

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

**Consolidated Financial Statements for the
Years Ended December 31, 2023 and 2022**

Notice to Readers

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

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

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2023 and for the year then ended prepared under the International Financial Reporting Standards, No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

FocalTech Systems Co., Ltd.

By

Genda James Hu

Chairman

February 23, 2024

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of FocalTech Systems Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2023 are stated as follows:

Recognition for Sales Revenue

The sales revenue of Integrated Driver Controller is the main indicator of financial and business performance evaluated by investors and the management. It possibly exists the pressure to achieve the financial target, and it might result in the risk of the occurrence of sales revenue. Therefore, the sales revenue of Integrated Driver Controller is considered as a key audit matter for the financial year ended December 31, 2023.

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

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

1. We evaluated the design of internal control related to sales and collection cycle and the implement of the internal control.
2. We obtained customer ranking list in 2023, and analyze the differences of customers and its sales amount.
3. We analyzed if the sales quantities, sales revenue and gross margin by products existed material exception.
4. We sampled purchase orders, shipping documents bills of lading, and collection records in revenue breakdown to ensure the occurrence of sales revenue.

Valuation of Inventory

Due to high market demand fluctuation and rapid technological development, the inventories may turn obsolete or have a lower net realizable value which may result in inventories being impaired. The Group has performed impairment assessment on inventories through evaluation of aging and net realizable value of inventories quarterly. The management has practiced their professional judgement in estimating the possible loss on impairment based on the sales performance of each product. Therefore, inventory valuation is considered as a key audit matter for the financial year ended December 31, 2023.

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

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

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

Other Matter

We have also audited the parent company only financial statements of FocalTech Systems Co., Ltd. as of and for the years ended December 31, 2023 and 2022 on which we have issued an unmodified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

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effectiveness of the Group's internal control.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2023 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China
February 23, 2024

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	2023		2022	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	\$ 4,444,804	24	\$ 5,674,470	27
Financial assets at fair value through profit or loss (Note 4 and 7)	250,205	1	-	-
Financial assets at fair value through other comprehensive income (Note 4 and 8)	129,746	1	-	-
Accounts receivables, net (Note 4 and 10)	1,649,039	9	1,148,471	6
Inventories (Note 4 and 11)	2,675,092	15	5,753,731	28
Other financial assets (Note 4 and 9)	2,806,629	15	517,464	2
Other current assets (Note 25)	<u>227,685</u>	<u>1</u>	<u>258,794</u>	<u>1</u>
Total current assets	<u>12,183,200</u>	<u>66</u>	<u>13,352,930</u>	<u>64</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (Note 4 and 7)	365,725	2	467,143	2
Financial assets at fair value through other comprehensive income (Note 4 and 8)	50,364	-	179,137	1
Property, plant and equipment (Note 4 and 13)	2,439,730	13	2,514,208	12
Goodwill (Notes 4 and 14)	1,237,268	7	1,237,268	6
Other intangible assets (Note 4 and 15)	114,519	1	60,549	-
Deferred tax assets (Note 4 and 25)	179,725	1	306,129	2
Refundable deposits (Note 16)	1,857,769	10	2,654,474	13
Other non-current assets (Note 32)	<u>26,997</u>	<u>-</u>	<u>25,347</u>	<u>-</u>
Total non-current assets	<u>6,272,097</u>	<u>34</u>	<u>7,444,255</u>	<u>36</u>
TOTAL	<u>\$ 18,455,297</u>	<u>100</u>	<u>\$ 20,797,185</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 17)	\$ 860,242	5	\$ 3,070,806	15
Accounts payables (Note 18)	1,478,429	8	929,492	4
Other payables (Note 19)	1,456,384	8	1,653,776	8
Current tax liabilities (Notes 4 and 25)	387,792	2	629,303	3
Current position of long-term borrowings (Note 17)	198,493	1	25,000	-
Other current liabilities (Notes 23)	<u>78,002</u>	<u>-</u>	<u>81,038</u>	<u>-</u>
Total current liabilities	<u>4,459,342</u>	<u>24</u>	<u>6,389,415</u>	<u>30</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 17)	760,454	4	961,840	5
Deferred tax liabilities (Note 4 and 25)	219,167	2	216,757	1
Net defined benefit liabilities (Note 4 and 20)	13,955	-	13,560	-
Guarantee deposits received (Note 21)	<u>3,688,279</u>	<u>20</u>	<u>4,369,353</u>	<u>21</u>
Total non-current liabilities	<u>4,681,855</u>	<u>26</u>	<u>5,561,510</u>	<u>27</u>
Total liabilities	<u>9,141,197</u>	<u>50</u>	<u>11,950,925</u>	<u>57</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 4, 22 and 27)				
Share capital				
Ordinary shares	<u>2,178,900</u>	<u>12</u>	<u>2,161,107</u>	<u>11</u>
Capital surplus	<u>6,031,904</u>	<u>32</u>	<u>6,041,988</u>	<u>29</u>
Retained earnings				
Legal reserve	712,562	4	712,562	3
Special reserve	-	-	211,479	1
Undistributed earnings	<u>757,830</u>	<u>4</u>	<u>196,847</u>	<u>1</u>
Total retained earnings	<u>1,470,392</u>	<u>8</u>	<u>1,120,888</u>	<u>5</u>
Other equity	<u>(210,063)</u>	<u>(1)</u>	<u>(296,495)</u>	<u>(1)</u>
Treasury shares	<u>(163,060)</u>	<u>(1)</u>	<u>(196,057)</u>	<u>(1)</u>
Equity attributable to owners of the parent	<u>9,308,073</u>	<u>50</u>	<u>8,831,431</u>	<u>43</u>
NON-CONTROLLING INTERESTS (Note 22)	<u>6,027</u>	<u>-</u>	<u>14,829</u>	<u>-</u>
Total equity	<u>9,314,100</u>	<u>50</u>	<u>8,846,260</u>	<u>43</u>
TOTAL	<u>\$ 18,455,297</u>	<u>100</u>	<u>\$ 20,797,185</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)

	2023		2022	
	Amount	%	Amount	%
REVENUE (Note 4 and 23)	\$ 13,568,371	100	\$ 12,949,902	100
COSTS OF SALES (Notes 4,11 and 24)	<u>(10,859,718)</u>	<u>(80)</u>	<u>(11,667,224)</u>	<u>(90)</u>
GROSS PROFIT	<u>2,708,653</u>	<u>20</u>	<u>1,282,678</u>	<u>10</u>
OPERATING EXPENSES (Notes 24, 27,28 and 31)				
Selling and marketing expenses	(365,715)	(3)	(492,636)	(4)
General and administrative expenses	(430,621)	(3)	(546,775)	(4)
Research and development expenses	<u>(1,789,672)</u>	<u>(13)</u>	<u>(2,536,509)</u>	<u>(20)</u>
Total operating expenses	<u>(2,586,008)</u>	<u>(19)</u>	<u>(3,575,920)</u>	<u>(28)</u>
OPERATING INCOME (LOSS)	<u>122,645</u>	<u>1</u>	<u>(2,293,242)</u>	<u>(18)</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 24)	(56,044)	-	(51,492)	-
Interest income (Note 4)	267,968	2	93,996	1
Gain (Loss) on financial assets and liabilities at fair value through profit or loss (Notes 4)	34,507	-	(81,306)	(1)
Other gains and losses, net	52,804	-	207,675	2
Gain on foreign exchange (Notes 4)	<u>3,837</u>	<u>-</u>	<u>263,752</u>	<u>2</u>
Total non-operating income and expenses	<u>303,072</u>	<u>2</u>	<u>432,625</u>	<u>4</u>
INCOME (LOSS) BEFORE INCOME TAX	425,717	3	(1,860,617)	(14)
INCOME TAX EXPENSE (Notes 4 and 25)	<u>(72,702)</u>	<u>(1)</u>	<u>(68,278)</u>	<u>(1)</u>
NET INCOME (LOSS)	<u>353,015</u>	<u>2</u>	<u>(1,928,895)</u>	<u>(15)</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 20)	(861)	-	7,985	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 25)	<u>120</u>	<u>-</u>	<u>(1,117)</u>	<u>-</u>
	<u>(741)</u>	<u>-</u>	<u>6,868</u>	<u>-</u>

(Continued)

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	2023		2022	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	\$ (41,192)	2	\$ 273,505	2
Unrealized loss from debt instrument investments measured at fair value through other comprehensive income (Notes 4)	<u>6,619</u>	<u>-</u>	<u>(13,307)</u>	<u>-</u>
	<u>(34,573)</u>	<u>2</u>	<u>260,198</u>	<u>2</u>
Total other comprehensive (loss) income, net of income tax	<u>(35,314)</u>	<u>2</u>	<u>267,066</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 317,701</u>	<u>2</u>	<u>\$ (1,661,829)</u>	<u>(13)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 361,919	2	\$ (1,912,039)	(15)
Non-controlling interests	<u>(8,904)</u>	<u>-</u>	<u>(16,856)</u>	<u>-</u>
	<u>\$ 353,015</u>	<u>2</u>	<u>\$ (1,928,895)</u>	<u>(15)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 326,503	2	\$ (1,654,358)	(13)
Non-controlling interests	<u>(8,802)</u>	<u>-</u>	<u>(7,471)</u>	<u>-</u>
	<u>\$ 317,701</u>	<u>2</u>	<u>\$ (1,661,829)</u>	<u>(13)</u>
EARNINGS PER SHARE (LOSS) (Note 26)				
Basic	<u>\$ 1.74</u>		<u>\$ (9.39)</u>	
Diluted	<u>\$ 1.69</u>			

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

(Concluded)

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

	Equity Attributable to Owners of the Parent												
	Share Capital		Retained Earnings			Other Equity				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, 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 year ended December 31, 2022	-	-	-	-	(1,912,039)	-	-	-	-	(1,912,039)	(16,856)	(1,928,895)	
Other comprehensive income (loss) for the year ended December 31, 2022, net of income tax	-	-	-	-	6,868	264,120	(13,307)	-	-	257,681	9,385	267,066	
Total comprehensive income (loss) for the year ended December 31, 2022	-	-	-	-	(1,905,171)	264,120	(13,307)	-	-	(1,654,358)	(7,471)	(1,661,829)	
Compensation cost of employee share options	-	46,258	-	-	-	-	-	-	-	46,258	-	46,258	
Treasury shares acquired	-	-	-	-	-	-	-	-	(507,621)	(507,621)	-	(507,621)	
Treasury shares transferred to employees	-	-	-	-	-	-	-	-	311,564	311,564	-	311,564	
Retirement of restricted stock employees	(3,880)	(79,540)	-	-	-	-	-	79,540	-	(3,880)	-	(3,880)	
Issuance of ordinary shares from exercise of employee share options	2,620	12,401	-	-	-	-	-	-	-	15,021	-	15,021	
Unvested restricted stock to employees refund cash dividends	-	-	-	-	434	-	-	-	-	434	-	434	
Compensation cost of restricted stock to employees	-	-	-	-	-	-	-	398,351	-	398,351	-	398,351	
BALANCE, DECEMBER 31, 2022	\$ 2,161,107	\$ 6,041,988	\$ 712,562	\$ 211,479	\$ 196,847	\$ 52,472	\$ (13,138)	\$ (335,829)	\$ (196,057)	\$ 8,831,431	\$ 14,829	\$ 8,846,260	
Appropriation of 2022 earnings													
Reversal of special reserve	-	-	-	(211,479)	211,479	-	-	-	-	-	-	-	
Net income for the year ended December 31, 2023	-	-	-	-	361,919	-	-	-	-	361,919	(8,904)	353,015	
Other comprehensive income (loss) for the year ended December 31, 2023, net of income tax	-	-	-	-	(741)	(41,294)	6,619	-	-	(35,416)	102	(35,314)	
Total comprehensive income (loss) for the year ended December 31, 2023	-	-	-	-	361,178	(41,294)	6,619	-	-	326,503	(8,802)	317,701	
Cash dividends distributed from capital surplus	-	(108,000)	-	-	-	-	-	-	-	(108,000)	-	(108,000)	
Compensation cost of employee share options	-	24,940	-	-	-	-	-	-	-	24,940	-	24,940	
Treasury shares transferred to employees	-	-	-	-	-	-	-	-	32,997	32,997	-	32,997	
Issuance of ordinary shares from exercise of employee share options	463	508	-	-	-	-	-	-	-	971	-	971	
Issuance of restricted stock employees	20,330	137,024	-	-	-	-	-	(137,024)	-	20,330	-	20,330	
Retirement of restricted stock employees	(3,000)	(63,057)	-	-	-	-	-	63,057	-	(3,000)	-	(3,000)	
Compensation cost of restricted stock to employees	-	-	-	-	-	-	-	195,074	-	195,074	-	195,074	
Other	-	(1,499)	-	-	(11,674)	-	-	-	-	(13,173)	-	(13,173)	
BALANCE, DECEMBER 31, 2023	\$ 2,178,900	\$ 6,031,904	\$ 712,562	\$ -	\$ 757,830	\$ 11,178	\$ (6,519)	\$ (214,722)	\$ (163,060)	\$ 9,308,073	\$ 6,027	\$ 9,314,100	

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

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 425,717	\$ (1,860,617)
Adjustments for:		
Depreciation expenses	113,685	119,936
Amortization expenses	91,815	71,724
Net (gain) loss on financial assets at fair value through profit or loss	(34,507)	81,306
Finance costs	56,044	51,492
Interest income	(267,968)	(93,996)
Compensation cost of employee share options	24,940	46,258
Loss (gain) on disposal of property plant and equipment	225	(460)
Loss (gain) on disposal of investments	5,942	(97,765)
(Reversal gain) loss on write-down of inventories	(1,159,428)	2,254,749
Unrealized loss on foreign exchange	11,720	128,450
Compensation cost of restricted stock to employees	195,074	398,351
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	(124,005)	95,352
Accounts receivables	(505,568)	2,112,803
Inventories	4,220,604	(4,169,905)
Other current assets	72,958	294,424
Accounts payables	557,263	(1,696,410)
Other payables	(192,185)	(51,028)
Other current liabilities	(1,914)	(32,505)
Other non-current liabilities	-	(10,400)
Net defined benefit liabilities	(466)	(595)
Cash generated (used) from operations	3,489,946	(2,358,836)
Interest paid	(55,999)	(50,368)
Income tax paid	(192,444)	(1,395,084)
Net cash inflow (outflow) from operating activities	<u>3,241,503</u>	<u>(3,804,288)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial asset at fair value through other comprehensive income	-	59,609
Acquisition of property, plant and equipment	(59,324)	(151,888)
Disposal of property, plant and equipment	-	7,695
Decrease in refundable deposits	796,631	188,079
Acquisition of intangible assets	(145,821)	(71,091)
(Increase) decrease in other financial assets	(2,300,717)	3,429,086
Increase in other non-current assets	(2,059)	(14,739)
Interest received	237,124	80,082
Other	(11,674)	-
Net cash (outflow) inflow from investing activities	<u>(1,485,840)</u>	<u>3,526,833</u>

(Continued)

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) Increase in short-term borrowings	\$ (2,198,472)	\$ 2,772,193
(Decrease) Increase in long-term borrowings	(24,368)	200,000
Decrease in guarantee deposits	(681,044)	(28,207)
Cash dividends paid	(108,000)	(3,400,000)
Exercise of employee share options	971	15,021
Treasury shares acquired	-	(507,621)
Treasury shares transferred to employees	32,997	311,564
Issuance of restricted stock employees	20,330	-
Retirement of restricted stock employees	(3,000)	(3,880)
Unvested restricted stock employees refund cash dividends	-	434
Other	<u>(1,499)</u>	<u>-</u>
Net cash outflow financing activities	<u>(2,962,085)</u>	<u>(640,496)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>(23,244)</u>	<u>135,433</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,229,666)	(782,518)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>5,674,470</u>	<u>6,456,988</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 4,444,804</u>	<u>\$ 5,674,470</u>

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

(Concluded)

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022 (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. The Company’s shares have been listed on the Taiwan Stock Exchange (“TWSE”) since July 2007. On January 2, 2015, the Company acquired FocalTech Corporation, Ltd. through a share swap and renamed on January 17, 2015. This acquisition was comprehensively considered as a reverse merger, where FocalTech Corporation, Ltd. was treated as the acquirer in the financial statements. The Company mainly engages in the research, development, design, manufacturing, and sales of Human-Machine Interface solutions, such as Display Driver IC, Touch Control IC and so on.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 23, 2024.

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 2024:

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 16 “Lease liabilities in a sale and leaseback”	January 1, 2024 (Note 2)
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2024
Amendments to IAS 1 “Noncurrent liabilities with Convnants”	January 1, 2024
Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”	January 1, 2024 (Note 3)

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.

Note3: The amendments provide some transition relief regarding initial disclosure requirements.

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.

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- 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 1)</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 “Initial Application of IFRS 9 and IFRS 17-Comparative Information”	January 1, 2023
Amendments to IAS 21 “Lack of Exchangeability”	January 1, 2025 (Note 2)

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

Note 2: An entity shall apply those amendments for annual reporting periods beginning on or after January 1, 2025. Upon initial application of the amendments, the entity recognizes any effect as an adjustment to the opening balance of retained earnings. When the entity uses a presentation currency other than its functional currency, it shall, at the date of initial application, recognize any effect as an adjustment to the cumulative amount of translation differences in equity.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of Preparation

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

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

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Basis of consolidation

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

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

The detail information, holding percentages, and main business of the subsidiaries could be found in Note 12, TABLE 6 and TABLE 7.

e. Foreign currencies

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

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

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

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

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

f. Inventories

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

g. Property, plant and equipment

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

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

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

h. Goodwill

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

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

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

i. Intangible assets

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

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

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

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

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

i) Measurement category

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

A. Financial asset at FVTPL

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

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

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B. Financial assets at amortized cost

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

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

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

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

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

C. Investments in debt instruments at FVTOCI

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

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

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

ii) Impairment of financial assets

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

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

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determined by the expected credit losses resulting from all possible default events over the expected life of a financial instrument.

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

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

iii) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

i) Subsequent measurement

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

ii) Derecognition of financial liabilities

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

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l. Provisions

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

m. Revenue recognition

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

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

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

n. Lease

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

The Group as a lessee

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

o. Borrowing costs

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

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

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

p. Government Grants

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

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

q. Employee benefits

1) Short-term employee benefits

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

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2) Retirement benefits

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

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

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

r. Share-based payment arrangements

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

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

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefits. For restricted stocks where employees have to pay to acquire those stocks, the Group will return their payments on the stocks to employees when they resign. It should be recognized in payables.

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

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

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of inventory

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2023	2022
Cash on hand	\$ 5,406	\$ 15,560
Checking accounts and demand deposits	1,286,961	1,855,151
Cash equivalent (time deposits with original maturities within three months)	<u>3,152,437</u>	<u>3,803,759</u>
	<u>\$ 4,444,804</u>	<u>\$ 5,674,470</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2023	2022
<u>Current</u>		
Mandatorily measured at fair value through profit or loss (FVTPL)		
Government bonds	\$ 246,194	\$ -
Beneficiary Certificate	<u>4,011</u>	<u>-</u>
	<u>\$ 250,205</u>	<u>\$ -</u>
<u>Non – Current</u>		
Mandatorily measured at fair value through profit or loss (FVTPL)		
Listed preferred shares	\$ 10,183	\$ 147,391
Private Funds	238,544	207,977
Structured Investments	<u>116,998</u>	<u>111,775</u>
	<u>\$ 365,725</u>	<u>\$ 467,143</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2023	2022
Investments in debt instruments		
<u>Current</u>		
Foreign investments		
Fixed income bonds	<u>\$ 129,746</u>	<u>\$ -</u>
<u>Non – Current</u>		
Foreign investments		
Fixed income bonds	<u>\$ 50,364</u>	<u>\$ 179,137</u>

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9. OTHER FINANCIAL ASSETS

	December 31	
	2023	2022
Time deposits with original maturities more than three months	<u>\$ 2,806,629</u>	<u>\$ 517,464</u>

10. ACCOUNTS RECEIVABLES, NET

	December 31	
	2023	2022
Accounts receivables	<u>\$ 1,649,039</u>	<u>\$ 1,148,471</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.

December 31, 2023

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 180 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 1,649,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,649,039</u>

December 31, 2022

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 180 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 1,102,087</u>	<u>\$ 15,049</u>	<u>\$ 31,335</u>	<u>\$ -</u>	<u>\$ 1,148,471</u>

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11. INVENTORIES

	December 31	
	2023	2022
Finished goods	\$ 842,838	\$ 1,020,143
Work in progress	980,224	2,073,643
Raw materials and supplies	<u>852,030</u>	<u>2,659,945</u>
	<u>\$ 2,675,092</u>	<u>\$ 5,753,731</u>

The cost of goods sold were including amounts of which write-down inventory cost to net realizable value and reverse of write-down inventories due to sales. The amounts are illustrated below:

	For the Years Ended December 31	
	2023	2022
(Reversal gain) loss on write-down of inventories	(<u>\$ 1,159,428</u>)	<u>\$ 2,254,749</u>

12. SUBSIDIARIES

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

Investor	Investee	Nature of Activities	Proportion of Ownership		Note
			2023	2022	
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd. FocalTech Electronics, Ltd.	Investment activity Investment activity	100% 100%	100% 100%	
FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	66.45%	66.45%	
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%	
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Investment activity	100%	100%	
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd. FocalTech Electronics Co., Ltd.	Design and research of integrated circuits Import and export of integrated circuits	- 100%	100% 100%	Note
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd. FocalTech Electronics (Shenzhen) Co., Ltd. Hefei PineTech Electronics Co., Ltd.	Sales support and post-sales service for affiliates' IC products Research, development, manufacturing and sale of integrated circuits Research, development and sale of integrated circuits	100% 100% -	100% 100% 100%	Note
FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Systems (Shenzhen) Co., Ltd. Hefei PineTech Electronics Co., Ltd.	Design and research of integrated circuits Research, development and sale of integrated circuits	100% 100%	- -	Note Note

Note: The Group adjusted organizational structure under common control in October, 2023. All shares of FocalTech Systems (Shenzhen) Co., Ltd. and Hefei PineTech Electronics Co., Ltd., which owned by FocalTech Systems, Ltd. and FocalTech Electronics, Ltd. separately, were transferred to FocalTech Electronics (Shenzhen) Co., Ltd..

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13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Construction In progress	Total
Cost								
Balance, January 1, 2022	\$ -	\$ 1,336,121	\$ 434,688	\$ 12,349	\$ 44,540	\$ 38,530	\$ 1,080,130	\$ 2,946,358
Additions	-	-	68,220	48,143	1,722	-	33,803	151,888
Disposals	-	-	(41,516)	(458)	(3,683)	(16,879)	-	(62,536)
Reclassification	557,110	500,183	(130)	-	130	-	(1,057,293)	-
Effect of foreign currency exchange differences	-	20,308	15,567	943	636	218	-	37,672
Balance, December 31, 2022	<u>\$ 557,110</u>	<u>\$ 1,856,612</u>	<u>\$ 476,829</u>	<u>\$ 60,977</u>	<u>\$ 43,345</u>	<u>\$ 21,869</u>	<u>\$ 56,640</u>	<u>\$ 3,073,382</u>
Accumulated depreciation								
Balance, January 1, 2022	\$ -	\$ 156,566	\$ 240,423	\$ 10,107	\$ 32,127	\$ 38,530	\$ -	\$ 477,753
Depreciation	-	41,003	73,697	2,406	2,830	-	-	119,936
Disposals	-	-	(34,669)	(441)	(3,312)	(16,879)	-	(55,301)
Effect of foreign currency exchange differences	-	2,151	13,077	908	432	218	-	16,786
Balance, December 31, 2022	<u>\$ -</u>	<u>\$ 199,720</u>	<u>\$ 292,528</u>	<u>\$ 12,980</u>	<u>\$ 32,077</u>	<u>\$ 21,869</u>	<u>\$ -</u>	<u>\$ 559,174</u>
Carrying amounts as of December 31, 2022	<u>\$ 557,110</u>	<u>\$ 1,656,892</u>	<u>\$ 184,301</u>	<u>\$ 47,997</u>	<u>\$ 11,268</u>	<u>\$ -</u>	<u>\$ 56,640</u>	<u>\$ 2,514,208</u>
Cost								
Balance, January 1, 2023	\$ 557,110	\$ 1,856,612	\$ 476,829	\$ 60,977	\$ 43,345	\$ 21,869	\$ 56,640	\$ 3,073,382
Additions	-	-	26,814	32,481	29	-	-	59,324
Disposals	-	-	(9,506)	(476)	(1,341)	-	-	(11,323)
Reclassification	-	-	-	56,640	-	-	(56,640)	-
Effect of foreign currency exchange differences	-	(22,192)	(2,657)	(161)	(627)	(237)	-	(25,874)
Balance, December 31, 2023	<u>\$ 557,110</u>	<u>\$ 1,834,420</u>	<u>\$ 491,480</u>	<u>\$ 149,461</u>	<u>\$ 41,406</u>	<u>\$ 21,632</u>	<u>\$ -</u>	<u>\$ 3,095,509</u>
Accumulated depreciation								
Balance, January 1, 2023	\$ -	\$ 199,720	\$ 292,528	\$ 12,980	\$ 32,077	\$ 21,869	\$ -	\$ 559,174
Depreciation	-	36,898	59,764	14,583	2,440	-	-	113,685
Disposals	-	-	(9,463)	(432)	(1,203)	-	-	(11,098)
Effect of foreign currency exchange differences	-	(3,681)	(1,458)	(121)	(485)	(237)	-	(5,982)
Balance, December 31, 2023	<u>\$ -</u>	<u>\$ 232,937</u>	<u>\$ 341,371</u>	<u>\$ 27,010</u>	<u>\$ 32,829</u>	<u>\$ 21,632</u>	<u>\$ -</u>	<u>\$ 655,779</u>
Carrying amounts as of December 31, 2023	<u>\$ 557,110</u>	<u>\$ 1,601,483</u>	<u>\$ 150,109</u>	<u>\$ 122,451</u>	<u>\$ 8,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,439,730</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.

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14. GOODWILL

	December 31	
	2023	2022
Ending balance	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>

Considering the synergy of integration of LCD driver and touch controller under the industry trend, the reverse merger was triggered by FocalTech Corporation, Ltd. on January 2, 2015, resulting the goodwill of \$3,237,268 thousand. In 2018, the impacts of market improper competition and the shortage of wafer supply made the company a serious market share decline, which is expected to influence the market shares and gross margins in the future. Therefore, the recoverable amount from Display and Touch integrated chip less than the carrying value so the Company recognized the impairment loss of \$2,000,000 thousand. In 2019, based on the market growth and market share gain in smartphone market, the Group estimated cash flows from sales of Display and Touch integrated chip, and the recoverable amount exceeded the carrying value. Therefore, the Group did not recognize any impairment on goodwill.

The recoverable amount is calculated by Display and Touch integrated chip projected net cash flows, discounted at 15.55% and 13.98% for the years ended December 31, 2023 and 2022, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin.

15. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance, January 1, 2022	\$ 128,012	\$ 135,839	\$ 76,707	\$ 74,000	\$ 414,558
Additions	4,451	66,640	-	-	71,091
Reclassification	-	13,904	-	-	13,904
Effect of foreign currency exchange differences	<u>11,969</u>	<u>13,217</u>	<u>3</u>	<u>-</u>	<u>25,189</u>
Balance, December 31, 2022	<u>\$ 144,432</u>	<u>\$ 229,600</u>	<u>\$ 76,710</u>	<u>\$ 74,000</u>	<u>\$ 524,742</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2022	\$ 128,012	\$ 132,792	\$ 54,726	\$ 51,800	\$ 367,330
Amortization expenses	2,226	54,717	7,381	7,400	71,724
Effect of foreign currency exchange differences	<u>11,969</u>	<u>13,167</u>	<u>3</u>	<u>-</u>	<u>25,139</u>
Balance, December 31, 2022	<u>\$ 142,207</u>	<u>\$ 200,676</u>	<u>\$ 62,110</u>	<u>\$ 59,200</u>	<u>\$ 464,193</u>
Carrying amounts as of December 31, 2022	<u>\$ 2,225</u>	<u>\$ 28,924</u>	<u>\$ 14,600</u>	<u>\$ 14,800</u>	<u>\$ 60,549</u>

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	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance, January 1, 2023	\$ 144,432	\$ 229,600	\$ 76,710	\$ 74,000	\$ 524,742
Additions	-	145,821	-	-	145,821
Disposal	(18,656)	(60,784)	-	-	(79,440)
Effect of foreign currency exchange differences	<u>(19)</u>	<u>(127)</u>	<u>(4)</u>	<u>-</u>	<u>(150)</u>
Balance, December 31, 2023	<u>\$ 125,757</u>	<u>\$ 314,510</u>	<u>\$ 76,706</u>	<u>\$ 74,000</u>	<u>\$ 590,973</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2023	\$ 142,207	\$ 200,676	\$ 62,110	\$ 59,200	\$ 464,193
Amortization expenses	2,225	74,890	7,300	7,400	91,815
Disposal	(18,656)	(60,784)	-	-	(79,440)
Effect of foreign currency exchange differences	<u>(19)</u>	<u>(91)</u>	<u>(4)</u>	<u>-</u>	<u>(114)</u>
Balance, December 31, 2023	<u>\$ 125,757</u>	<u>\$ 214,691</u>	<u>\$ 69,406</u>	<u>\$ 66,600</u>	<u>\$ 476,454</u>
Carrying amounts as of December 31, 2023	<u>\$ -</u>	<u>\$ 99,819</u>	<u>\$ 7,300</u>	<u>\$ 7,400</u>	<u>\$ 114,519</u>

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

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

16. REFUNDABLE DEPOSITS

	December 31	
	2023	2022
Capacity guarantee deposits and others	<u>\$1,857,769</u>	<u>\$2,654,474</u>

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

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2023	2022
Unsecured bank loans	<u>\$ 860,242</u>	<u>\$3,070,806</u>
Annual interest rate Unsecured bank loans	3.10~3.60%	1.30~4.20%

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b. Long-term borrowings

	December 31	
	2023	2022
Secured bank loans (1)	\$ 786,840	\$ 786,840
Unsecured bank loans (2)	172,107	-
Unsecured bank loans (3)	<u>-</u>	<u>200,000</u>
	958,947	986,840
Less: reclassification to Current position of long-term borrowings	(<u>198,493</u>)	(<u>25,000</u>)
	<u>\$ 760,454</u>	<u>\$ 961,840</u>
Annual interest rate		
Secured bank loans	1.75~1.875%	1.625~1.75%
Unsecured bank loans	3.30~3.65%	1.65%

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

(2) For unsecured bank loans, the principals will be paid according to the contract. The period of borrowings is from March, 2023 to November, 2024.

(3) 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. The borrowing was settled in March, 2023.

18. ACCOUNTS PAYABLES

	December 31	
	2023	2022
Accounts payables	<u>\$ 1,478,429</u>	<u>\$ 929,492</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

	December 31	
	2023	2022
Payable for rebates	\$ 849,398	\$ 870,372
Payable for salaries and bonus	380,430	584,170
Payable for labor, health and social insurance	15,320	14,276
Reserve for litigations	53,473	51,325
Payable for professional services and others	<u>157,763</u>	<u>133,633</u>
	<u>\$1,456,384</u>	<u>\$1,653,776</u>

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20. RETIREMENT BENEFIT

a. Defined contribution plans

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

b. Defined benefit plans

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

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

	December 31	
	2023	2022
Present value of defined benefit obligation	\$ 35,423	\$ 33,968
Fair value of plan assets	(21,468)	(20,408)
Net defined benefit liability	<u>\$ 13,955</u>	<u>\$ 13,560</u>

Movements in net defined benefit liability were as follows:

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

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	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2023	\$ 33,968	(\$ 20,408)	\$ 13,560
Net interest expense (income)	<u>425</u>	<u>(260)</u>	<u>165</u>
Recognized in profit or loss	<u>425</u>	<u>(260)</u>	<u>165</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(169)	(169)
Actuarial gain - experience adjustments	<u>1,030</u>	<u>-</u>	<u>1,030</u>
Recognized in other comprehensive income	<u>1,030</u>	<u>(169)</u>	<u>861</u>
Contributions from the employer	<u>-</u>	<u>(631)</u>	<u>(631)</u>
Balance at December 31, 2023	<u>\$ 35,423</u>	<u>(\$ 21,468)</u>	<u>\$ 13,955</u>

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

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

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

	December 31	
	2023	2022
Discount rate	1.25%	1.25%
Expected rate of salary increase	4.5%	4.5%

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

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	December 31	
	2023	2022
Discount rate		
0.25% increase	(\$ 957)	(\$ 985)
0.25% decrease	\$ 992	\$ 1,022
Expected rate of salary increase		
1% increase	\$ 4,059	\$ 4,180
1% decrease	(\$ 3,600)	(\$ 3,674)

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

	December 31	
	2023	2022
The expected contributions to the plan for the next year	\$ 600	\$ 720
The average duration of the defined benefit obligation	13.5 years	14.6 years

21. GUARANTEE DEPOSITS RECEIVED

	December 31	
	2023	2022
Capacity guarantee deposits and others	\$3,688,279	\$4,369,353

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

22. EQUITY

a. Share capital

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

	December 31	
	2023	2022
Numbers of shares authorized (in thousands)	500,000	500,000
Shares authorized	\$ 5,000,000	\$ 5,000,000
Number of shares issued and fully paid (in thousands)	217,890	216,111
Shares issued	\$ 2,178,900	\$ 2,161,107

The registration processes of 15 thousand shares of restricted stocks for employees have not been completed as of February 23, 2024.

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b. Capital surplus

The categories of uses and the sources of capital surplus based on regulations were as follows:

	December 31	
	2023	2022
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Additional paid-in capital	\$5,159,995	\$4,753,839
Treasury stock	167,900	125,381
Employee share options-expired	34,448	34,448
<u>May be used to offset a deficit only</u>		
Other – unclaimed dividend	6	-
<u>May not be used for any purpose</u>		
Restricted stock for employees	625,664	1,066,015
Employee share options	<u>43,891</u>	<u>62,305</u>
	<u>\$ 6,031,904</u>	<u>\$ 6,041,988</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).

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.

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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 annual shareholders' meeting on May 30, 2023 resolved to distribute the additional paid-in capital in the amount of \$108,000 thousand, or \$0.5 per share.

The appropriations of earnings for 2022 and 2021 were resolved by the annual shareholders' meeting on May 30, 2023, and June 9, 2022, respectively. The details of the distribution are as follows:

	<u>2022</u>	<u>2021</u>
Legal reserve	\$ <u>-</u>	\$ <u>611,332</u>
Special reserve (reversed)	\$ <u>(211,479)</u>	\$ <u>89,163</u>
Cash dividends	\$ <u>-</u>	\$ <u>3,400,000</u>
Cash dividends per share	\$ <u>-</u>	\$ <u>15.71</u>

The Board of Directors' meeting resolved the appropriations of earnings for 2023 on February 23, 2024 are as follows:

	<u>2023</u>
Legal reserve	\$ <u>34,950</u>
Cash dividends	\$ <u>217,151</u>
Cash dividends per share	\$ <u>1.00</u>

The appropriations of earnings will be resolved in annual shareholders' meeting on June 7, 2024.

d. Special reserve

	<u>For the Years Ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Balance, beginning	\$ 211,479	\$ 122,316
Special reserve (reversed)	(211,479)	<u>89,163</u>
Balance, ending	<u>\$ -</u>	<u>\$ 211,479</u>

e. Treasury stock

	<u>Shares</u> <u>(In Thousands)</u>
Number of shares on January 1, 2022	-
Increase during the period	4,000
Decrease during the period	<u>(2,455)</u>
Number of shares on December 31, 2022	1,545
Decrease during the period	<u>(260)</u>
Number of shares on December 31, 2023	<u>1,285</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. The transferring price to employees would be the average purchase price.

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

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

f. Unearned employee compensation

	For the Years Ended December 31	
	2023	2022
Balance, beginning	(\$ 335,829)	(\$ 813,720)
Issurance of shares	(137,024)	-
Retirement of shares	63,057	79,540
Share-based payment expenses recognized	<u>195,074</u>	<u>398,351</u>
Balance, ending	<u>(\$ 214,722)</u>	<u>(\$ 335,829)</u>

The detailed information for restricted share for employees program referred to Note 27 (c).

g. Non-controlling interests

	For the Years Ended December 31	
	2023	2022
Balance, beginning	\$ 14,829	\$ 22,300
Net loss	(8,904)	(16,856)
Other comprehensive income (loss)		
Exchange differences from translating the financial statements of foreign operations	<u>102</u>	<u>9,385</u>
Balance, ending	<u>\$ 6,027</u>	<u>\$ 14,829</u>

23. REVENUE

	For the Years Ended December 31	
	2023	2022
IC for human and machine interface devices	<u>\$ 13,568,371</u>	<u>\$ 12,949,902</u>

Contract balances

	December 31	
	2023	2022
Contract liabilities (classified as current liabilities)		
Sales of goods	<u>\$ 24,732</u>	<u>\$ 56,455</u>

24. NET INCOME (LOSS)

a. Finance costs

	For the Years Ended December 31	
	2023	2022
Interest on bank loans	\$ 55,977	\$ 51,492
Interest on deposits	<u>67</u>	<u>-</u>
	<u>\$ 56,044</u>	<u>\$ 51,492</u>

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b. Depreciation and amortization

	For the Years Ended December 31	
	2023	2022
Property, plant and equipment	\$ 113,685	\$ 119,936
Intangible assets	<u>91,815</u>	<u>71,724</u>
	<u>\$ 205,500</u>	<u>\$ 191,660</u>
An analysis of deprecation by function		
Operating costs	\$ 25,281	\$ 26,612
Operating expenses	<u>180,219</u>	<u>165,048</u>
	<u>\$ 205,500</u>	<u>\$ 191,660</u>

c. Employee benefits expense

	For the Years Ended December 31	
	2023	2022
Post-employment benefits		
Defined contribution plans	\$ 32,587	\$ 33,048
Defined benefit plans (see Note 20)	165	142
Share-based payments (see Note 27)	220,014	444,609
Other employee benefits	<u>1,483,061</u>	<u>2,231,610</u>
Total employee benefits expense	<u>\$ 1,735,827</u>	<u>\$ 2,709,409</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 123,112	\$ 245,045
Operating expenses	<u>1,612,715</u>	<u>2,464,364</u>
	<u>\$ 1,735,827</u>	<u>\$ 2,709,409</u>

d. The remuneration of employees and directors

According to the Company's Articles of Incorporation, the distributable compensation to employees and remuneration to directors shall not be less than 1% and not more than 1.5%, respectively, of net profit before income tax. There was no employees' compensation accrued due to loss before income tax for the year ended December 31, 2022. The accrued employees' compensation and remuneration of directors for the year ended December 31, 2023 is as follows:

Amount

	<u>2023</u>
Employees' compensation	<u>\$ 82,352</u>
Remuneration of directors	<u>\$ 1,042</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.

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The board of directors resolved the remuneration of employees and directors for 2021 on February 23, 2022. There is no difference between the actual amount of remuneration to employees and directors resolved and the amount of remuneration to employees and directors accounted for in 2021 consolidated financial statements.

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

25. INCOME TAXES

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

	For the Years Ended December 31	
	2023	2022
Current income tax expense		
In respect of the current year	\$ 783	\$ 163,762
Other income tax adjustments	(57,015)	36,675
	<u>(56,232)</u>	<u>200,437</u>
Deferred income tax expense		
In respect of the current year	88,098	132,159
Other income tax adjustments	40,836	-
	<u>128,934</u>	<u>(132,159)</u>
Income tax expense recognized in profit or loss	<u>\$ 72,702</u>	<u>\$ 68,278</u>

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

	For the Years Ended December 31	
	2023	2022
Income (loss) before tax from continuing operations	<u>\$ 425,717</u>	<u>(\$1,860,617)</u>
Income (loss) tax expense calculated at the statutory rate and the effective tax rate	\$ 9,190	(\$ 221,768)
Nondeductible expenses in determining taxable income	27,813	63,987
Tax effect of earnings to be distributed by subsidiaries	4,468	167,231
Tax exemption	(3,943)	(3,342)
Unrecognized temporary differences	(990)	(181)
Unrecognized loss carryforwards	52,343	25,676
Adjustments for prior years' tax	(16,179)	36,675
Income tax expense recognized in profit or loss	<u>\$ 72,702</u>	<u>\$ 68,278</u>

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

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

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b. Recognized in other comprehensive income

For the Years Ended December 31

	2023	2022
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Deferred tax		
Remeasurement of defined benefit plans	(\$ <u>120</u>)	\$ <u>1,117</u>

c. Current tax assets and liabilities

December 31

	2023	2022
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Current tax assets (recorded as other current assets)		
Tax refund receivable	\$ <u>12,292</u>	\$ <u>5,590</u>
Current tax liabilities		
Income tax levied on accumulated overseas undistributed earnings (Note)	\$ 253,248	\$ 295,668
Income tax payable	<u>134,544</u>	<u>333,635</u>
Total	<u>\$ 387,792</u>	<u>\$ 629,303</u>

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

d. Deferred tax assets and liabilities

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

2023

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
<u>Deferred tax assets</u>				
Temporary differences				
Obsolete of inventory	\$ 283,740	(\$ 180,799)	\$ -	\$ 102,941
Others	<u>18,820</u>	<u>3,260</u>	<u>120</u>	<u>22,200</u>
	302,560	(177,359)	120	125,141
Loss carryforwards	<u>3,569</u>	<u>51,015</u>	-	<u>54,584</u>
	<u>\$ 306,129</u>	<u>(\$ 126,524)</u>	<u>\$ 120</u>	<u>\$ 179,725</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Intangible assets	\$ 4,116	(\$ 2,058)	\$ -	\$ 2,058
Investment income recognized from foreign investees	<u>212,641</u>	<u>4,468</u>	-	<u>217,109</u>
	<u>\$ 216,757</u>	<u>\$ 2,410</u>	<u>\$ -</u>	<u>\$ 219,167</u>

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2022

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

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

Loss carryforwards as of December 31, 2023 comprised of:

<u>Unused Amount</u>	<u>Expiry Year</u>
\$ 10,159	2025
492,029	2026
533,898	2027
57,977	2031
<u>365,364</u>	2033
<u>\$1,459,427</u>	

- f. Income tax assessments

The Company's tax returns through 2020, FocalTech Smart Sensors Co., Ltd., and FocalTech Electronics Co., Ltd.'s tax returns through 2021 have been examined by the tax authorities.

26. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per Share

	<u>For the Years Ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Basic earnings (loss) per share	<u>\$ 1.74</u>	<u>(\$ 9.39)</u>
Diluted earnings per share	<u>\$ 1.69</u>	

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

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Net Profit (loss) for the Period

	For the Years Ended December 31	
	2023	2022
Earnings used in the computation of basic earnings per share	<u>\$ 361,919</u>	<u>(\$1,912,039)</u>

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

	For the Years Ended December 31	
	2023	2022
Weighted average number of ordinary shares used in the computation of basic earnings per share	207,742	<u>203,701</u>
Effect of potentially dilutive ordinary shares:		
Treasury shares transferred to Employees	3,732	
Employee share options (share)	59	
Restricted stock for employees (share)	2,248	
The remuneration to employees	<u>732</u>	
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>214,513</u>	

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

27. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

The Group did not have new share option plan issued for employees for the years ended December 31, 2023 and 2022.

Information about vested options as of December 31, 2023 and 2022 are as following:

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	Range of exercise price (NT\$)	Weighted-average remaining contractual life (years)	Range of exercise price (NT\$)	Weighted-average remaining contractual life (years)
Employee Stock Option Plan				
2006	\$ -	-	\$29.68	0.27
2015	12.80	1.67	12.8	2.67

Information on outstanding options for the years ended December 31, 2023 and 2022 were as follows:

2023

	<u>Beginning Balance</u>		<u>Options exercised</u>		<u>Options expired</u>		<u>Ending Balance</u>	
	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)	Units of Option	Weighted-Average Exercise Price (NT\$)
Employee Stock Option Plan								
2006	22,399	\$29.68	(22,399)	\$29.68	-	\$ -	-	\$ -
2015	87,000	12.80	(24,000)	12.80	-	-	63,000	12.80

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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	(122,000)	15.16	-	-	87,000	12.80

As of December 31, 2023, the valid and outstanding employee stock option plans are as following:

Plan	Number of Options	Valid Period	Vesting Terms
2015 employee stock option plan	2,800,000	10 years	A certain percentage of the options defined in the plan are vested and exercisable after the second year.

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

b. Treasure stock transferred to employees

Information about treasure stock transferred to employee are as follows:

Items	The date of board of directors approved	Buyback shares (In thousand share)	Transferred shares (In thousand share)	Transferred price (in dollar)
The 6th treasure stock transferred to employee program	2022/2/23	4,000	2,715	126.91

Information about treasure stock transferred to employee as of December 31, 2023 are as follows:

The 6th treasury stock transferred to employee program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2022/06/21	2,315	\$ -
2022/11/11	140	-
2023/02/23	260	-
Total	2,715	

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

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

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c. Restricted stock for employees

The Company's shareholders' meeting resolved to issue restricted stocks for employees up to 6,000 thousand shares on May 30, 2023, and the issued price is NT\$10 per share. The restricted stocks plan was approved by Financial Supervisory Commission on July 25, 2023.

The information of the issued restricted stock for employees as of December 31, 2023 are as follows:

<u>Items</u>	<u>Grant date</u>	<u>Fair value per share (in dollar)</u>	<u>Actual shares of issued (in thousand)</u>
2020 restricted stocks for employees plan	2021/04/07	\$ 205.00	5,749
2020 restricted stocks for employees plan	2021/07/29	265.00	236
2023 restricted stocks for employees plan	2023/09/26	67.40	2,033

2020 restricted stocks for employees plan

From the date when employees are granted restricted stock units, they have to fulfill the service code, and should not violate the company's labor contract, work rules or the company's employee management measures, etc. The vesting condition are as follows:

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

2023 restricted stocks for employees plan

From the date when employees are granted restricted stock units, they have to fulfill the service code, and should not violate the company's labor contract, work rules or the company's employee management measures, etc. One third of granted shares can be vested after every one year of employment, total for three years.

The constraints of restricted stock are as follows:

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

d. Compensation cost of aforementioned share-based payments for the years ended December 31, 2023 and 2022 are as follows:

	For the Years Ended December 31	
	2023	2022
Shares buyback programs	\$ 24,940	\$ 46,258
Restricted stock for employees	<u>195,074</u>	<u>398,351</u>
	<u>\$ 220,014</u>	<u>\$ 444,609</u>
Adjustment account:		
Capital surplus - employee stock options	\$ 24,940	\$ 46,258
Other equity - unearned employee compensation	<u>195,074</u>	<u>398,351</u>
	<u>\$ 220,014</u>	<u>\$ 444,609</u>

28. 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 November, 2024. 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 \$2,438 thousand and \$8,596 thousand as of December 31, 2023 and 2022.

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

	For the Years Ended December 31	
	2023	2022
Lease payment	<u>\$ 9,643</u>	<u>\$ 24,586</u>

29. CAPITAL MANAGEMENT

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

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

The Group was not restricted to other external capital requirements.

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30. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

December 31, 2023

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Listed preferred shares	\$ 10,183	\$ -	\$ -	\$ 10,183
Private funds	-	-	238,544	238,544
Beneficiary certificate	4,011	-	-	4,011
Government bonds	-	246,194	-	246,194
Structured Investments	-	116,998	-	116,998
Total	<u>\$ 14,194</u>	<u>\$ 363,192</u>	<u>\$ 238,544</u>	<u>\$ 615,930</u>

Financial assets at FVTOCI

Investments in debt instruments

Fixed income bonds	<u>\$ -</u>	<u>\$ 180,110</u>	<u>\$ -</u>	<u>\$ 180,110</u>
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December 31, 2022

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Listed preferred shares	\$ 147,391	\$ -	\$ -	\$ 147,391
Private funds	-	-	207,977	207,977
Structured Investments	-	111,775	-	111,775
Total	<u>\$ 147,391</u>	<u>\$ 111,775</u>	<u>\$ 207,977</u>	<u>\$ 467,143</u>

Financial assets at FVTOCI

Investments in debt instruments

Fixed income bonds	<u>\$ -</u>	<u>\$ 179,137</u>	<u>\$ -</u>	<u>\$ 179,137</u>
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There were no transfers between Level 1 and Level 2 for the years ended December 31, 2023 and 2022.

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

<u>Financial assets at FVTPL</u>	<u>For the Years Ended December 31</u>	
	<u>2023</u>	<u>2022</u>
Balance, beginning	\$ 207,977	\$ 156,075
Purchases	17,500	45,778
Disposals	(10,128)	(2,345)
Recognized in profit or loss (other income or loss)	23,218	5,778
Effect of foreign currency exchange differences	(23)	2,691
Balance, ending	<u>\$ 238,544</u>	<u>\$ 207,977</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 and government bonds are determined by quoted

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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

	December 31	
	2023	2022
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 615,930	\$ 467,143
Amortized cost (Note 1)	10,758,241	9,994,879
Financial assets at FVTOCI		
Investments in debt instruments	180,110	179,137
<u>Financial liabilities</u>		
Amortized cost (Note 2)	8,442,281	11,010,267

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

d. Financial risk management objectives and policies

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

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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 Years Ended December 31	
	2023	2022
Profit or loss/ equity	<u>(\$ 18,102)</u> (i)	<u>\$52,159</u> (i)

i. This was mainly attributable to the outstanding balances of USD time deposits, accounts receivables, accounts payables, other payables, refundable deposits, 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 time deposits with fixed-rate interest, bonds investment, short-term borrowings, demand deposits with floating-rate interest, structured investments, current position of long-term borrowings and long-term borrowings. The time deposits were at fixed interest rates, and bonds investment were at fixed rates or with guaranteed minimal interest rates and carried. Therefore, changes in interest rates would not affect the future cash flows.

The carrying amount of the Group's financial assets and financial liabilities exposed to interest rates at the end of the reporting period were as follows:

	December 31	
	2023	2022
Fair value interest rate risk		
Financial assets	<u>\$ 6,385,370</u>	<u>\$ 4,500,360</u>
Financial liabilities	<u>\$ 860,242</u>	<u>\$ 3,070,806</u>

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Cash flow interest rate risk		
Financial assets	<u>\$ 1,400,499</u>	<u>\$ 1,963,302</u>
Financial liabilities	<u>\$ 958,947</u>	<u>\$ 986,840</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 years ended December 31, 2023 and 2022 would increase/ decrease by NT\$1,104 thousand and NT\$2,441 thousand, respectively.

2) Credit risk

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

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

As of December 31, 2023, accounts receivables from top 5 customers represented 64% 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:

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Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of December 31, 2023
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 426,304</u>

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

3) Liquidity risk

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

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

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

December 31, 2023

	On Demand or Less than 1 Year	1-5 Years	More than 5 Years
Non-interest bearing	\$ 2,933,439	\$ 3,688,279	\$ -
Fixed interest rate liabilities	861,616	-	-
Floating interest rate liabilities	<u>198,493</u>	<u>258,893</u>	<u>501,561</u>
	<u>\$ 3,993,548</u>	<u>\$ 3,947,172</u>	<u>\$ 501,561</u>

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

December 31, 2022

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

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 Years Ended December 31	
	<u>2023</u>	<u>2022</u>
Long-term employee benefits	\$ 19,705	\$ 41,727
Short-term employee benefits	51,684	49,806
Post-employment benefits	540	378
Share-based payments	<u>41,321</u>	<u>68,554</u>
	<u>\$ 113,250</u>	<u>\$ 160,465</u>

32. PLEDGED ASSETS

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

	December 31	
	<u>2023</u>	<u>2022</u>
Properties, plants and equipment – Net of buildings	\$ 485,178	\$ 495,182
Properties, plants and equipment – Land	557,110	557,110
Pledge deposits (categorized in other non-current assets)	<u>12,670</u>	<u>4,000</u>
	<u>1,054,958</u>	<u>1,056,292</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 parties have reached a settlement agreement after the both parties have withdrawn all civil and administrative actions against the other party in April 2023. It does not have material impact on the Company’s operation and finance.

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34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2023

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 184,442	30.705 (USD:NTD)	\$ 5,663,308
USD	19,801	7.0827 (USD:RMB)	607,980
<u>Financial liabilities</u>			
Monetary items			
USD	168,856	30.705 (USD:NTD)	5,184,737
USD	47,177	7.0827 (USD:RMB)	1,448,583

December 31, 2022

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

35. ADDITIONAL DISCLOSURES

a. Information about significant transactions and investees:

- 1) Financings provided to others: See Table 1 attached;
- 2) Endorsement/guarantee provided: See Table 2 attached;
- 3) Marketable securities held (excluding investments in subsidiaries and associates): See Table 3 attached;
- 4) Marketable securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the paid-in capital: See Table 4 attached;
- 5) Acquisition of individual real estate property at costs of at least NT\$300 million or 20% of the paid-in capital: None;
- 6) Disposal of individual real estate property at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- 7) Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None;
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
- 9) Information about the derivative financial instrument transaction: None;
- 10) Others: The business relationship between the parent and the subsidiaries and significant transactions between them: See Table 5 attached;

b. Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in mainland China): See Table 6 attached;

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c. Information on investment in Mainland China:

- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: See Table 7 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: See Table 5 attached.

d. Information of major shareholders

List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder: None.

36. SEGMENT INFORMATION

a. Operating segments

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

b. Revenue from major products and services

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

	For the Years Ended December 31	
	2023	2022
IC for Human-Machine Interface Solutions	<u>\$ 13,568,371</u>	<u>\$ 12,949,902</u>

c. Geographical information

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

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

	Revenue from External Customers		Non-current Assets	
	For the Years Ended December 31		December 31	
	2023	2022	2023	2022
China	\$ 11,924,098	\$ 10,253,909	\$ 1,178,312	\$ 1,236,577
Taiwan	1,448,668	2,183,728	3,233,706	3,992,654
Others	<u>195,605</u>	<u>512,265</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,568,371</u>	<u>\$ 12,949,902</u>	<u>\$ 4,412,018</u>	<u>\$ 5,229,231</u>

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

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d. Information about major customers

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

	For the Years Ended December 31			
	2023		2022	
	<u>Sales amount</u>	<u>Percentage</u>	<u>Sales amount</u>	<u>Percentage</u>
Custom A and subsidiaries	\$ 2,178,491	16	\$ 1,304,137	10
Custom B and subsidiaries	NA(Note)	NA	1,999,825	15
Custom C and subsidiaries	NA(Note)	NA	1,352,962	10

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

TABLE 1

FocalTech Systems Co., Ltd. and Subsidiaries
 FINANCINGS PROVIDED TO OTHERS
 FOR THE YEAR ENDED DECEMBER 31, 2023
 (Amount in thousand; Currency denomination in NTD or in foreign currencies)

No (Note 1)	Financing Company	Counterparty	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Amount Actually Drawn (Note 4)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)	Note
													Item	Value			
1	FocalTech Systems, Ltd.	FocalTech Systems Co., Ltd.	Other receivables from related parties	Yes	\$ 1,842,300 (USD 60,000)	\$ 921,150 (USD 30,000)	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	-	\$ 2,219,691	\$ 2,219,691	Note 3
1	FocalTech Systems, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Other receivables from related parties	Yes	307,050 (USD 10,000)	307,050 (USD 10,000)	-	-	The need for short-term financing	-	Operating capital	-	-	-	2,219,691	2,219,691	Note 3
2	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Other receivables from related parties	Yes	767,625 (USD 25,000)	767,625 (USD 25,000)	-	-	The need for short-term financing	-	Operating capital	-	-	-	1,205,321	1,205,321	Note 3

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

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

Note 2: The lending limits:

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

Note 3: The balances have been eliminated on consolidation.

Note 4: Using the exchange rate of 1 USD: 30.705 NTD as of December 31, 2023.

TABLE 2

FocalTech Systems Co., Ltd. and Subsidiaries
 ENDORSEMENTS/GUARANTEES PROVIDED
 FOR THE YEAR ENDED DECEMBER 31, 2023

(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	Ending Balance	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.	\$ 4,654,037	\$ 1,381,725 (USD 45,000)	\$ 1,381,725 (USD 45,000)	\$ -	\$ -	14.84%	\$ 4,654,037	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.	4,654,037	1,400,279 (USD 45,604)	1,400,279 (USD 45,604)	-	-	15.04%	4,654,037	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.	4,654,037	2,579,220 (USD 84,000)	2,579,220 (USD 84,000)	69,484	-	18.80%	4,654,037	Yes	No	Yes	(Note 3.6 and 8)
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.	4,654,037	3,316,140 (USD 108,000)	3,316,140 (USD 108,000)	29,497	-	22.76%	4,654,037	Yes	No	Yes	(Note 3.7 and 8)
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.	4,654,037	107,468 (USD 3,500)	107,468 (USD 3,500)	-	-	1.15%	4,654,037	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.	4,654,037	107,468 (USD 3,500)	107,468 (USD 3,500)	-	-	1.15%	4,654,037	Yes	No	No	(Note 4)

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

1) 0 for parent company.

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

Note 2: Limits on Endorsement/ Guarantee Amount

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

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

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

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

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

Note 3: FocalTech Systems Co., Ltd. provided USD 45,000 thousand of endorsements/guarantees for FocalTech Electronics Ltd., FocalTech Systems, Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$0, NT\$0, NT\$0, and NT\$ 29,095 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 17,000 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: FocalTech Systems Co., Ltd. renewed endorsements/guarantees contract with Hefei PineTech Electronics Co., Ltd. on the Board of Directors' resolution before old contract is due. Therefore, it resulted in the balance calculated repeatedly. Amount USD 27,000 included in the balance USD 84,000 is provided by old contract.

Note 7: FocalTech Systems Co., Ltd. renewed endorsements/guarantees contract with FocalTech Electronics (Shenzhen) Co., Ltd. on the Board of Directors' resolution before old contract is due. Therefore, it resulted in the balance calculated repeatedly. Amount USD 39,000 included in the balance USD 108,000 is provided by old contract.

Note 8: Using the exchange rate of 1 USD: 30.705 NTD as of December 31, 2023.

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TABLE 3

FocalTech Systems Co., Ltd. and Subsidiaries
 MARKETABLE SECURITIES HELD
 DECEMBER 31, 2023

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2023				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\$ 10,183	0.03	NT\$ 10,183	
	<u>Privately Offered Fund</u> CDIB Capital Healthcare Ventures II Limited Partnership	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 30,660	0.96	NT\$ 30,660	
	CDIB Capital Growth Partners L.P.	-	"	-	NT\$ 30,766	0.66	NT\$ 30,766	
	CDIB-Innolux Limited Partnership	-	"	-	NT\$ 59,951	4.37	NT\$ 59,951	
	Cathay Private Equity Smart Tech Limited Partnership	-	"	-	NT\$ 86,110	22.16	NT\$ 86,110	
FocalTech Systems, Ltd.	<u>Structured product</u> CLN Link HSBC SUB	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 58,305 (USD 1,899)		NT\$ 58,305 (USD 1,899)	
	CLN Link Barclays SUB	-	"	-	NT\$ 58,693 (USD 1,912)		NT\$ 58,693 (USD 1,912)	
	<u>Beneficiary certificate</u> UBS Monetary Fund	-	Financial assets at fair value through profit or loss - current		NT\$ 4,011 (USD 131)		NT\$ 4,011 (USD 131)	
	<u>Government bonds</u> United States Department of The Treasury Maturity Date : January 11,2024 ~ November 29, 2024	-	Financial assets at fair value through profit or loss - current		NT\$ 246,194 (USD 8,018)		NT\$ 246,194 (USD 8,018)	
	<u>Fixed income bonds</u> Bank of China Limited Maturity Date : November 13, 2024	-	Financial assets at fair value through other comprehensive income - current	-	NT\$ 129,746 (USD 4,226)		NT\$ 129,746 (USD 4,226)	
	Industrial and Commercial Bank of China Limited Maturity Date : September 21, 2025	-	Financial assets at fair value through other comprehensive income - non current	-	NT\$ 50,364 (USD 1,640)		NT\$ 50,364 (USD 1,640)	
	<u>Privately Offered Fund</u> TIEF Fund, L.P.	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 31,057 (USD 1,011)	4.83	NT\$ 31,057 (USD 1,011)	

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

Note 2 : Using the exchange rate of 1 USD: 30.705 NTD as of December 31, 2023.

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TABLE 4

FocalTech Systems Co., Ltd. and Subsidiaries

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2023

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

Company	Type of Marketable securities	Financial Statements Account	Counter-party (Note 1)	Nature of Relationship (Note 1)	Beginning Balance		Acquisition (Note 2)		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain/Loss on Disposal	Shares	Amount
FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Investments accounted for using equity	FocalTech Systems, Ltd.	Subsidiary	-	\$-	-	NT\$ 1,017,669 (USD 32,665)	-	\$-	\$-	\$-	-	NT\$ 1,017,669 (USD 32,665)

Note 1: The Group adjusted its organizational structure. All shares of FocalTech Systems (Shenzhen) Co., Ltd. which was owned by FocalTech Systems, Ltd. were transferred to FocalTech Electronics (Shenzhen) Co., Ltd..

Note 2: Using the average exchange rate of 1 USD: 31.155 NTD for the year ended December 31, 2023.

Note 3: Balances, transactions, revenue and expenses between the Company and its subsidiaries have been eliminated on consolidation.

FocalTech Systems Co., Ltd. and Subsidiaries
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2023
(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	\$ 456,237	Note 2	2.47%
0	FocalTech Systems Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	1	Accounts Payables	21,558	Note 2	0.12%
			1	Cost of revenue	32,902	Note 2	0.24%
1	FocalTech Systems, Ltd	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	803,145	Note 2	4.35%
				Disposal of investments accounted for using equity	1,017,669	Determined by contract	5.51%
2	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	224,518	Note 2	1.22%
				Disposal of investments accounted for using equity	277,348	Determined by contract	1.50%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	2	Accounts Payables	273,466	Note 2	1.48%
			2	Research and development expenses	27,256	Note 2	0.20%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	2	Other Prepayment	457,440	Note 2	2.48%
			2	Research and development expenses	264,674	Note 2	1.95%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	2	Other Payables	37,423	Note 2	0.20%
			2	Selling and marketing expenses	93,058	Note 2	0.69%
4	FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	2	Research and development expenses	21,809	Note 2	0.16%
5	FocalTech Systems, Inc.	FocalTech Systems, Ltd.	2	Service revenue	18,693	Note 2	0.14%

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 6

FocalTech Systems Co., Ltd. and Subsidiaries

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA) (Note 1)
FOR THE YEAR ENDED DECEMBER 31, 2023

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023			Net Income (Losses) of the Investee (Note 4)	Share of Profits/Losses of Investee (Note 4)	Note
				December 31, 2023 (Note 2)	December 31, 2022 (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\$ 2,350,762 (USD 76,560)	(NT\$ 298,721) (USD 9,588)	(NT\$ 298,721) (USD 9,588)	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Cayman Islands	Investment activity	NT\$ 3,071 (USD 100)	NT\$ 3,071 (USD 100)	2	100%	NT\$ 1,205,321 (USD 39,255)	NT\$ 110,207 (USD 3,537)	NT\$ 110,207 (USD 3,537)	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\$ 1,642 (USD 53)	(NT\$ 26,539) (USD 852)	(NT\$ 2,426) (USD 78)	Subsidiary
FocalTech Systems Co., Ltd.	Vitrio Technology Corporation	Taiwan	Research, development, manufacturing and sale of integrated circuits	NT\$ -	NT\$ 4,970	-	-	NT\$ -	(NT\$ 71)	NT\$ -	Joint Venture (Note 5)
FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 238,821	NT\$ 238,821	18,813,050	57.31%	NT\$ 10,294 (USD 335)	(NT\$ 26,539) (USD 852)	(NT\$ 15,210) (USD 488)	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\$ 16,350	(NT\$ 5,340)	(NT\$ 5,340)	Subsidiary
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	U.S.A	Investment activity	NT\$ 3,140,902 (USD 102,293)	NT\$ 3,141,414 (USD 102,293)	100	100%	NT\$ 2,157,617 (USD 70,269)	(NT\$ 297,154) (USD 9,538)	(NT\$ 297,154) (USD 9,538)	Subsidiary
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Cayman Islands	Investment activity	NT\$ 716,964 (USD 23,350)	NT\$ 717,080 (USD 23,350)	2	100%	NT\$ 2,219,691 (USD 72,291)	(NT\$ 306,849) (USD 9,849)	(NT\$ 306,849) (USD 9,849)	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\$ 93,297 (USD 3,038)	(NT\$ 14,133) (USD 454)	(NT\$ 14,133) (USD 454)	Subsidiary

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

Note 2: Using the exchange rate of 1 USD: 30.705 NTD as of December 31, 2023.

Note 3: Using the exchange rate of 1 USD: 30.71 NTD as of December 31, 2022.

Note 4: Using the average exchange rate of 1 USD: 31.155 NTD for the year ended December 31, 2023.

Note 5: Vitrio Technology Corporation has been dissolved on April 18, 2023, and submitted liquidation tax return on June 8, 2023.

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

FocalTech Systems Co., Ltd. and Subsidiaries
 INFORMATION ON INVESTMENT IN MAINLAND CHINA
 FOR THE YEAR ENDED DECEMBER 31, 2023

(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, 2023 (Note 1)	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2023 (Note 1)	Net income (loss) of investee company (Note 2)	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying amount as of December 31, 2023 (Note 1)	Accumulated inward remittance of earnings as of December 31, 2023	Note
					Outflow	Inflow							
FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	NT\$ 61,410 (USD 2,000)	(Note 3 and 4)	NT\$ 30,705 (USD 1,000)	\$ -	\$ -	NT\$ 30,705 (USD 1,000)	NT\$ 3,987 (USD 128)	100%	NT\$ 3,987 (USD 128)	NT\$ 37,747 (USD 1,229)	\$ -	-
FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	NT\$ 285,557 (USD 9,300)	(Note 3)	NT\$ 30,705 (USD 1,000)	-	-	NT\$ 30,705 (USD 1,000)	NT\$ 147,687 (USD 4,740)	100%	NT\$ 147,687 (USD 4,740)	NT\$ 174,874 (USD 5,695)	-	-
FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	NT\$ 1,136,090 (USD 37,000)	(Note 4)	-	-	-	-	(NT\$ 319,227) (USD 10,246)	100%	(NT\$ 319,227) (USD 10,246)	NT\$ 601,583 (USD 19,592)	-	-
Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	NT\$ 130,056 (RMB 30,000)	(Note 4)	-	-	-	-	(NT\$ 18,836) (USD 605)	100%	(NT\$ 18,836) (USD 605)	NT\$ 225,596 (USD 7,347)	-	-

Accumulated Investment in Mainland China as of December 31, 2023	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$61,410 (USD2,000)	\$1,856,643 (USD60,467)	\$5,584,844

Note 1: Using the exchange rate of 1 USD: 30.705 NTD and 1 RMB :4.3352 NTD as of December 31, 2023.

Note 2: Using the average exchange rate of 1 USD: 31.155 NTD and 1 RMB :4.424 NTD for year ended December 31, 2023.

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.