

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

**Consolidated Financial Statements for the
Three Months Ended March 31, 2024 and 2023**

Notice to Readers

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

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

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (collectively, the "Company") as of March 31, 2024 and 2023, the related consolidated statements of comprehensive income for the three months ended March 31, 2024 and 2023, the consolidated statements of changes in equity and of cash flows for the three months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Standards on Review Engagements of the Republic of China "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Note 12 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph were not reviewed. As of March 31, 2024 and 2023, combined total assets of these non-significant subsidiaries were NT\$2,989,377 thousand and NT\$2,165,119 thousand, respectively, representing 16% and 12%, respectively, of the consolidated total assets, and combined total liabilities of these subsidiaries were NT\$1,112,058 thousand and NT\$989,415 thousand, respectively, representing 12% and 10%, respectively, of the consolidated total liabilities; for the three months ended March 31, 2024 and 2023, the amounts of combined comprehensive income (loss) of these subsidiaries were NT\$79,372 thousand, NT\$(32,050) thousand respectively, representing 31% and (73%) respectively.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of March 31, 2024 and 2023, its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2024 and 2023 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. The engagement partners on the reviews resulting in this independent auditors' review report are Yu-Hong Kuo and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China
May 10, 2024

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2024 (Reviewed)		December 31, 2023 (Audited)		March 31, 2023 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 5,065,390	26	\$ 4,444,804	24	\$ 5,198,838	28
Financial assets at fair value through profit or loss - current (Note 7)	263,051	1	250,205	1	-	-
Financial assets at fair value through other comprehensive income (Note 8)	135,394	1	129,746	1	-	-
Accounts receivables, net (Note 10)	1,339,768	7	1,649,039	9	1,097,287	6
Inventories (Note 11)	2,810,805	15	2,675,092	15	4,393,370	24
Other financial assets (Note 9)	3,469,000	18	2,806,629	15	519,173	3
Other current assets	300,112	2	227,685	1	240,038	1
Total current assets	13,383,520	70	12,183,200	66	11,448,706	62
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (Note 7)	388,955	2	365,725	2	491,250	3
Financial assets at fair value through other comprehensive income (Note 8)	52,379	-	50,364	-	178,617	1
Property, plant and equipment (Note 13)	2,464,315	13	2,439,730	13	2,510,762	13
Goodwill (Notes 14)	1,237,268	6	1,237,268	7	1,237,268	7
Other intangible assets (Note 15)	94,747	1	114,519	1	52,073	-
Deferred tax assets	179,443	1	179,725	1	253,834	1
Refundable deposits (Note 16)	1,372,949	7	1,857,769	10	2,365,660	13
Other non-current assets (Note 31)	24,374	-	26,997	-	21,284	-
Total non-current assets	5,814,430	30	6,272,097	34	7,110,748	38
TOTAL	\$ 19,197,950	100	\$ 18,455,297	100	\$ 18,559,454	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ 1,192,552	6	\$ 860,242	5	\$ 936,135	5
Accounts payables (Note 18)	1,823,202	9	1,478,429	8	1,100,493	6
Other payables (Note 19)	1,481,457	8	1,456,384	8	1,377,185	8
Current tax liabilities	340,003	2	387,792	2	595,348	3
Current position of long-term borrowings (Note 17)	219,818	1	198,493	1	-	-
Other current liabilities (Notes 23)	102,286	1	78,002	-	222,969	1
Total current liabilities	5,159,318	27	4,459,342	24	4,232,130	23
NON-CURRENT LIABILITIES						
Long-term borrowings (Note 17)	744,273	4	760,454	4	919,776	5
Deferred tax liabilities	218,652	1	219,167	2	208,096	1
Net defined benefit liabilities - non-current (Note 4)	13,834	-	13,955	-	13,446	-
Guarantee deposits received (Notes 21)	3,409,750	18	3,688,279	20	4,179,203	-
Total non-current liabilities	4,386,509	23	4,681,855	26	5,320,521	28
Total liabilities	9,545,827	50	9,141,197	50	9,552,651	51
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 22 and 27)						
Share capital						
Ordinary shares	2,178,390	12	2,178,900	12	2,159,770	12
Capital collected in advance	15,570	-	-	-	-	-
Total share capital	2,193,960	12	2,178,900	12	2,159,770	12
Capital surplus	6,180,628	32	6,031,904	32	6,013,459	33
Retained earnings						
Legal reserve	712,562	4	712,562	4	712,562	4
Special reserve	-	-	-	-	211,479	1
Undistributed earnings	871,678	4	757,830	4	248,504	1
Total retained earnings	1,584,240	8	1,470,392	8	1,172,545	6
Other equity	(147,384)	(1)	(210,063)	(1)	(189,035)	(1)
Treasury shares	(163,060)	(1)	(163,060)	(1)	(163,060)	(1)
Equity attributable to owners of the parent	9,648,384	50	9,308,073	50	8,993,679	49
NON-CONTROLLING INTERESTS (Note 22)						
	3,739	-	6,027	-	13,124	-
Total equity	9,652,123	50	9,314,100	50	9,006,803	49
TOTAL	\$ 19,197,950	100	\$ 18,455,297	100	\$ 18,559,454	100

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31			
	2024		2023	
	Amount	%	Amount	%
REVENUE (Note 23)	\$ 3,560,521	100	\$ 3,225,278	100
COSTS OF SALES (Notes 11 and 24)	<u>(2,768,724)</u>	<u>(78)</u>	<u>(2,618,097)</u>	<u>(81)</u>
GROSS PROFIT	<u>791,797</u>	<u>22</u>	<u>607,181</u>	<u>19</u>
OPERATING EXPENSES (Notes 24, 28 and 30)				
Selling and marketing expenses	(122,410)	(3)	(77,329)	(3)
General and administrative expenses	(106,586)	(3)	(105,877)	(3)
Research and development expenses	<u>(554,852)</u>	<u>(16)</u>	<u>(388,526)</u>	<u>(12)</u>
Total operating expenses	<u>(783,848)</u>	<u>(22)</u>	<u>(571,732)</u>	<u>(18)</u>
OPERATING INCOME	<u>7,949</u>	<u>-</u>	<u>35,449</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 24)	(12,635)	-	(20,421)	(1)
Interest income	78,173	2	50,241	2
Gain (Loss) on financial assets and liabilities at fair value through profit or loss	879	-	8,246	-
Other gains and losses, net	15,439	-	4,811	-
Gain on foreign exchange	<u>21,557</u>	<u>1</u>	<u>(16,116)</u>	<u>-</u>
Total non-operating income and expenses	<u>103,413</u>	<u>3</u>	<u>26,761</u>	<u>1</u>
INCOME BEFORE INCOME TAX	111,362	3	62,210	2
INCOME TAX BENEFITS (EXPENSE) (Notes 4 and 25)	<u>175</u>	<u>-</u>	<u>(12,194)</u>	<u>(1)</u>
NET INCOME	<u>111,537</u>	<u>3</u>	<u>50,016</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations	145,191	4	(8,513)	-
Unrealized gain from debt instrument investments measured at fair value through other comprehensive loss	<u>1,494</u>	<u>-</u>	<u>2,351</u>	<u>-</u>

(Continued)

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	For the Three Months Ended March 31			
	2024		2023	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss	\$ 146,685	4	\$ (6,162)	-
Total other comprehensive Income (Loss)	<u>146,685</u>	<u>4</u>	<u>(6,162)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 258,222</u>	<u>7</u>	<u>\$ 43,854</u>	<u>1</u>
NET INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 113,848	3	\$ 51,657	2
Non-controlling interests	<u>(2,311)</u>	<u>-</u>	<u>(1,641)</u>	<u>-</u>
	<u>\$ 111,537</u>	<u>3</u>	<u>\$ 50,016</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 260,510	7	\$ 45,559	1
Non-controlling interests	<u>(2,288)</u>	<u>-</u>	<u>(1,705)</u>	<u>-</u>
	<u>\$ 258,222</u>	<u>7</u>	<u>\$ 43,854</u>	<u>1</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 0.54</u>		<u>\$ 0.25</u>	
Diluted	<u>\$ 0.53</u>		<u>\$ 0.24</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					Non-controlling Interests	Total Equity
	Ordinary Shares	Capital collected in advance	Capital Surplus	Legal Reserve	Special Reserve	Undistributed Earnings	Exchange Differences from Translating the Financial Statement of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unearned employee compensation	Treasury Shares	Total			
BALANCE, JANUARY 1, 2023	\$ 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	
Net income for the three months ended March 31, 2023	-	-	-	-	-	51,657	-	-	-	-	51,657	(1,641)	50,016	
Other comprehensive income (loss) for the three months ended March 31, 2023, net of income tax	-	-	-	-	-	-	(8,449)	2,351	-	-	(6,098)	(64)	(6,162)	
Total comprehensive income (loss) for the three months ended March 31, 2023	-	-	-	-	-	51,657	(8,449)	2,351	-	-	45,559	(1,705)	43,854	
Compensation cost of employee share options	-	-	9,332	-	-	-	-	-	-	-	9,332	-	9,332	
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	
Retirement of restricted stock employees	(1,800)	-	(37,380)	-	-	-	-	-	37,380	-	(1,800)	-	(1,800)	
Compensation cost of restricted stock to employees	-	-	-	-	-	-	-	-	76,178	-	76,178	-	76,178	
Change in other capital surplus	-	-	(989)	-	-	-	-	-	-	-	(989)	-	(989)	
BALANCE, MARCH 31, 2023	\$ 2,159,770	\$ -	\$ 6,013,459	\$ 712,562	\$ 211,479	\$ 248,504	\$ 44,023	\$ (10,787)	\$ (222,271)	\$ (163,060)	\$ 8,993,679	\$ 13,124	\$ 9,006,803	
BALANCE, JANUARY 1, 2024	\$ 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	
Net income for the three months ended March 31, 2024	-	-	-	-	-	113,848	-	-	-	-	113,848	(2,311)	111,537	
Other comprehensive income (loss) for the three months ended March 31, 2024, net of income tax	-	-	-	-	-	-	145,168	1,494	-	-	146,662	23	146,685	
Total comprehensive income (loss) for the three months ended March 31, 2024	-	-	-	-	-	113,848	145,168	1,494	-	-	260,510	(2,288)	258,222	
Compensation cost of employee share options	-	-	4,896	-	-	-	-	-	-	-	4,896	-	4,896	
Issuance of restricted stock employees	-	15,570	150,118	-	-	-	-	-	(150,118)	-	15,570	-	15,570	
Retirement of restricted stock employees	(510)	-	(6,189)	-	-	-	-	-	6,189	-	(510)	-	(510)	
Compensation cost of restricted stock to employees	-	-	-	-	-	-	-	-	59,946	-	59,946	-	59,946	
Other	-	-	(101)	-	-	-	-	-	-	-	(101)	-	(101)	
BALANCE, MARCH 31, 2024	\$ 2,178,390	\$ 15,570	\$ 6,180,628	\$ 712,562	\$ -	\$ 871,678	\$ 156,346	\$ (5,025)	\$ (298,705)	\$ (163,060)	\$ 9,648,384	\$ 3,739	\$ 9,652,123	

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 111,362	\$ 62,210
Adjustments for:		
Depreciation expenses	28,790	29,712
Amortization expenses	28,491	16,285
Net (gain) loss on financial assets at fair value through profit or loss	(879)	(8,246)
Finance costs	12,635	20,421
Interest income	(78,173)	(50,241)
Compensation cost of employee share options	4,896	9,332
Loss on disposal of property plant and equipment	166	170
Gain on disposal of investments	(1,175)	-
Reversal gain on write-down of inventories	(83,412)	(364,421)
Unrealized (gain) loss on foreign exchange	21,700	(10,304)
Compensation cost of restricted stock to employees	59,946	76,178
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	(17,155)	(17,058)
Accounts receivables	321,338	52,787
Inventories	(7,046)	1,733,426
Other current assets	(33,194)	20,662
Accounts payables	325,705	169,372
Other payables	(27,378)	(268,511)
Other current liabilities	21,156	142,861
Net defined benefit liabilities	(121)	(114)
Cash generated from operations	687,652	1,614,521
Interest paid	(12,424)	(21,385)
Income tax paid	(60,360)	(3,043)
Net cash inflow from operating activities	<u>614,868</u>	<u>1,590,093</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(6,425)	(20,360)
Decrease in refundable deposits	485,021	288,831
Acquisition of intangible assets	(8,639)	(7,795)
Increase in other financial assets	(606,001)	(4,376)
Decrease in other non-current assets	3,486	4,162
Interest received	45,752	53,030
Net cash (outflow) inflow from investing activities	<u>(86,806)</u>	<u>313,492</u>

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FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in short-term borrowings	\$ 292,123	\$ (2,145,327)
Decrease in long-term borrowings	(1,770)	(67,064)
Decrease in guarantee deposits	(278,780)	(190,356)
Exercise of employee share options	-	971
Treasury shares transferred to employees	-	32,997
Issuance of restricted stock employees	15,570	-
Retirement of restricted stock employees	(510)	(1,800)
Other	<u>(101)</u>	<u>(989)</u>
Net cash inflow (outflow) financing activities	<u>26,532</u>	<u>(2,371,568)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>65,992</u>	<u>(7,649)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	620,586	(475,632)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>4,444,804</u>	<u>5,674,470</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,065,390</u>	<u>\$ 5,198,838</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 THREE MONTHS ENDED MARCH 31, 2024 AND 2023 (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 May 10, 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 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
IFRS 18 “Presentation and Disclosure in Financial Statements”	January 1, 2027
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 to IAS 21, the Group shall not restate the comparative information and shall recognize any effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or, if applicable, to the cumulative amount of translation differences in equity as well as affected assets or liabilities.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of Preparation

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

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

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

c. Basis of consolidation

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

d. Other significant accounting policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2023.

1) Retirement benefits

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

2) Taxation

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

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5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgments, estimations and assumptions applied in these consolidated financial statements are consistent with those in the consolidated financial statements for the year ended December 31, 2023.

6. CASH AND CASH EQUIVALENTS

	March 31, 2024	December 31, 2023	March 31, 2023
Cash on hand	\$ 4,726	\$ 5,406	\$ 14,591
Checking accounts and demand deposits	2,149,306	1,286,961	1,816,613
Cash equivalent (time deposits with original maturities within three months)	<u>2,911,358</u>	<u>3,152,437</u>	<u>3,367,634</u>
	<u>\$ 5,065,390</u>	<u>\$ 4,444,804</u>	<u>\$ 5,198,838</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2024	December 31, 2023	March 31, 2023
<u>Current</u>			
Mandatorily measured at fair value through profit or loss (FVTPL)			
Government bonds	\$ 258,814	\$ 246,194	\$ -
Beneficiary Certificate	<u>4,237</u>	<u>4,011</u>	<u>-</u>
	<u>\$ 263,051</u>	<u>\$ 250,205</u>	<u>\$ -</u>
<u>Non – Current</u>			
Mandatorily measured at fair value through profit or loss (FVTPL)			
Listed preferred shares	\$ 10,200	\$ 10,183	\$ 152,079
Private Funds	254,736	238,544	228,179
Structured Investments	<u>124,019</u>	<u>116,998</u>	<u>110,992</u>
	<u>\$ 388,955</u>	<u>\$ 365,725</u>	<u>\$ 491,250</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	March 31, 2024	December 31, 2023	March 31, 2023
Investments in debt instruments			
<u>Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 135,394</u>	<u>\$ 129,746</u>	<u>\$ -</u>
<u>Non – Current</u>			
Foreign investments			
Fixed income bonds	<u>\$ 52,379</u>	<u>\$ 50,364</u>	<u>\$ 178,617</u>

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9. OTHER FINANCIAL ASSETS

	March 31, 2024	December 31, 2023	March 31, 2023
Time deposits with original maturities more than three months	<u>\$ 3,469,000</u>	<u>\$ 2,806,629</u>	<u>\$ 519,173</u>

10. ACCOUNTS RECEIVABLES, NET

	March 31, 2024	December 31, 2023	March 31, 2023
Accounts receivables	<u>\$ 1,339,768</u>	<u>\$ 1,649,039</u>	<u>\$ 1,097,287</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.

March 31, 2024

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 180 Days	Total
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$ 1,339,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,339,768</u>

December 31, 2023

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

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March 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>\$ 1,071,835</u>	<u>\$ 18,149</u>	<u>\$ -</u>	<u>\$ 7,303</u>	<u>\$ 1,097,287</u>

11. INVENTORIES

	March 31, 2024	December 31, 2023	March 31, 2023
Finished goods	\$ 842,846	\$ 842,838	\$ 1,099,079
Work in process	818,947	980,224	1,367,465
Raw materials and supplies	<u>1,149,012</u>	<u>852,030</u>	<u>1,926,826</u>
	<u>\$ 2,810,805</u>	<u>\$ 2,675,092</u>	<u>\$ 4,393,370</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 Three Months Ended March 31	
	2024	2023
Reversal gain on write-down of inventories	<u>\$ 83,412</u>	<u>\$ 364,421</u>

12. SUBSIDIARIES

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

Investor	Investee	Main Businesses	Percentage of Ownership			Note
			March 31, 2024	December 31, 2023	March 31, 2023	
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%	100%	-
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Investment activity	100%	100%	100%	Note1
FocalTech Systems Co., Ltd. And FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	66.45%	66.45%	66.45%	Note1
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%	Note1
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%	100%	-

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FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Investment activity	100%	100%	100%	Note1
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	-	-	100%	Note2
FocalTech Systems, Ltd.	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%	100%	Note1
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%	100%	Note1
FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	100%	-
FocalTech Electronics, Ltd.	Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	-	-	100%	Note1&2
FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	100%	100%	-	Note2
FocalTech Electronics (Shenzhen) Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	100%	100%	-	Note1&2

Note 1 : Immaterial subsidiaries of the Company, whose financial statements had not been reviewed by auditors.

Note 2 : 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..

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Construction In progress	Total
<u>Cost</u>								
Balance, January 1, 2023	\$ 557,110	\$ 1,856,612	\$ 476,829	\$ 60,977	\$ 43,345	\$ 21,869	\$ 56,640	\$ 3,073,382
Additions	-	-	3,240	17,120	-	-	-	20,360
Disposals	-	-	(2,562)	(49)	(1,234)	-	-	(3,845)
Reclassification	-	-	-	56,640	-	-	(56,640)	-
Effect of foreign currency exchange differences	-	6,521	(510)	45	196	70	-	6,322
Balance, March 31, 2023	<u>\$ 557,110</u>	<u>\$ 1,863,133</u>	<u>\$ 476,997</u>	<u>\$ 134,733</u>	<u>\$ 42,307</u>	<u>\$ 21,939</u>	<u>\$ -</u>	<u>\$ 3,096,219</u>
<u>Accumulated depreciation</u>								
Balance, January 1, 2023	\$ -	\$ 199,720	\$ 292,528	\$ 12,980	\$ 32,077	\$ 21,869	\$ -	\$ 559,174
Depreciation	-	9,272	10,385	9,427	628	-	-	29,712
Disposals	-	-	(2,520)	(44)	(1,111)	-	-	(3,675)
Effect of foreign currency exchange differences	-	908	(902)	33	137	70	-	246
Balance, March 31, 2023	<u>\$ -</u>	<u>\$ 209,900</u>	<u>\$ 299,491</u>	<u>\$ 22,396</u>	<u>\$ 31,731</u>	<u>\$ 21,939</u>	<u>\$ -</u>	<u>\$ 585,457</u>
Carrying amounts as of March 31, 2023	<u>\$ 557,110</u>	<u>\$ 1,653,233</u>	<u>\$ 177,506</u>	<u>\$ 112,337</u>	<u>\$ 10,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,510,762</u>
<u>Cost</u>								
Balance, January 1, 2024	\$ 557,110	\$ 1,834,420	\$ 491,480	\$ 149,461	\$ 41,406	\$ 21,632	\$ -	\$ 3,095,509
Additions	-	-	3,882	2,521	22	-	-	6,425
Disposals	-	-	(128)	(195)	(1,387)	-	-	(1,710)
Effect of foreign currency exchange differences	-	52,344	12,220	418	1,460	559	-	67,001
Balance, March 31, 2024	<u>\$ 557,110</u>	<u>\$ 1,886,764</u>	<u>\$ 507,454</u>	<u>\$ 152,205</u>	<u>\$ 41,501</u>	<u>\$ 22,191</u>	<u>\$ -</u>	<u>\$ 3,167,225</u>
<u>Accumulated depreciation</u>								
Balance, January 1, 2024	\$ -	\$ 232,937	\$ 341,371	\$ 27,010	\$ 32,829	\$ 21,632	\$ -	\$ 655,779

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	Land	Buildings	Development Equipment	Office Equipment	Information Equipment	Leasehold Improvements	Construction In progress	Total
Depreciation	-	9,210	14,864	4,143	573	-	-	28,790
Disposals	-	-	(125)	(176)	(1,243)	-	-	(1,544)
Effect of foreign currency exchange differences	-	8,604	9,313	283	1,126	559	-	19,885
Balance, March 31, 2023	<u>\$ -</u>	<u>\$ 250,751</u>	<u>\$ 365,423</u>	<u>\$ 31,260</u>	<u>\$ 33,285</u>	<u>\$ 22,191</u>	<u>\$ -</u>	<u>\$ 702,910</u>
Carrying amounts as of December 31, 2023 and January 1, 2024	<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>
Carrying amounts as of March 31, 2024	<u>\$ 557,110</u>	<u>\$ 1,636,013</u>	<u>\$ 142,031</u>	<u>\$ 120,945</u>	<u>\$ 8,216</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,464,315</u>

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

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

Property, plant and equipment were pledged as collateral. Refer to Note 31.

14. GOODWILL

	March 31, 2024	December 31, 2023	March 31, 2023
Ending balance	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>

Considering the synergy of integration of LCD driver and touch controller under the industry trend, the reverse merger was triggered by FocalTech Corporation, Ltd. on January 2, 2015, accounted for goodwill according to business combination. The Group estimated cash flows from sales of IDC (Integrated Driver Controller) based on smartphone market growth rate and market share. Refer to Note 14 in consolidated financial statements in 2023 for related information.

15. OTHER INTANGIBLE ASSETS

	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	-	7,795	-	-	7,795
Disposal	(18,656)	(3,148)	-	-	(21,804)
Effect of foreign currency exchange differences	<u>(1,026)</u>	<u>(1,096)</u>	<u>1</u>	<u>-</u>	<u>(2,121)</u>
Balance, December 31, 2023	<u>\$ 124,750</u>	<u>\$ 233,151</u>	<u>\$ 76,711</u>	<u>\$ 74,000</u>	<u>\$ 508,612</u>

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	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Accumulated amortization</u>					
Balance, January 1, 2023	\$ 142,207	\$ 200,676	\$ 62,110	\$ 59,200	\$ 464,193
Amortization expenses	1,113	11,497	1,825	1,850	16,285
Disposal	(18,656)	(3,148)	-	-	(21,804)
Effect of foreign currency exchange differences	<u>(1,026)</u>	<u>(1,110)</u>	<u>1</u>	<u>-</u>	<u>(2,135)</u>
Balance, December 31, 2023	<u>\$ 123,638</u>	<u>\$ 207,915</u>	<u>\$ 63,936</u>	<u>\$ 61,050</u>	<u>\$ 456,539</u>
Carrying amounts as of December 31, 2023	<u>\$ 1,112</u>	<u>\$ 25,236</u>	<u>\$ 12,775</u>	<u>\$ 12,950</u>	<u>\$ 52,073</u>
<u>Cost</u>					
Balance, January 1, 2024	\$ 125,757	\$ 314,510	\$ 76,706	\$ 74,000	\$ 590,973
Additions	-	8,639	-	-	8,639
Reclassification	-	(24,084)	-	-	(24,084)
Effect of foreign currency exchange differences	<u>5,116</u>	<u>5,853</u>	<u>9</u>	<u>-</u>	<u>10,978</u>
Balance, December 31, 2024	<u>\$ 130,873</u>	<u>\$ 304,918</u>	<u>\$ 76,715</u>	<u>\$ 74,000</u>	<u>\$ 586,506</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2024	\$ 125,757	\$ 214,691	\$ 69,406	\$ 66,600	\$ 476,454
Amortization expenses	-	24,816	1,825	1,850	28,491
Disposal	-	(24,084)	-	-	(24,084)
Effect of foreign currency exchange differences	<u>5,116</u>	<u>5,773</u>	<u>9</u>	<u>-</u>	<u>10,898</u>
Balance, December 31, 2024	<u>\$ 130,873</u>	<u>\$ 221,196</u>	<u>\$ 71,240</u>	<u>\$ 68,450</u>	<u>\$ 491,759</u>
Carrying amounts as of December 31, 2023 and January 1, 2024	<u>\$ -</u>	<u>\$ 99,819</u>	<u>\$ 7,300</u>	<u>\$ 7,400</u>	<u>\$ 114,519</u>
Carrying amounts as of December 31, 2024	<u>\$ -</u>	<u>\$ 83,722</u>	<u>\$ 5,475</u>	<u>\$ 5,550</u>	<u>\$ 94,747</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

	March 31, 2024	December 31, 2023	March 31, 2023
Capacity guarantee deposits and others	<u>\$ 1,372,949</u>	<u>\$ 1,857,769</u>	<u>\$ 2,365,660</u>

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

17. BORROWINGS

a. Short-term borrowings

	March 31, 2024	December 31, 2023	March 31, 2023
Unsecured bank loans	<u>\$1,192,552</u>	<u>\$ 860,242</u>	<u>\$ 936,135</u>
Annual interest rate			
Unsecured bank loans	3.10-3.60%	3.10~3.60%	2.80-3.80%

b. Long-term borrowings

	March 31, 2024	December 31, 2023	March 31, 2023
Secured bank loans (1)	\$ 786,840	\$ 786,840	\$ 786,840
Unsecured bank loans (2)	<u>177,251</u>	<u>172,107</u>	<u>132,936</u>
	964,091	958,947	919,776
Less: reclassification to Current position of long-term borrowings	<u>(219,818)</u>	<u>(198,493)</u>	<u>-</u>
	<u>\$ 744,273</u>	<u>\$ 760,454</u>	<u>\$ 919,776</u>
Annual interest rate			
Secured bank loans	1.875~2%	1.75~1.875%	1.75%
Unsecured bank loans	3.30~3.45%	3.30~3.65%	3.65%

(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 31.

(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.

18. ACCOUNTS PAYABLES

	March 31, 2024	December 31, 2023	March 31, 2023
Accounts payables	<u>\$ 1,823,202</u>	<u>\$ 1,478,429</u>	<u>\$ 1,100,493</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.

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19. OTHER PAYABLES

	March 31, 2024	December 31, 2023	March 31, 2023
Payable for rebates	\$ 938,255	\$ 849,398	\$ 820,271
Payable for salaries and bonus	299,447	380,430	344,234
Payable for labor, health and social insurance	15,457	15,320	15,190
Reserve for litigations	53,897	53,473	50,890
Payable for professional services and others	<u>174,401</u>	<u>157,763</u>	<u>146,600</u>
	<u>\$1,481,457</u>	<u>\$1,456,384</u>	<u>\$1,377,185</u>

20. RETIREMENT BENEFIT

Pension expenses under the defined benefit plans, calculated using the actuarially determined pension cost rate as of December 31, 2023 and 2022, were NT\$43 thousand and NT\$41 thousand for the three months ended March 31, 2024 and 2023, respectively.

21. GUARANTEE DEPOSITS RECEIVED

	March 31, 2024	December 31, 2023	March 31, 2023
Capacity guarantee deposits and others	<u>\$ 3,409,750</u>	<u>\$3,688,279</u>	<u>\$ 4,179,203</u>

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

22. EQUITY

a. Share capital

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

	March 31, 2024	December 31, 2023	March 31, 2023
Numbers of shares authorized (in thousands)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>217,839</u>	<u>217,890</u>	<u>215,977</u>
Shares issued	<u>\$ 2,178,390</u>	<u>\$ 2,178,900</u>	<u>\$ 2,159,770</u>
Capital collected in advance	<u>\$ 15,570</u>	<u>\$ -</u>	<u>\$ -</u>

The registration processes of 1,597 thousand shares of restricted stocks for employees have not been completed as of March 31, 2024. The proceeds from shares issued is accounted for capital collected in advance in \$15,570 thousand, please refer to Note 27(c).

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b. Capital surplus

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

	March 31, 2024	December 31, 2023	March 31, 2023
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)			
<u>Additional paid-in capital</u>	\$5,159,886	\$5,159,995	\$4,754,187
Treasury stock	180,577	167,900	136,604
Employee share options-expired	34,448	34,448	34,448
<u>May be used to offset a deficit only</u>			
Other – unclaimed dividend	14	6	6
<u>May not be used for any purpose</u>			
Restricted stock for employees	769,593	625,664	1,028,635
Employee share options	<u>36,110</u>	<u>43,891</u>	<u>59,579</u>
	<u>\$6,180,628</u>	<u>\$ 6,031,904</u>	<u>\$6,013,459</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.

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 2023 and 2022 were resolved by the Board of Directors' meeting on February 23, 2024, and the annual shareholders' meeting on May 30, 2023, respectively. The details of the distribution are as follows:

	<u>2023</u>	<u>2022</u>
Legal reserve	\$ 34,950	\$ -
Special reserve reversed	\$ -	\$ 211,479
Cash dividends	\$ 217,151	\$ -
Cash dividends per share	\$ 1.00	\$ -

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

d. Treasury stock

	<u>Shares (In Thousands)</u>
Number of shares on January 1, 2023	1,545
Decrease during the period	<u>(260)</u>
Number of shares on March 31, 2023	<u>1,285</u>
Number of shares on January 1, 2024 and March 31, 2024	<u>1,285</u>

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.

e. Unearned employee compensation

	<u>For the Three Months Ended March 31</u>	
	<u>2024</u>	<u>2023</u>
Balance, beginning	(\$ 214,722)	(\$ 335,829)
Issuance of shares	(150,118)	-
Retirement of shares	6,189	37,380
Share-based payment expenses recognized	<u>59,946</u>	<u>76,178</u>
Balance, ending	<u>(\$ 298,705)</u>	<u>(\$ 222,271)</u>

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

f. Non-controlling interests

	For the Three Months Ended March 31	
	2024	2023
Balance, beginning	\$ 6,027	\$ 14,829
Net loss	(2,311)	(1,641)
Other comprehensive income (loss)		
Exchange differences from translating the financial statements of foreign operations	23	(64)
Balance, ending	<u>\$ 3,739</u>	<u>\$ 13,124</u>

23. REVENUE

	For the Three Months Ended March 31	
	2024	2023
IC for human and machine interface devices	<u>\$ 3,560,521</u>	<u>\$ 3,225,278</u>

Contract balances

	March 31, 2024	December 31, 2023	March 31, 2023
Contract liabilities (classified as current liabilities)			
Sales of goods	<u>\$ 49,152</u>	<u>\$ 24,732</u>	<u>\$ 196,682</u>

24. NET INCOME (LOSS)

a. Finance costs

	For the Three Months Ended March 31	
	2024	2023
Interest on bank loans	\$ 12,635	\$ 20,354
Interest on deposits	-	67
	<u>\$ 12,635</u>	<u>\$ 20,421</u>

b. Depreciation and amortization

	For the Three Months Ended March 31	
	2024	2023
Property, plant and equipment	\$ 28,790	\$ 29,712
Intangible assets	<u>28,491</u>	<u>16,285</u>
	<u>\$ 57,281</u>	<u>\$ 45,997</u>

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An analysis of deprecation by function		
Operating costs	\$ 6,343	\$ 6,301
Operating expenses	<u>50,938</u>	<u>39,696</u>
	<u>\$ 57,281</u>	<u>\$ 45,997</u>

c. Employee benefits expense

	For the Three Months Ended March 31	
	2024	2023
Post-employment benefits		
Defined contribution plans	\$ 8,320	\$ 8,495
Defined benefit plans (see Note 20)	43	41
Share-based payments (see Note 27)	64,842	85,510
Other employee benefits	<u>473,069</u>	<u>301,882</u>
Total employee benefits expense	<u>\$ 546,274</u>	<u>\$ 395,928</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 41,731	\$ 33,410
Operating expenses	<u>504,543</u>	<u>362,518</u>
	<u>\$ 546,274</u>	<u>\$ 395,928</u>

d. The remuneration of employees and directors

According to the Company's Articles of Incorporation, the distributable compensation to employees and remuneration to directors shall not be less than 1% and not more than 1.5%, respectively, of net profit before income tax. The accrued employees' compensation and remuneration of directors for the three months ended March 31, 2024 and 2023 are as follows:

Amount

	For the Three Months Ended March 31	
	2024	2023
Employees' compensation	<u>\$ 1,140</u>	<u>\$ 475</u>
Remuneration of directors	<u>\$ 60</u>	<u>\$ 25</u>

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

The board of directors resolved the remuneration of employees and directors for 2023 on February 23, 2024. 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 2023 consolidated financial statements. There were no employees' compensation and remuneration of directors accrued due to loss before income tax for the year ended December 31, 2022.

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.

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25. INCOME TAXES

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

	For the Three Months Ended March 31	
	2024	2023
Current income tax expense		
In respect of the current year	\$ 58	\$ -
Deferred income tax expense		
In respect of the current year	(233)	12,194
Income tax expense recognized in profit or loss	<u>(\$ 175)</u>	<u>\$ 12,194</u>

- b. Income tax assessments

The Company's tax returns through 2021, FocalTech Smart Sensors Co., Ltd., and FocalTech Electronics Co., Ltd.'s tax returns through 2022 have been examined by the tax authorities.

26. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per Share

	For the Three Months Ended March 31	
	2024	2023
Basic earnings per share	<u>\$ 0.54</u>	<u>\$ 0.25</u>
Diluted earnings per share	<u>\$ 0.53</u>	<u>\$ 0.24</u>

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

Net Profit for the Period

	For the Three Months Ended March 31	
	2024	2023
Earnings used in the computation of basic earnings per share	<u>\$ 113,848</u>	<u>\$ 51,657</u>

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

	For the Three Months Ended March 31	
	2024	2023
Weighted average number of ordinary shares used in the computation of basic earnings per share	209,535	204,309
Effect of potentially dilutive ordinary shares:		
Treasury shares transferred to Employees	2,681	5,141
Employee share options(share)	55	75
Restricted stock for employees(share)	2,405	1,931
The remuneration to employees	<u>475</u>	<u>6</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>215,151</u>	<u>211,462</u>

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27. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan

The Group did not have new share option plan issued for employees for the three months ended March 31, 2024 and 2023. The detailed information could be found in Note 27 of the consolidated financial statements of the year ended December 31, 2023.

Information on outstanding options for the three months ended March 31, 2024 and 2023 were as follows:

March 31, 2024

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\$)
2015	63,000	12.80	-	-	-	-	63,000	12.80

March 31, 2023

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	22,399	\$29.68	(22,399)	\$29.68	-	\$ -	-	\$ -
2015	87,000	12.80	(24,000)	12.80	-	-	63,000	12.80

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 March 31, 2024 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	

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.

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The information of the issued restricted stock for employees as of March 31, 2024 are as follows:

Items	Grant date	Fair value per share (in dollar)	Actual shares of issued (in thousand)
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
2023 restricted stocks for employees plan	2024/02/23	94.00	1,597

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:

- 1) Upon service for two years. the shares vested in 50% to employees.
- 2) Upon service for three years. the shares vested in 25% to employees.
- 3) 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:

- 1) Employees are restricted to sell, pledge, transfer, and give to another, create any encumbrance on, or otherwise dispose of, any shares before vested.
- 2) 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.
- 3) Stock dividends and cash dividends yielding from restricted stock will be distributed to employees in the current year, and will not be restricted.
- 4) National employee should transfer the granted shares to trustee appointed by the Company immediately. Before they are vested, the restricted should be kept in trustee. Non-national employee's granted share should be kept by bank appointed by the Company.

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

- d. Compensation cost of aforementioned share-based payments for the three months ended March 31, 2024 and 2023 are as follows:

	For the Three Months Ended March 31	
	2024	2023
Shares buyback programs	\$ 4,896	\$ 9,332
Restricted stock for employees	<u>59,946</u>	<u>76,178</u>
	<u>\$ 64,842</u>	<u>\$ 85,510</u>

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Adjustment account:

Capital surplus - employee stock options	\$ 4,896	\$ 9,332
Other equity - unearned employee compensation	<u>59,946</u>	<u>76,178</u>
	<u>\$ 64,842</u>	<u>\$ 85,510</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 March, 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 \$7,059 thousand and \$6,295 thousand as of March 31, 2024 and 2023.

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

	For the Three Months Ended March 31	
	<u>2024</u>	<u>2023</u>
Lease payment	<u>\$ 2,240</u>	<u>\$ 2,341</u>

29. 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

March 31, 2024

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets at FVTPL</u>				
Listed preferred shares	\$ 10,200	\$ -	\$ -	\$ 10,200
Private funds	-	-	254,736	254,736
Beneficiary certificate	4,237	-	-	4,237
Government bonds	-	258,814	-	258,814
Structured Investments	-	<u>124,019</u>	-	<u>124,019</u>
Total	<u>\$ 14,437</u>	<u>\$ 382,833</u>	<u>\$ 254,736</u>	<u>\$ 652,006</u>
<u>Financial assets at FVTOCI</u>				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 187,773</u>	<u>\$ -</u>	<u>\$ 187,773</u>

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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>
<u>Financial assets at FVTOCI</u>				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 180,110</u>	<u>\$ -</u>	<u>\$ 180,110</u>

March 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	\$ 152,079	\$ -	\$ -	\$ 152,079
Private funds	-	-	228,179	228,179
Structured Investments	-	110,992	-	110,992
Total	<u>\$ 152,079</u>	<u>\$ 110,992</u>	<u>\$ 228,179</u>	<u>\$ 491,250</u>
<u>Financial assets at FVTOCI</u>				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 178,617</u>	<u>\$ -</u>	<u>\$ 178,617</u>

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2024 and 2023.

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

	For the Three Months Ended	
	March 31	
<u>Financial assets at FVTPL</u>	<u>2024</u>	<u>2023</u>
Balance, beginning	\$ 238,544	\$ 207,977
Purchases	19,255	17,500
Disposals	(1,767)	(442)
Recognized in profit or loss (other income or loss)	(2,602)	3,396
Effect of foreign currency exchange differences	1,306	(252)
Balance, ending	<u>\$ 254,736</u>	<u>\$ 228,179</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 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

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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

	March 31, 2024	December 31, 2023	March 31, 2023
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Mandatorily at FVTPL	\$ 652,006	\$ 615,930	\$ 491,250
Amortized cost (Note 1)	11,247,107	10,758,241	9,180,958
Financial assets at FVTOCI			
Investments in debt instruments	187,773	180,110	178,617
<u>Financial liabilities</u>			
Amortized cost (Note 2)	8,871,052	8,442,281	8,512,792

- 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.

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.

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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 33.

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 Three Months Ended March	
	31	
	2024	2023
Profit or loss/ equity	<u>\$ 10,192</u> (i)	<u>\$ 30,783</u> (i)

i. This was mainly attributable to the outstanding balances of USD time deposits, accounts receivables, bank loans, 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:

	March 31, 2024	December 31, 2023	March 31, 2023
Fair value interest rate risk			
Financial assets	<u>\$ 6,826,945</u>	<u>\$ 6,385,370</u>	<u>\$ 4,065,424</u>
Financial liabilities	<u>\$ 1,192,552</u>	<u>\$ 860,242</u>	<u>\$ 936,135</u>
Cash flow interest rate risk			
Financial assets	<u>\$ 2,269,865</u>	<u>\$ 1,400,499</u>	<u>\$ 1,924,090</u>
Financial liabilities	<u>\$ 964,091</u>	<u>\$ 958,947</u>	<u>\$ 919,776</u>

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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 three months ended March 31, 2024 and 2023 would increase/ decrease by NT\$816 thousand and NT\$628 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 March 31, 2024, accounts receivables from top 5 customers represented 65% of total accounts receivables. The credit concentration risk of other accounts receivables was insignificant.

Credit risk management for investments in debt instruments

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

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

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of March 31, 2024</u>
Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 446,587</u>

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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 March 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>\$ 178,617</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.

March 31, 2024

	On Demand or Less than 1 Year	1-5 Years	More than 5 Years
Non-interest bearing	\$ 3,303,031	\$ 3,409,750	\$ -
Fixed interest rate liabilities	1,194,180	-	-
Floating interest rate liabilities	<u>219,818</u>	<u>258,893</u>	<u>485,380</u>
	<u>\$ 4,717,029</u>	<u>\$ 3,668,643</u>	<u>\$ 485,380</u>

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>

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March 31, 2023

	On Demand or Less than 1 Year	1-5 Years	More than 5 Years
Non-interest bearing	\$ 2,477,293	\$ 4,179,203	\$ -
Fixed interest rate liabilities	936,520	-	-
Floating interest rate liabilities	<u>-</u>	<u>369,673</u>	<u>550,103</u>
	<u>\$ 3,413,813</u>	<u>\$ 4,548,876</u>	<u>\$ 550,103</u>

30. TRANSACTIONS WITH RELATED PARTIES

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

	For the Three Months Ended March 31	
	2024	2023
Long-term employee benefits	\$ -	\$ 19,705
Short-term employee benefits	19,330	14,336
Post-employment benefits	162	135
Share-based payments	<u>7,788</u>	<u>9,576</u>
	<u>\$ 27,280</u>	<u>\$ 43,752</u>

31. PLEDGED ASSETS

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

	March 31, 2024	December 31, 2023	March 31, 2023
Property, plant and equipment – Net of buildings	\$ 482,677	\$ 485,178	\$ 492,681
Properties, plants and equipment – Land	557,110	557,110	557,110
Pledge deposits (categorized in other non-current assets)	<u>13,020</u>	<u>12,670</u>	<u>4,000</u>
	<u>\$ 1,052,807</u>	<u>1,054,958</u>	<u>\$ 1,053,791</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

ELAN MICROELECTRONICS CORPORATION. (“ELAN”) filed patent infringement actions with Intellectual Property and Commercial Court on March 20, 2024. The lawsuit alleges that the Company infringed on an invention patent and demands the destruction or other necessary disposal of the specific infringing product already manufactured, as well as the raw materials and tools used in the infringing activities. They are also asking compensation for damages. Currently, the case is undergoing a document review by the Intellectual Property and Commercial Court and has not yet been assigned to a specific division for processing. It does not have material impact on the Company’s operation and finance.

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33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

March 31, 2024

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 186,851	32 (USD:NTD)	\$ 5,979,220
USD	33,553	7.095 (USD:RMB)	1,073,687
<u>Financial liabilities</u>			
Monetary items			
USD	163,007	32 (USD:NTD)	5,216,229
USD	51,026	7.095 (USD:RMB)	1,632,843

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

March 31, 2023

	Foreign Currencies (thousand)	Exchange Rate	NT\$(thousand)
<u>Financial assets</u>			
Monetary items			
USD	\$ 215,936	30.45 (USD:NTD)	\$ 6,575,261
USD	11,578	6.8717 (USD:RMB)	352,555
<u>Financial liabilities</u>			
Monetary items			
USD	190,386	30.45 (USD:NTD)	5,797,261
USD	16,910	6.8717 (USD:RMB)	514,895

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34. 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: None;
 - 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 4 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 5 attached;
- 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 6 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 4 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.

35. SEGMENT INFORMATION

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

TABLE 1

FocalTech Systems Co., Ltd. and Subsidiaries

FINANCINGS PROVIDED TO OTHERS

FOR THE THREE MONTHS ENDED MARCH 31, 2024

(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	\$ 960,000 (USD 30,000)	\$ 960,000 (USD 30,000)	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	-	\$ 2,328,769	\$ 2,328,769	Note 3
1	FocalTech Systems, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Other receivables from related parties	Yes	320,000 (USD 10,000)	320,000 (USD 10,000)	-	-	The need for short-term financing	-	Operating capital	-	-	-	2,328,769	2,328,769	Note 3
2	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Other receivables from related parties	Yes	800,000 (USD 25,000)	800,000 (USD 25,000)	-	-	The need for short-term financing	-	Operating capital	-	-	-	1,377,498	1,377,498	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: 32 NTD as of March 31, 2024.

FocalTech Systems Co., Ltd. and Subsidiaries
 ENDORSEMENTS/GUARANTEES PROVIDED
 FOR THE THREE MONTHS ENDED MARCH 31, 2024
 (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.	Hefei PineTech Electronics Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	\$ 4,824,192	\$ 864,000 (USD 27,000)	\$ 864,000 (USD 27,000)	\$ 113,074	\$	8.95%	\$ 4,824,192	Yes	No	No	(Note 3 and 4)
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.	4,824,192	1,248,000 (USD 39,000)	1,248,000 (USD 39,000)	33,737		12.93%	4,824,192	Yes	No	Yes	(Note 3 and 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 15,000 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 and 32,401 thousand.

Note 4: Using the exchange rate of 1 USD: 32 NTD as of March 31, 2024.

FocalTech Systems Co., Ltd. and Subsidiaries
 MARKETABLE SECURITIES HELD
 MARCH 31, 2024

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2024				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\$ 10,200	0.03	NT\$ 10,200	-
	<u>Privately Offered Fund</u>							
	CDIB Capital Healthcare Ventures II Limited Partnership	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 39,109	0.96	NT\$ 39,109	-
	CDIB Capital Growth Partners L.P.	-	"	-	NT\$ 30,165	0.66	NT\$ 30,165	-
	CDIB-Innolux Fund Limited Partnership	-	"	-	NT\$ 60,206	4.37	NT\$ 60,206	-
FocalTech Systems, Ltd.	CDIB-Innolux Fund II Limited Partnership	-	"	-	NT\$ 12,500	1.93	NT\$ 12,500	-
	Cathay Private Equity Smart Tech Limited Partnership	-	"	-	NT\$ 80,689	22.16	NT\$ 80,689	-
	<u>Structured product</u>							
	CLN Link HSBC SUB	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 61,685 (USD 1,928)		NT\$ 61,685 (USD 1,928)	-
	CLN Link Barclays SUB	-	"	-	NT\$ 62,334 (USD 1,948)		NT\$ 62,334 (USD 1,948)	-
	<u>Beneficiary certificate</u>							
	UBS Monetary Fund	-	Financial assets at fair value through profit or loss - current		NT\$ 4,237 (USD 132)		NT\$ 4,237 (USD 132)	-
	<u>Government bonds</u>							
	United States Department of The Treasury Maturity Date : April 18,2024 ~ March 20, 2025	-	Financial assets at fair value through profit or loss - current		NT\$ 258,814 (USD 8,088)		NT\$ 258,814 (USD 8,088)	-
	<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\$ 135,394 (USD 4,231)		NT\$ 135,394 (USD 4,231)	-	
Industrial and Commercial Bank of China Limited Maturity Date : September 21, 2025	-	Financial assets at fair value through other comprehensive income - non current	-	NT\$ 52,379 (USD 1,637)		NT\$ 52,379 (USD 1,637)	-	
FocalTech Electronics, Ltd.	<u>Privately Offered Fund</u>							
TIEF Fund, L.P.	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 32,067 (USD 1,002)	4.83	NT\$ 32,067 (USD 1,002)	-	

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: 32 NTD as of March 31, 2024.

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

FocalTech Systems Co., Ltd. and Subsidiaries
 INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
 FOR THE THREE MONTHS ENDED MARCH 31, 2024
 (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	\$ 475,423	Note 2	2.47%
0	FocalTech Systems Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	1	Cost of revenue	17,342	Note 2	0.49%
1	FocalTech Systems, Ltd	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	837,186	Note 2	4.35%
2	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	234,674	Note 2	1.22%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	2	Accounts Payables	261,448	Note 2	1.36%
			2	Research and development expenses	20,566	Note 2	0.58%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	2	Other Prepayment	470,380	Note 2	2.44%
			2	Research and development expenses	132,823	Note 2	3.73%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	2	Other Payables	31,721	Note 2	0.16%
			2	Selling and marketing expenses	24,646	Note 2	0.69%

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 THREE MONTHS ENDED MARCH 31, 2024

(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 March 31, 2023			Net Income (Losses) of the Investee (Note 4)	Share of Profits/Losses of Investee (Note 4)	Note
				March 31,2024 (Note 2)	December 31,2023 (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\$ 2,460,369 (USD 76,887)	NT\$ 15,639 (USD 497)	NT\$ 15,639 (USD 497)	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Cayman Islands	Investment activity	NT\$ 3,200 (USD 100)	NT\$ 3,071 (USD 100)	2	100%	NT\$ 1,377,498 (USD 43,047)	NT\$ 101,380 (USD 3,224)	NT\$ 101,380 (USD 3,224)	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\$ 1,018 (USD 32)	(NT\$ 6,887) (USD 219)	(NT\$ 629) (USD 20)	Subsidiary
FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 238,821	NT\$ 238,821	18,813,050	57.31%	NT\$ 6,386 (USD 200)	(NT\$ 6,887) (USD 219)	(NT\$ 3,947) (USD 126)	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\$ 9,519	(NT\$ 6,831)	(NT\$ 6,831)	Subsidiary
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	U.S.A	Investment activity	NT\$ 3,273,371 (USD 102,293)	NT\$ 3,140,902 (USD 102,293)	100	100%	NT\$ 2,261,638 (USD 70,676)	NT\$ 15,124 (USD 481)	NT\$ 15,124 (USD 481)	Subsidiary
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Cayman Islands	Investment activity	NT\$ 747,202 (USD 23,350)	NT\$ 716,964 (USD 23,350)	2	100%	NT\$ 2,328,769 (USD 72,774)	NT\$ 17,520 (USD 557)	NT\$ 17,520 (USD 557)	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\$ 92,814 (USD 2,900)	(NT\$ 521) (USD 17)	(NT\$ 521) (USD 17)	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: 32 NTD as of March 31, 2024.

Note 3: Using the exchange rate of 1 USD: 30.705 NTD as of December 31, 2023.

Note 4: Using the average exchange rate of 1 USD: 31.448 NTD for the three months ended March 31, 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 THREE MONTHS ENDED MARCH 31, 2024
 (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 March 31, 2024 (Note 1)	Net income (loss) of investee company (Note 2)	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying amount as of March 31, 2024 (Note 1)	Accumulated inward remittance of earnings as of March 31, 2024	Note
					Outflow	Inflow							
FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	NT\$ 64,000 (USD 2,000)	(Note 3 and 4)	NT\$ 32,000 (USD 1,000)	\$ -	\$ -	NT\$ 32,000 (USD 1,000)	NT\$ 1,093 (USD 35)	100%	NT\$ 1,093 (USD 35)	NT\$ 40,385 (USD 1,262)	\$ -	-
FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	NT\$ 297,600 (USD 9,300)	(Note 3)	NT\$ 32,000 (USD 1,000)	-	-	NT\$ 32,000 (USD 1,000)	NT\$ 104,009 (USD 3,307)	100%	NT\$ 104,009 (USD 3,307)	NT\$ 306,333 (USD 9,573)	-	-
FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	NT\$ 1,184,005 (USD 37,000)	(Note 4)	-	-	-	(NT\$ 9,164) (USD 291)	(NT\$ 9,164) (USD 291)	100%	(NT\$ 9,164) (USD 291)	NT\$ 634,979 (USD 19,843)	-	-
Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	NT\$ 135,306 (RMB 30,000)	(Note 4)	-	-	-	NT\$ 5,113 (USD 163)	NT\$ 5,113 (USD 163)	100%	NT\$ 5,113 (USD 163)	NT\$ 239,908 (USD 7,497)	-	-

Accumulated Investment in Mainland China as of March 31, 2024	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$64,000 (USD2,000)	\$1,934,948 (USD60,467)	\$5,789,030

Note 1: Using the exchange rate of 1 USD: 32 NTD and 1 RMB :4.5102 NTD as of March 31, 2024.
 Note 2: Using the average exchange rate of 1 USD: 31.448 NTD for three months ended March 31, 2024.
 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.