	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)
2006	398,199	\$26.65	(199,800)	\$33.04	-	\$ -	198,399	\$19.86
2015	397,500	15.90	(123,500)	15.86	(12,000)	15.90	262,000	15.60

b. Treasure stock transferred to employees

The Company acquired 4,000 thousand shares treasury stock for the nine months ended September 30, 2022.

Information about treasury stock transferred to employee is as follows:

Items	The date of board of directors approved	Buyback shares (In thousand share)	Transferred shares (In thousand share)	Adjustment due to capital reduction (In thousand share)	Shares not transferred yet (In thousand share)	Transferred price (in dollar)
The 4th treasure stock transferred to employee program	2018/7/26	8,000	7,952	(46)	2	33.69 (Adjusted)
The 5th treasure stock transferred to employee program	2018/8/23	7,689	7,206	(473)	10	32.93 (Adjusted)
The 6th treasure stock transferred to employee program	2022/2/23	4,000	2,315	-	-	126.91

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Information about treasury stock transferred to employee for the nine months ended September 30, 2022 is as follows:

The 4th treasury stock transferred to employee program			The 5th treasury stock transferred to employee program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2020/03/20	7,848	\$ 3.30	2019/05/07	4,651	\$ -
2021/04/07	104	181.40	2019/11/08	60	-
			2020/03/20	1,399	3.70
			2020/11/16	434	1.90
			2021/04/07	572	181.20
			2021/07/29	90	242.20
Total	7,952		Total	7,206	

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

c. Restricted stock for employees

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

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

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

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

The constraints of restricted stock are as follows:

- Employees are restricted to sell, pledge, transfer, and give to another, create any encumbrance on, or otherwise dispose of, any shares before vested.
- The rights of restricted stock are same as ordinary share including attendance, propose, speak, voting right and so on at the Company's shareholders' meeting. The exercise of such rights shall be performed in accordance with the trust agreement or the securities custodies by the Company's prescribed.
- Stock dividends and cash dividends yielding from restricted stock will be distributed to employees in the current year, and will not be restricted.

d. National employee should transfer the granted shares to trustee appointed by the Company immediately. Before they are vested, the restricted should be kept in trustee. Non-national employee' granted share should be kept by bank appointed by the Company.

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

Compensation cost of aforementioned share-based payments for the nine months ended September 30, 2022 and 2021 are as follows:

	For the Nine Months Ended September 30	
	2022	2021
Shares buyback programs	\$ 42,511	\$ 45,261
Restricted stock for employees	<u>310,631</u>	<u>235,000</u>
	<u>\$ 353,142</u>	<u>\$ 280,261</u>
Adjustment account:		
Capital surplus - employee stock options	\$ 42,511	\$ 45,261
Other equity - unearned employee compensation	<u>310,631</u>	<u>235,000</u>
	<u>\$ 353,142</u>	<u>\$ 280,261</u>

28. NON-CASH TRANSATION

The cash dividends of 2020 resolved by the annual shareholders' meeting on August 19,2021 was NT\$700,000 thousand. and was not distributed as of September 30,2021. (Referring to Note 22)

29. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

The Company and its subsidiaries have lease contracts in relation to office, plant and part of office equipment, and they would expire by September, 2023. Those agreements are short-term leases and qualified for the recognition exemption to leases so the Company does not recognize right-of-use assets and lease liabilities for these leases. The committed payments for the short-term leases were NT\$3,304 thousand and NT\$16,405 thousand as of September 30, 2022 and 2021.

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
lease payment	<u>\$ 3,747</u>	<u>\$ 8,811</u>	<u>\$ 21,814</u>	<u>\$ 25,763</u>

30. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

September 30, 2022

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	\$ 148,637	\$ -	\$ -	\$ 148,637
Private funds	-	-	205,102	205,102
Structured Investments	-	112,720	-	112,720
Total	<u>\$ 148,637</u>	<u>\$ 112,720</u>	<u>\$ 205,102</u>	<u>\$ 466,459</u>
Financial assets at FVTOCI				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 187,345</u>	<u>\$ -</u>	<u>\$ 187,345</u>

December 31, 2021

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

September 30, 2021

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed preferred shares	\$ 267,283	\$ -	\$ -	\$ 267,283
Private funds	-	-	80,002	80,002
Structured Investments	-	107,542	-	107,542
Total	<u>\$ 267,283</u>	<u>\$ 107,542</u>	<u>\$ 80,002</u>	<u>\$ 454,827</u>
Financial assets at FVTOCI				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 238,243</u>	<u>\$ -</u>	<u>\$ 238,243</u>

There were no transfers between Level 1 and Level 2 for the nine months ended September 30, 2022 and 2021.

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

	For the Nine Months Ended	
	September 30	
<u>Financial assets at FVTPL</u>	2022	2021
Balance, beginning of period	\$ 156,075	\$ 52,579
Purchases	38,540	24,937
Disposals	(2,330)	(181)
Recognized in profit or loss (other income or loss)	8,911	3,274
Effect of foreign currency exchange differences	3,906	(607)
Balance, end of period	<u>\$ 205,102</u>	<u>\$ 80,002</u>

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

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

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

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

c. Categories of financial instruments

	September 30, 2022	December 31, 2021	September 30, 2021
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	\$ 466,459	\$ 531,997	\$ 454,827
Amortized cost (Note 1)	10,309,999	16,433,676	14,049,270
Financial assets at FVTOCI			
Investments in debt instruments	187,345	233,994	238,243
<u>Financial liabilities</u>			
Amortized cost (Note 2)	\$ 12,801,613	\$ 9,703,183	\$ 7,735,564

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

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

d. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, accounts receivable, other financial assets, financial assets at FVTPL, financial assets at FVTOCI, accounts payables and other payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

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

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

1) Market risk

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

a) Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currency at the end of the reporting period are shown in Note 34.

Sensitivity analysis

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

	USD Impact	
	For the Nine Months Ended	
	September 30	
	2022	2021
Profit or loss/ equity	(<u>\$ 9,142</u>) (i)	<u>\$ 289,333</u> (i)

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

b) Interest rate risk

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

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

	September 30, 2022	December 31, 2021	September 30, 2021
Fair value interest rate risk			
Financial assets	<u>\$ 5,057,353</u>	<u>\$ 6,405,608</u>	<u>\$ 3,897,976</u>
Financial liabilities	<u>\$ 4,412,898</u>	<u>\$ 1,088,552</u>	<u>\$ 1,646,504</u>
Cash flow interest rate risk			
Financial assets	<u>\$ 1,577,080</u>	<u>\$ 4,241,431</u>	<u>\$ 5,431,511</u>

Sensitivity analysis

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

If interest rates had been 25 basis points higher/ lower and all other variables were held constant, the Company's pre-tax profit for the nine months ended September 30, 2022 and 2021 would increase/ decrease by NT\$2,957 thousand and NT\$10,184 thousand, respectively.

2) Credit risk

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

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

As of September 30, 2022, accounts receivables from top 5 customers represented 68% of total accounts receivables. The credit concentration risk of other accounts receivables was insignificant.

Credit risk management for investments in debt instruments

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

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

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of September 30, 2022</u>
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 187,345</u>

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

<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 September 30, 2021</u>
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 238,243</u>

3) Liquidity risk

The Company manages its liquidity risk by monitoring and maintaining adequate cash and cash equivalents to fund its operations and mitigate the impacts of fluctuations in cash flows. The Company relies on bank borrowings as a significant source of liquidity.

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

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

September 30, 2022

	On Demand or Less than 1 Year	1-5 Years	More than 5 Years
Non-interest bearing	\$ 3,808,185	\$ 4,579,403	\$ -
Fixed interest rate liabilities	<u>3,427,185</u>	<u>404,375</u>	<u>582,465</u>
	<u>\$ 7,235,370</u>	<u>\$ 4,983,778</u>	<u>\$ 582,465</u>

December 31, 2021

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

September 30, 2021

	On Demand or Less than 1 Year	1-5 Years	More than 5 Years
Non-interest bearing	\$ 4,185,866	\$ 1,902,874	\$ -
Fixed interest rate liabilities	<u>859,984</u>	<u>140,083</u>	<u>646,757</u>
	<u>\$ 5,045,850</u>	<u>\$ 2,042,957</u>	<u>\$ 646,757</u>

31. TRANSACTIONS WITH RELATED PARTIES

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

b. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
Long-term employee benefits	\$ (1,224)	\$ (31)	\$ 28,560	\$ 12,682
Short-term employee benefits	6,658	7,767	62,981	61,363
Post-employment benefits	54	92	324	353
Share-based payments	<u>15,155</u>	<u>15,665</u>	<u>53,468</u>	<u>35,854</u>
	<u>\$ 20,643</u>	<u>\$ 23,493</u>	<u>\$145,333</u>	<u>\$110,252</u>

32. PLEDGED ASSETS

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

	September 30, 2022	December 31, 2021	September 30, 2021
Property, plant and equipment – net of buildings	\$ 497,682	\$ 510,257	\$ 507,524
Property, plant and equipment – land	557,110	-	-
Property, plant and equipment –Construction in progress	-	1,071,400	-
Prepayments on commercial building (categorized in other non-current assets)	-	-	1,080,130
Pledge deposits (categorized in other non-current assets)	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
	<u>\$ 1,058,792</u>	<u>\$ 1,585,657</u>	<u>\$ 1,591,654</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

NOVATEK MICROELECTRONICS CORP. (“NOVATEK”) filed five patent infringement actions with Intellectual Property and Commercial Court on August 9, 2021, asking the court to prohibit the Company from manufacturing, offering for sale, selling, utilizing or importing, for the aforementioned purposes, products infringing on such patents and asking for indemnification for any losses. The litigations are still in the preliminary stages of the Intellectual Property and Commercial Court, and the result could not be inferred. The Company does not expect any material operations and financial impact of the Company resulting from this case.

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

September 30, 2022

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 225,808	31.75 (USD:NTD)	\$ 7,169,399
USD	18,828	7.0998 (USD:RMB)	597,805
<u>Financial liabilities</u>			
Monetary items			
USD	231,767	31.75 (USD:NTD)	7,358,595
USD	18,629	7.0998 (USD:RMB)	591,455

December 31, 2021

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

September 30, 2021

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 394,682	27.85(USD:NTD)	\$ 10,991,894
USD	16,728	6.4854 (USD:RMB)	465,863
<u>Financial liabilities</u>			
Monetary items			
USD	171,186	27.85 (USD:NTD)	4,767,528
USD	32,444	6.4854 (USD:RMB)	903,562

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

35. ADDITIONAL DISCLOSURES

(1) Information about significant transactions and investees:

- a. Financings provided to others: See Table 1 attached;
- b. Endorsement/guarantee provided: See Table 2 attached;
- c. Marketable securities held (excluding investments in subsidiaries and associates): See Table 3 attached;
- d. Marketable securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital: None;
- e. Acquisition of individual real estate property at costs of at least NT\$300 million or 20% of the paid-in capital: None;
- f. Disposal of individual real estate property at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
- i. Information about the derivative financial instruments transaction: None;
- j. Others: The business relationship between the parent and the subsidiaries and significant transactions between them: See Table 4 attached;

(2) Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in mainland China): See Table 5 attached;

(3) Information on investment in Mainland China:

- a. The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: See Table 6 attached.
- b. Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: See Table 4 attached.

(4) Information of major shareholders: There are no shareholders holding more than 5% of the Company's shares for the month ended September 30, 2022.

36. SEGMENT INFORMATION

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

TABLE 1

FocalTech Systems Co., Ltd. and Subsidiaries

FINANCINGS PROVIDED TO OTHERS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

No (Note 1)	Financing Company	Counterparty	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Amount Actually Drawn (Note 4)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)	Note
													Item	Value			
1	FocalTech Systems, Ltd.	FocalTech Systems Co., Ltd.	Other receivables from related parties	Yes	\$ 1,905,000 (USD 60,000)	\$ 1,905,000 (USD 60,000)	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	-	\$ 2,172,899	\$ 2,172,899	Note 3
1	FocalTech Systems, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Other receivables from related parties	Yes	317,500 (USD 10,000)	317,500 (USD 10,000)	-	-	The need for short-term financing	-	Operating capital	-	-	-	2,172,899	2,172,899	Note 3
2	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Other receivables from related parties	Yes	793,750 (USD 25,000)	793,750 (USD 25,000)	-	-	The need for short-term financing	-	Operating capital	-	-	-	1,396,493	1,396,493	Note 3

Note 1: The parent company and its subsidiaries are coded as follows:

- 1) The parent company is coded "0".
- 2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The lending limits:

- 1) The total amount available for lending purpose shall not exceed 20% of the net worth of the Company.
- 2) The lending limits for any borrowers are set forth as below:
 - A. The total amount for lending to a company having a business relationship with the company shall not exceed the total transaction amount between the parties during the period of twelve months prior to the time of lending (the transaction amount shall mean the sales or purchasing amount between the parties, whichever is higher), and shall not exceed 20% of the net worth of the financing company or 30% of the net worth of the counterparty, whichever is lower.
 - B. The total amount for lending to a company in need of funds for a short-term period shall not exceed 20% of the net worth of the financing company. The lending limits for any borrower shall not exceed 10% of the net worth of the creditor or 30% of the net worth of the borrower, whichever is lower.
- 3) For financing needs between offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, or financing needs to the Company by offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, the total amount for such fund-lending shall not be subject to the limit of 100% of the net worth of the creditor
- 4) Where the Company's financial reports are prepared in accordance with the International Financial Reporting Standards, "net worth" in the Procedures means the equity attributable to shareholders of the parent in the balance sheet.

Note 3: The balances have been eliminated on consolidation.

Note 4: Using the exchange rate of 1 USD: 31.75 NTD as of September 30, 2022.

TABLE 2

FocalTech Systems Co., Ltd. and Subsidiaries
 ENDORSEMENTS/GUARANTEES PROVIDED
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
 (Amount in thousand; Currency denomination in NTD or in foreign currencies)

No. (Note1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2)	Maximum Balance for the Period (Note 5)	Ending Balance (Note 5)	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Property	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements(%)	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	FocalTech Systems Co., Ltd.	FocalTech Systems, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	\$ 4,391,983	\$ 1,428,750 (USD 45,000)	\$ 1,428,750 (USD 45,000)	\$ -	\$ -	16.27%	\$ 4,391,983	Yes	No	No	(Note 3)
0	FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	4,391,983	1,447,936 (USD 45,604)	1,447,936 (USD 45,604)	-	-	16.48%	4,391,983	Yes	No	No	(Note 3)
0	FocalTech Systems Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	4,391,983	1,809,750 (USD 57,000)	1,809,750 (USD 57,000)	6,295	-	20.6%	4,391,983	Yes	No	Yes	(Note 3 and 5)
0	FocalTech Systems Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	4,391,983	2,190,750 (USD 69,000)	2,190,750 (USD 69,000)	76,857	-	24.94%	4,391,983	Yes	No	Yes	(Note 3 and 5)
0	FocalTech Systems Co., Ltd.	FocalTech Smart Sensors Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	4,391,983	111,125 (USD 3,500)	111,125 (USD 3,500)	-	-	1.27%	4,391,983	Yes	No	No	(Note 4)
0	FocalTech Systems Co., Ltd.	FocalTech Smart Sensors, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	4,391,983	111,125 (USD 3,500)	111,125 (USD 3,500)	-	-	1.27%	4,391,983	Yes	No	No	(Note 4)
1	FocalTech Systems (Shenzhen) Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	The endorser/ guarantor parent company owns directly and indirectly 100% voting shares of the endorsed/guaranteed company.	871,322	447,200 (CNY 100,000)	447,200 (CNY 100,000)	-	-	51.32%	871,322	No	No	Yes	-

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transaction

1) 0 for parent company.

2) Subsidiaries are given a number in sequence starting with No. 1.

Note 2: Limits on Endorsement/ Guarantee Amount

1) The ceilings on the amount of endorsements/guarantees due to business transaction are as below:

2) The total amount of endorsements/guarantees and the amount of endorsements/guarantees for any single entity shall not exceed 50% of the net worth of the Company.

3) The total amount of endorsements/guarantees between the Company owns directly or indirectly 100% voting shares shall not exceed 100% of the net worth of the Company.

4) The total amount of endorsement/guarantee provided by the Company or by the Company and its subsidiaries shall not exceed 50% of the net worth of the Company. The total amount of the endorsement/guarantee provided by the Company and the subsidiaries to any individual entity shall not exceed 50% of the net worth of the Company.

5) The net worth referred to above are based on the latest reviewed financial statements. Where the Company's financial reports are prepared in accordance with the International Financial Reporting Standards, "net worth" in the Procedures means the equity attributable to shareholders of the parent in the balance sheet.

TABLE 2

Note 3: FocalTech Systems Co., Ltd. provided USD 45,000 thousand of endorsements/guarantees for FocalTech Electronics Ltd., FocalTech Systems, Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$0, NT\$0, NT\$0, and NT\$ 74,666 thousand respectively.

Note 4: FocalTech Systems Co., Ltd. provided USD 3,500 thousand of endorsements/guarantees for FocalTech Smart Sensors Ltd. and FocalTech Smart Sensors Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 5: FocalTech Systems Co., Ltd. provided USD 5,000 thousand of endorsements/guarantees for Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 6: Using the exchange rate of 1 USD: 31.75 NTD and 1 RMB: 4.472 NTD as of September 30, 2022.

TABLE 3

FocalTech Systems Co., Ltd. and Subsidiaries
MARKETABLE SECURITIES HELD
SEPTEMBER 30, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2022				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
FocalTech Systems Co., Ltd.	<u>Stock</u>							
	Class B Preferred Stock of Fubon Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - non current	170,000	NT\$ 10,013	0.03	NT\$ 10,013	
	Class A Preferred Stock of WT Microelectronics Co., Ltd.	-	"	2,882,000	NT\$ 138,624	2.13	NT\$ 138,624	
	<u>Privately Offered Fund</u>							
	CDIB Capital Healthcare Ventures II Limited Partnership	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 15,054	0.96	NT\$ 15,054	
	CDIB Capital Growth Partners L.P.	-	"	-	NT\$ 32,302	0.66	NT\$ 32,302	
FocalTech Systems, Ltd.	<u>Structured product</u>							
	CLN Link HSBC SUB	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 56,491 (USD 1,779)		NT\$ 56,491 (USD 1,779)	
	CLN Link Barclays SUB	-	"	-	NT\$ 56,229 (USD 1,771)		NT\$ 56,229 (USD 1,771)	
	<u>Fixed income bond</u>							
	Bank of China Limited Maturity Date : November 13, 2024	-	Financial assets at fair value through other comprehensive income - non current	-	NT\$ 135,099 (USD 4,255)		NT\$ 135,099 (USD 4,255)	
	Industrial and Commercial Bank of China Limited Maturity Date : September 21, 2025	-	"	-	NT\$ 52,246 (USD 1,646)		NT\$ 52,246 (USD 1,646)	
FocalTech Electronics, Ltd.	<u>Privately Offered Fund</u> TIEF Fund, L.P.	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 32,690 (USD 1,030)	4.83	NT\$ 32,690 (USD 1,030)	

Note 1 : The percentage of ownership for preferred stock is the held shares divided by the number of outstanding shares.

Note 2 : Using the exchange rate of 1 USD: 31.75 NTD as of September 30, 2022.

FocalTech Systems Co., Ltd. and Subsidiaries
 INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
 (Amount in Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 3)	Intercompany Transactions			
				Financial Statements Item	Amount (Note 4)	Terms	Percentage of Consolidated Net Revenue or Total Assets
0	FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	1	Accounts Payables	\$ 601,644	Note 2	2.66%
0	FocalTech Systems Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	1	Cost of revenue	10,156	Note 2	0.11%
1	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	89,320	Note 2	0.39%
2	FocalTech Systems, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	319,363	Note 2	1.41%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	2	Accounts Payables	222,787	Note 2	0.98%
			2	Research and development expenses	82,733	Note 2	0.86%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	2	Other Payables	228,986	Note 2	1.01%
			2	Research and development expenses	112,978	Note 2	1.18%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	2	Other Payables	20,018	Note 2	0.09%
			2	Selling and marketing expenses	81,272	Note 2	0.85%
4	FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	2	Other Receivables	384,988	Note 2	1.7%

Note 1: Number should be input in the remark column for intercompany transactions. Here illustrate how to assign numbers to transaction

1) 0 for parent company.

2) Subsidiaries are given a number in sequence starting with No. 1.

Note 2: The services of production management, sales, research and development are provided between the Company and its subsidiaries. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

Note 3: The transaction relationships with the counterparties are as follows:

1) The Company to the consolidated subsidiary.

2) The consolidated subsidiary to another consolidated subsidiary.

Note 4: Balances, transactions, revenue and expenses between the Company and its subsidiaries have been eliminated on consolidation.

TABLE 5

FocalTech Systems Co., Ltd. and Subsidiaries

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA) (Note 1)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

(Amount in thousand; Currency denomination in NTD or in foreign currencies)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2022			Net Income (Losses) of the Investee (Note 4)	Share of Profits/Losses of Investee (Note 4)	Note
				September 30,2022 (Note 2)	December 31,2021 (Note 3)	Shares	Percentage of Ownership	Carrying Value (Note 2)			
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Cayman Islands	Investment activity	NT\$ 7,059,264	NT\$ 7,059,264	5,491,200	100%	NT\$ 2,202,185 (USD 69,360)	(NT\$ 579,044) (USD 19,773)	(NT\$ 579,044) (USD 19,773)	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Cayman Islands	Investment activity	NT\$ 3,175 (USD 100)	NT\$ 2,768 (USD 100)	2	100%	NT\$ 1,396,493 (USD 43,984)	(NT\$ 282,228) (USD 9,637)	(NT\$ 282,228) (USD 9,637)	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 85,350	NT\$ 85,350	3,000,000	9.14%	NT\$ 4,590 (USD 145)	(NT\$ 68,565) (USD 2,341)	(NT\$ 6,267) (USD 214)	Subsidiary
FocalTech Systems Co., Ltd.	Vitrio Technology Corporation	Taiwan	Research, development, manufacturing and sale of integrated circuits	NT\$ 4,970	NT\$ 4,970	142,000	50%	NT\$ -	(NT\$ 372)	NT\$ -	Joint Venture
FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 238,821	NT\$ 238,821	18,813,050	57.31%	NT\$ 28,784 (USD 907)	(NT\$ 68,565) (USD 2,341)	(NT\$ 39,295) (USD 1,342)	Subsidiary
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Taiwan	Research, development, manufacturing and sale of integrated circuits	NT\$ 11,990	NT\$ 11,990	17,417,000	100%	(NT\$ 357,998)	(NT\$ 68,649)	(NT\$ 68,649)	Subsidiary
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	U.S.A	Investment activity	NT\$ 3,247,798 (USD 102,293)	NT\$ 2,831,466 (USD 102,293)	100	100%	NT\$ 2,074,990 (USD 65,354)	(NT\$ 574,398) (USD 19,614)	(NT\$ 574,398) (USD 19,614)	Subsidiary
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Cayman Islands	Investment activity	NT\$ 741,364 (USD 23,350)	NT\$ 646,330 (USD 23,350)	2	100%	NT\$ 2,172,899 (USD 68,438)	(NT\$ 556,842) (USD 19,614)	(NT\$ 556,842) (USD 19,015)	Subsidiary
FocalTech Systems, Ltd.	FocalTech Electronics Co., Ltd.	Taiwan	Import and export of integrated circuits	NT\$ 20,000	NT\$ 20,000	2,000,000	100%	NT\$ 111,422 (USD 3,509)	(NT\$ 28,869) (USD 986)	(NT\$ 28,869) (USD 986)	Subsidiary

Note 1: Please refer to the table 6 for the information on investment in Mainland China.

Note 2: Using the exchange rate of 1 USD: 31.75 NTD as of September 30, 2022.

Note 3: Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

Note 4: Using the average exchange rate of 1 USD: 29.2846 NTD for the nine months September 30, 2022.

FocalTech Systems Co., Ltd. and Subsidiaries
 INFORMATION ON INVESTMENT IN MAINLAND CHINA
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
 (Amount in thousand; Currency denomination in NTD or in foreign currencies)

Investee company	Main businesses and products	Total amount of paid-in capital (Note 1)	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2022 (Note 1)	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2022 (Note 1)	Net income (loss) of investee company (Note 2)	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying amount as of September 30, 2022 (Note 1)	Accumulated inward remittance of earnings as of September 30, 2022	Note
					Outflow	Inflow							
FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	NT\$ 63,500 (USD 2,000)	(Note 3 and 4)	NT\$ 31,750 (USD 1,000)	\$ -	\$ -	NT\$ 31,750 (USD 1,000)	NT\$ 3,308 (USD 113)	100%	NT\$ 3,308 (USD 113)	NT\$ 33,745 (USD 1,063)	\$ -	-
FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	NT\$ 295,275 (USD 9,300)	(Note 3)	NT\$ 31,750 (USD 1,000)	-	-	NT\$ 31,750 (USD 1,000)	(NT\$ 125,531) (USD 4,287)	100%	(NT\$ 125,531) (USD 4,287)	NT\$ 344,923 (USD 10,864)	-	-
FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	NT\$ 1,174,755 (USD 37,000)	(Note 4)	-	-	-	-	(NT\$ 504,083) (USD 17,213)	100%	(NT\$ 504,083) (USD 17,213)	NT\$ 871,322 (USD 27,443)	-	-
Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	NT\$ 134,160 (RMB 30,000)	(Note 4)	-	-	-	-	NT\$ 21,244 (USD 725)	100%	NT\$ 21,244 (USD 725)	NT\$ 257,652 (USD 8,115)	-	-

Accumulated Investment in Mainland China as of September 30, 2022	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$63,500 (USD2,000)	\$1,919,831 (USD60,467)	\$5,270,380

Note 1: Using the exchange rate of 1 USD: 31.75 NTD and 1 RMB :4.472 NTD as of September 30, 2022.
 Note 2: Using the average exchange rate of 1 USD: 29.2846 NTD and 1 RMB :4.4389 NTD for nine months ended September 30, 2022.
 Note 3: Indirect investment in Mainland China through a holding company established in other countries.
 Note 4: The investment is through the foreign subsidiaries, has not been remitted from Taiwan.