



# **FocalTech Systems Co., Ltd.**

## **2020 Annual Report**

Prepared by FocalTech Systems Co., Ltd.

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

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

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**6. Company Website: <http://www.focaltech-electronics.com/>**

# FocalTech Systems Co., Ltd.

## 2020 Annual Report

### Contents

<b>I. LETTER TO SHAREHOLDERS .....</b>	<b>1</b>
<b>II. COMPANY PROFILE .....</b>	<b>3</b>
1. AN INTRODUCTION TO FOCALTECH .....	3
2. MILESTONES .....	3
<b>III. CORPORATE GOVERNANCE.....</b>	<b>5</b>
1. ORGANIZATION.....	5
2. PROFILES OF DIRECTORS, SUPERVISORS, PRESIDENT, EXECUTIVE VICE PRESIDENT, DEPUTY EXECUTIVE VICE PRESIDENT, DIVISION HEADS, AND BRANCH HEADS.....	7
3. IMPLEMENTATION OF CORPORATE GOVERNANCE .....	21
4. DISCLOSURE OF THE CPAs' FEE.....	49
5. CHANGES OF CPA: NONE .....	50
6. INFORMATION REGARDING TO THE CHAIRMAN, PRESIDENT, CHIEF FINANCIAL OR ACCOUNTING MANAGER OF THE COMPANY HOLDING POSITION IN THE BUSINESS UNDER THE COMMISSIONED CPA FIRM OR ITS AFFILIATES IN 1 YEAR: NONE.....	50
7. THE CHANGE OF THE SHARE HOLDING STATUS AND THE SHARE PLEDGED INFORMATION OF DIRECTORS, SUPERVISORS, MANAGERIAL OFFICERS AND THE SHAREHOLDERS HOLDING MORE THAN 10% OF THE SHARES IN THE MOST RECENT YEAR TO THE DATE THIS REPORT WAS PRINTED. ....	50
8. INFORMATION ON SHAREHOLDERS AMONG THE TOP 10 BY PROPORTION OF SHAREHOLDING WHO ARE RELATED PARTIES TO ONE ANOTHER, SPOUSE OR KINDRED WITHIN THE 2ND DEGREE OF KINSHIP .....	53
9. QUANTITY OF SHAREHOLDINGS OF THE SAME INVESTEE BY THE COMPANY AND DIRECTORS, SUPERVISORS, MANAGIAL OFFICER, AND DIRECT OR INDIRECT SUBSIDIARIES IN PROPORTION TO THE COMBINED HOLDINGS OF ALL, AND COMBINED TO CALCULATE THE PROPORTION OF OVERALL SHAREHOLDING. ....	54
<b>IV. CAPITAL OVERVIEW .....</b>	<b>55</b>
1. CAPITAL AND SHARES .....	55

2. ISSUANCE OF CORPORATE BONDS: NONE .....	62
3. PREFERRED SHARES: NONE.....	62
4. ISSUANCE OF OVERSEAS DEPOSITARY SHARES: NONE.....	62
5. STATUS OF EMPLOYEE STOCK OPTION PLAN.....	62
6. STATUS OF EMPLOYEE RESTRICTED STOCK SHALL INCLUDE THE FOLLOWING:.....	65
7. STATUS OF NEW SHARE ISSUANCE IN CONNECTION WITH MERGERS AND ACQUISITIONS: NONE. ....	68
8. FUNDING PLANS AND IMPLEMENTATION: N/A.....	68
<b>V. OPERATIONAL HIGHLIGHTS .....</b>	<b>69</b>
1. BUSINESS ACTIVITIES .....	69
2. MARKET, PRODUCTION, AND SALES OUTLOOK.....	83
3. INFORMATION OF EMPLOYEES.....	91
4. INFORMATION ON ENVIRONMENTAL PROTECTION EXPENDITURES .....	92
5. LABOR RELATIONS.....	92
6. MATERIAL CONTRACTS : .....	94
<b>VI. FINANCIAL STATUS .....</b>	<b>95</b>
1. CONDENSED BALANCE SHEETS, STATEMENTS OF COMPREHENSIVE INCOME, AND CPA AUDIT OPINIONS FOR THE LATEST FIVE YEARS .....	95
2. FINANCIAL ANALYSIS FOR THE LATEST FIVE YEARS .....	99
3. AUDIT COMMITTEE' REVIEW REPORT ON THE FINANCIAL STATEMENT OF THE MOST RECENT YEAR.....	103
4. THE FINANCIAL REPORTS OF THE COMPANY FOR THE MOST RECENT YEARS HAVE BEEN AUDITED BY CPA.: PLEASE REFER TO ATTACHMENT 1. ....	104
5. THE INDIVIDUAL FINANCIAL REPORTS OF THE COMPANY FOR THE MOST RECENT YEARS HAVE BEEN AUDITED BY CPA.: PLEASE REFER TO ATTACHMENT 2.....	104
6. IN THE CASE OF ANY INSOLVENCY OF THE COMPANY AND ITS AFFILIATES IN THE MOST RECENT YEAR AND UP TO THE DATE OF PUBLICATION OF THE ANNUAL REPORT, THE EFFECTS ON THE FINANCIAL POSITION OF THE COMPANY SHALL BE LISTED: NONE. ....	104

<b>VII. REVIEW OF FINANCIAL POSITION, FINANCIAL CONDITIONS, AND RISK MATTERS .....</b>	<b>105</b>
1. FINANCIAL POSITION .....	105
2. FINANCIAL CONDITIONS .....	106
3. CASH FLOW .....	106
4. IMPACT OF MAJOR CAPITAL EXPENDITURES ON FINANCIAL OPERATIONS IN THE MOST RECENT YEAR.....	107
5. POLICY FOR THE MOST RECENT FISCAL YEAR ON INVESTMENT IN OTHER COMPANIES, MAIN REASONS FOR PROFITS/LOSSES RESULTING THEREFROM, PLANS FOR IMPROVEMENT, AND INVESTMENT PLANS FOR THE COMING FISCAL YEAR: .....	107
6. RISK ANALYSIS FOR THE MOST RECENT FISCAL YEAR AS WELL AS THE CURRENT FISCAL YEAR UP TO THE DATE OF PUBLICATION OF THE ANNUAL REPORT .....	107
7. OTHER IMPORTANT MATTERS: NONE. ....	111
<b>VIII. SPECIAL DISCLOSURE.....</b>	<b>112</b>
1. INFORMATION REGARDING THE COMPANY’S AFFILIATES.....	112
2. PRIVATE PLACEMENT OF SECURITIES IN THE MOST RECENT YEAR AND UP TO THE DATE OF PUBLICATION OF THE ANNUAL REPORT: NOT APPLICABLE .....	115
3. SUBSIDIARIES’ HOLDING OR DISPOSAL OF THE COMPANY’S SHARES IN THE MOST RECENT YEAR AND UP TO THE DATE OF PUBLICATION OF THE ANNUAL REPORT: NOT APPLICABLE .....	115
4. OTHER NECESSARY SUPPLEMENTARY NOTES: NONE .....	115
<b>IX. ANY MATTER IN THE MOST RECENT YEAR AND UP TO THE DATE OF PUBLICATION OF THE ANNUAL REPORT WHICH HAS A SIGNIFICANT IMPACT ON SHAREHOLDERS' EQUITY OR SECURITIES PRICES AS STIPULATED IN SUBPARAGRAPH 2 OF PARAGRAPH 2 OF ARTICLE 36 OF THE SECURITIES AND EXCHANGE ACT: NONE.....</b>	<b>115</b>
<b>ATTACHMENT 1 .....</b>	<b>116</b>
<b>ATTACHMENT 2 .....</b>	<b>171</b>

## I. Letter to Shareholders

The Year of the COVID-19 Outbreak is the Year of Rebirth for FocalTech.

In 2020, the outbreak of the COVID-19 epidemic caused a huge number of infections and deaths around the world, and no country was able to escape from it. As a result, face-to-face business activities have been greatly minimized due to the border controls implemented in various countries. In addition, traditional classes have been suspended, leading to the popularization of learning from home. To avoid direct contact with other people when buying everyday necessities, more people prefer to use online shopping. The way people live has undergone substantial changes in 2020, creating new business models and different consumer demands. Fortunately, FocalTech's perseverance in technology development and advanced deployment strategies in production plans have coincided with such market changes and demand increase. It allows the company to make significant progress in the development of human-machine interface applications, including mobile phones, tablets, notebooks, and wearable products. As a result, in 2020, we have stopped the losses in the past three consecutive years and achieved a record high in terms of revenue.

According to the statistics conducted by the Canalsys, global smartphone shipments in 2020 amounted to 1.26 billion units, which is not only a decrease of 7% compared to the 1.36 billion units in 2019, but also a decline in three consecutive years. However, due to iteration in technology, the percentage of full in-cell panels used in smartphones has gradually increased from about 15% in 2017 to nearly 60% in 2020, making the overall market of "Integrated Driver and Controller (IDC), also known as TDDI (Touch and Display Driver Integration)" to expand continuously. This implies that FocalTech has accurately predicted the market trend and continued to strengthen its technological capability and to engage in long-term R&D, leading to the upgrade of the panel industry.

In 2018, FocalTech faced a serious shortage in foundry capacity, making it more aware of the importance of production planning. Starting from 2019, FocalTech continued to expand its foundry partners, working together to optimize its manufacturing processes and yields. In 2020, the production capacity was effectively increased to provide high-quality products that meet the needs of customers. The shipments of IDC in 2020 exceeded 200 million units, showing a substantial increase compared with 2019, and a market share growth to more than 30%.

Moreover, due to the short foundry capacity and huge demand, the price of IDC began to rise notably in the fourth quarter of 2020, benefiting FocalTech's gross margin. The gross margin of FocalTech in 2020 reached 24.85%, an increase of 3.09 percentage compared with 2019. Such increase in gross margin raised the annual net income of FocalTech to NT\$ 983 million, setting a new record. Based on the weighted average outstanding shares, the earnings per share was NT\$ 3.97.

In addition to the breakthrough in the IDC market, FocalTech also made great achievements in the area of the AMOLED panel field. After many years of development in touch controller ICs, more than 20

million chips have been shipped in 2020 to several well-known mobile phone brands, showing a growth of several multiples compared with 2019. In terms of capacitive fingerprint sensor, FocalTech started the mass production in 2020, reaching a shipment level of tens of millions.

Overall, in the promotion of human-machine interface products, FocalTech is able to offer the convenient one-stop service to its customers, which is a unique advantage among the industry. For example, the combination sales of capacitive fingerprint products and IDC will help the integration in system implementation, providing more value-added products and services to customers. Furthermore, since FocalTech has strong technical teams in both Taiwan and China, it is able to provide immediate supports to customers during the tough epidemic period in 2020, accelerating the introduction of products to rapidly gain the market share.

To maintain its leading position in human-machine interface development for mobile devices around the world, FocalTech continues to increase its R&D investment and has achieved great results. The R&D expenditure in 2020 reached NT\$ 1.636 billion, an increase of more than 5% compared with 2019, accounting for 11.86% of the annual revenue. In 2020, FocalTech has filed 93 patent applications, an increase of nearly 20% compared with 2019, and has received 63 patent approvals, a substantial increase of 70% compared with 2019. FocalTech insists on realizing the value of innovation and R&D through pragmatic actions.

In terms of product and technology development strategy, FocalTech continues to cultivate the IDC market. In response to the advent of the 5G era, the display panels of mobile devices must have low latency and high frame rate requirements. The products with 90Hz and 120Hz high refresh rates developed by FocalTech have started mass production in 2020 and have been well accepted by the market. In addition, after nearly three years of development in the automotive field, in-cell touch panels have recently begun to increase their penetration rate with the rising of electric vehicles. Side fingerprint solution has also been developed for capacitive fingerprint recognition products, meeting customers' design requirements for full-screen mobile phones. Furthermore, breakthroughs have also been made in the field of optical fingerprint technology to start small-scale trial production.

Looking into 2021, although the challenges of the COVID-19 epidemic and the U.S.-China trade war are still present, and the shortage in foundry capacity is unable to be solved in the short term, the steady and pragmatic operation policy of FocalTech will enable IDC products to grow continuously. In addition, the development of AMOLED related ICs and fingerprint recognition technologies will start to yield positive results, boosting FocalTech's operation to a new level. More importantly, FocalTech will adhere to the core values of leading provider for human-machine interface solutions, keep developing technologies as well as intellectual property rights, maintain the leading position in the industry, and continue to create maximum value for shareholders, to thank all shareholders for their long-term trust and support.

Chairman and President: Genda Hu



## II. Company Profile

### 1. An Introduction to FocalTech

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

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

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

### 2. Milestones

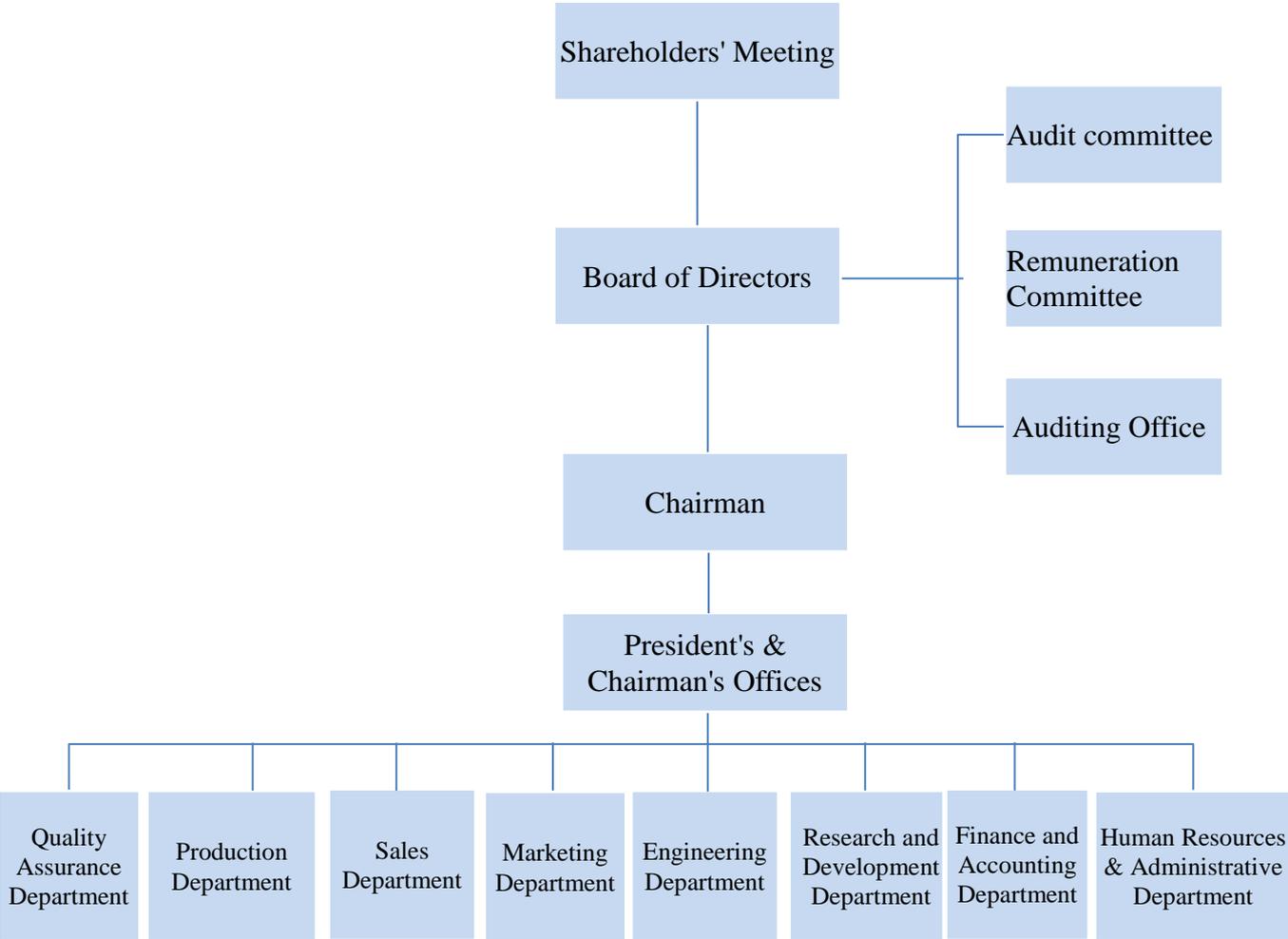
2006	Company founded.
	Issued 90,000,000 common shares to Sunplus Technology Co., Ltd. at a premium of NT\$12.22 per share to acquire the operations, assets, and liabilities of its business department for driver and controller chips used in flat display panels.
	Obtained ISO-9001 certification.
	Public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

2015	Merged and conducted share-swap with FocalTech Corporation, Ltd. Company renamed as FocalTech Systems Co. Ltd.
	Supplied for the world's first a-Si HD, in-cell based touch panel mobile phone.
	Launched the world's first single-chip solution to support multi-touch and multi-force touch.
2016	Supplied for the world's first low temperature poly-silicon (LTPS) FHD IDC based panel smart phone.
	Launched the industry's first WQHD LTPS Driver IC, meeting the high refresh rate demands of VR devices.
	Delivered over 400 million Touch ICs annually, becoming the world's largest Touch IC supplier.
2017	Launched the world's first IDC solution to support a-Si panels designed with reduced photomask layers, which successfully entered mass production.
	Launched FHD LTPS In-cell single-chip solution for COF production.
	Honored as the recipient of the Diamond Supplier Award by Tianma Microelectronics Co., Ltd.
2018	Successfully developed a touch solution for foldable phones.
	Product FT8201 was granted the 13 <sup>th</sup> "China Chip" Outstanding Technological and Innovative Product Award.
	Out-cell touch products successfully passed AEC-Q100 qualification.
	Successfully developed in-smartphone blood pressure monitoring technology.
2019	AMOLED display touch products were certified by Samsung Display Co., Ltd., which then went into mass production and were successfully delivered accordingly.
	AMOLED IDC wearables were approved by customers and introduced to other first-tier brand customers.
	Successfully developed ultra-narrow bezel technology for 2-in-1 touch and display solutions by MUX 6 in FHD panels and Dual Gate in HD panels.
	Realized an ultra-thin optical fingerprint solution for 5G smartphones.
2020	Successfully developed a side-mounted capacitive fingerprint solution.
	High frame rate solutions went into mass production and were successfully delivered accordingly.
	IDC went into mass production in the automotive market.
	Annual revenue reached a new record high.

### III. Corporate Governance

#### 1. Organization

##### (1) Organizational Structure



(2) Business of major departments

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

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

### (1) Directors and Supervisors

#### 1. Profiles of Directors and Supervisors

April 26, 2021; Unit: share; %

Title	Nationality or place of registration	Name	Gender	Election Date (Note 1)	Term of Office	Initial Election Date	Shares at Election		Current shareholding		Current shareholding held by spouse & minor children		Shareholding held through nominees		Principal work experience and academic qualifications	Position(s) held concurrently in the company and/or in any other company	Other officer, directors or supervisors with a spousal or other 2nd degree of kinship			Remark (Note 3)
							Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding			Title	Name	Relation	
Chairman	U.S.A.	Genda Hu	Male	June 20, 2020	3 years	Jan. 5, 2015	2,105,841	0.70	1,232,138	0.57	455,072	0.21	4,158,691	1.92	Ph.D. in Electrical Engineering, Princeton University, IEEE Fellow, Worked at American IBM, PMC-Sierra, Cypress, Vice President of R & D and Marketing Department of TSMC, Head of ERSO in ITRI, Secretariat of Taiwan Semiconductor Industry Association	President, CEO of FocalTech Systems Co., Ltd. / CEO, Director, President, Secretary, Chairman, Chairman, President of FocalTech Corporation, Ltd./ CEO, Director, President, Secretary of FocalTech Systems, Inc./ CEO, Director, President, Secretary, Chairman of FocalTech Systems, Ltd./ Director of FocalTech Electronics, Ltd./ Chairman of FocalTech Electronics Co., Ltd./ Executive Director, President, CEO of FocalTech Systems (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd. Beijing Branch	—	—	—	No suitable candidate has been appointed to the position of president of the Company. The Company has assigned a number of executive vice presidents to assist in the management of the Company. The Board of Directors includes four independent directors, who constitute half of the Board. Two of these directors are employees or managerial officers. Therefore, the Chairman and the President are the same person, which does not affect the operations or decision making of the Company.
Director	Taiwan	James Liao	Male	June 20, 2020	3 years	June 10, 2015	900,974	0.30	673,528	0.31	—	—	—	—	MBA of NTU Financial Manager of MediaTek	CFO of FocalTech Systems Co., Ltd./ Director of FocalTech Electronics Co., Ltd./ Director of Hefei PineTech Electronics Co., Ltd./ Chairman and CEO of FocalTech Smart Sensors Co., Ltd./ FocalTech Smart Sensors, Ltd.; Director/ Supervisor of Vitrio Technology Corporation	—	—	—	
Director	U.S.A.	GWAA LLC		June 20, 2020	3 years	June 10, 2015	5,940,047	1.98	4,158,691	1.92	—	—	—	—	—	FocalTech Smart Sensors, Ltd.: Director	—	—	—	

Title	Nationality or place of registration	Name	Gender	Election Date (Note 1)	Term of Office	Initial Election Date	Shares at Election		Current shareholding		Current shareholding held by spouse & minor children		Shareholding held through nominees		Principal work experience and academic qualifications	Position(s) held concurrently in the company and/or in any other company	Other officer, directors or supervisors with a spousal or other 2nd degree of kinship			Remark (Note 3)
							Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding			Title	Name	Relation	
	Taiwan	GWAA LLC Representative: Han-Ping Shieh	Male				-	-	-	-	-	-	-	-	Ph.D., Department of Electrical and Computer Engineering, Carnegie Mellon University, USA/ IEEE/OSA/SID fellow/ Vice-President of University System of Taiwan / Vice President of National Chiao Tung University/ Dean of College of Electrical and Computer Engineering, National Chiao Tung University/ Chairman of Society for Information Display/ Professor of DI+DOP, National Chiao Tung University/ Researcher of Research Center, American IBM T J Watson	Lifetime Chair Professor of National Chiao Tung University/ Independent Director of Young Optics Inc. Outside Director of Silicon Motion Technology Corporation/ Independent Director of Key Ware Electronics Co., Ltd.	-	-	-	
Director	U.S.A.	GWAA LLC		June 20, 2020	3 years	June 20, 2020	5,940,047	1.98	4,158,691	1.92	-	-	-	-	-	FocalTech Smart Sensors, Ltd.; Director	-	-	-	
	Taiwan	GWAA LLC Representative: Chenming Hu	Male				-	-	-	-	-	-	-	-	-	Ph.D. in Electrical Engineering, University of California, Berkeley/ Chairman of Celestry Design Technologies Inc/ CTO of TSMC	Director of Inphi Inc. (IPHI)/ Director of Ambarella, Inc. (AMBA)/ Director of ACM Research, Inc (ACMR)/ Adjunct Professor of University of California, Berkeley/ Professor of National Chiao Tung University	-	-	-
Director	Taiwan	Sense Investment and Consulting Inc. (Note 4)		June 20, 2020	3 years	June 20, 2020	50,000	0.02	-	-	-	-	-	-	-		-	-	-	
	Taiwan	Sense Investment and Consulting Inc. Representative: George Chang	Male				-	-	-	-	-	-	-	-	MBA Master from USC/ Bachelor of Accounting, UC/ Yuanta Investment Senior Vice President/ Director of Taiwan Citi Global Securities	CFO of Egis	-	-	-	
Independent Director	Taiwan	Chintay Shih	Male	June 20, 2020	3 years	Jan. 5, 2015	-	-	-	-	-	-	-	-	Ph.D. in Electrical Engineering, Princeton University/ Chairman of the III/ Dean of the Industrial Technology Research Institute/ Dean, School of Science and Technology Management, National Tsinghua University/ Chairman of Asia Pacific Intellectual	Independent Director of Vanguard International Semiconductor Corporation/ Independent Director of Sercomm Corporation/ Supervisor of TEN Incubation Corporation	-	-	-	

Title	Nationality or place of registration	Name	Gender	Election Date (Note 1)	Term of Office	Initial Election Date	Shares at Election		Current shareholding		Current shareholding held by spouse & minor children		Shareholding held through nominees		Principal work experience and academic qualifications	Position(s) held concurrently in the company and/or in any other company	Other officer, directors or supervisors with a spousal or other 2nd degree of kinship			Remark (Note 3)
							Number of Shares	Rate of shareholding	Number of Shares	Rate of shareholding	Number of Shares	Rate of shareholding	Number of Shares	Rate of shareholding			Title	Name	Relation	
														Property Association/ Chairman of Monte Jade science & Technology Association of Taiwan/ Chairman of Chinese Institute of Engineers/ Chairman of Taiwan Semiconductor Industry Association/ Managing Director of Taiwan Electrical and Electronic Manufacturers' Association/ Chairman of Chinese Society for Management of Technology/ Chairman of Service Science Society of Taiwan/ CEO of Sun Yun-Suan Foundation/ Professor, School of Science and Technology Management, National Tsinghua University/						
Independent Director	Taiwan	Chan-Jane Lin	Female	June 20, 2020	3 years	Jan. 5, 2015	-	-	-	-	-	-	-	-	PhD in Accounting, University of Maryland/ Acting Dean and Deputy Dean, School of Management, National Taiwan University/ Director of Department of Accounting, National Taiwan University/ Director of School of Professional Education and Continuing Studies, National Taiwan University	Professor, Department of Accounting, National Taiwan University/ Independent Director of Advantech Co., Ltd./ Supervisor of Securities and Futures Investors Protection Center	-	-	-	
Independent Director	Taiwan	Chang Xu	Male	June 20, 2020	3 years	June 20, 2020	-	-	-	-	-	-	-	-	PhD in Industrial Engineering, Purdue University, USA/ Master of Machinery of New York Institute of Technology/ Independent Director of Weihai Industrial Co., Ltd./ Director of Shuz Tung Machinery Industrial Co., Ltd./ Vice Director of MIRL, ITRI/ Director of Center for Measurement Standards, ITRI/ Managing Supervisor of Electronics Testing Center, Taiwan	Supervisor of Mirle Co., Ltd./ Director of Sanlien Technology Foundation/ Managing Director of Chinese Metrology Society/ Consultant of Center for Measurement Standards, ITRI	-	-	-	
Independent Director	Taiwan	Xuhui Xu	Male	June 20, 2020	3 years	June 20, 2020	-	-	-	-	-	-	-	-	Executives Program, Graduate School of	Chairman of Taiwan Air Cargo Contracting	-	-	-	

Title	Nationality or place of registration	Name	Gender	Election Date (Note 1)	Term of Office	Initial Election Date	Shares at Election		Current shareholding		Current shareholding held by spouse & minor children		Shareholding held through nominees		Principal work experience and academic qualifications	Position(s) held concurrently in the company and/or in any other company	Other officer, directors or supervisors with a spousal or other 2nd degree of kinship			Remark (Note 3)
							Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding			Title	Name	Relation	
														Business Administration, NCCU/ Master of Business Administration, Tulane University Business School/ Chairman of Taiwan Air Cargo Contracting Co., Ltd./ Director of T3EX Global Holdings Corp./ Director of GGA Corp./ Supervisor of Central Taiwan Science Park Logistics Co., Ltd./ Supervisor of Worldwide GSA/ Independent Director of Sanfar Property Limited	Co., Ltd./ Director of T3EX Global Holdings Corp./ Supervisor of Central Taiwan Science Park Logistics Co., Ltd./ Supervisor of Worldwide GSA/ Independent Director of Sanfar Property Limited					

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

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

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

Note 4: Sense Investment and Consulting Inc. sold out the shares on April 19, 2021, so it is no longer a director of the company on April 26, 2021.

## (1)Major Shareholders of Corporate Shareholders

March 31, 2021

Corporate shareholder Name	Major Shareholders of Corporate Shareholders	
	Name	Rate of shareholding
GWAA LLC	Genda J. Hu	100%

## 2. Information on Directors and Supervisors in professional expertise and independence

April 26, 2021

Name	Conditions	Have more than 5 years of experience and professional qualifications	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company.	Status of independence(Note )												Number of public companies where the person holds the title as independent director	
				1	2	3	4	5	6	7	8	9	10	11	12		
Genda Hu			✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
James Liao		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
GWAA LLC Representative: Han-Ping Shieh	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2
GWAA LLC Representative: Chenming Hu	✓		✓	✓	✓			✓	✓	✓	✓		✓	✓			0
Sense Investment and Consulting Inc. Representative: George Chang(Note 1)			✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chintay Shih	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Chan-Jane Lin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chang Xu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Xuhui Xu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note1: Sense Investment and Consulting Inc. sold out the shares on April 19, 2021, so it is no longer a director of the company on April 26, 2021.

Note2: Check "✓" the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)

- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds five percent or more of the total number of issued shares of the Company, or that ranks among the top five in shareholdings, or designates its representative to serve as a director or supervisor of the company under Article 27(1) or (2) of the Company Act. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (6) Not a director, supervisor or employee of other company such that a majority of the company's director seats or voting shares are controlled by the same person. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (7) The chairperson, president, or a person holding an equivalent position of the Company is not a director (or governor), supervisor, or employee of other company or institution, or are spouses. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (8) Not a director (or governor), supervisor, manager, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company. (Not applicable in cases where the specified company or institution holds at least twenty percent but not exceeding fifty percent of the total number of issued shares of the Company, and the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (9) Not a professional individual who, or an owner, partner, director (or governor), supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the Company or any affiliate of the Company, or that provides commercial, legal, financial, accounting or related services to the Company or any affiliate of the Company for which the provider in the past 2 years has received cumulative compensation not exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (11) Not a person to whom any conditions defined in Article 30 of the Company Act apply.
- (12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

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

April 26, 2021; Unit: share; %

Title (Note 1)	Nationality	Name	Gender	Election (Appoint ment) Date	Shareholding		Shareholding held by spouse & minor children		Shareholding held through nominees		Principal work experience and academic qualifications (note 2)	Position(s) held concurrently in the company and/or in any other company	Manager with a spousal or other 2nd degree of kinship			Remark (Note 3)
					Number of Shares	Rate of share- holding	Number of Shares	Rate of share- holding	Number of Shares	Rate of share- holding			Position	Name	Relation-ship	
CEO and President	U.S.A.	Genda Hu	Male	Jan. 5, 2015	1,232,138	0.57	455,072	0.21	4,158,691	1.92	Ph.D. in Electrical Engineering, Princeton University, IEEE Fellow Worked at American IBM, PMC-Sierra, Cypress Vice President of R & D and Marketing Department of TSMC, Head of ERSO in ITRI, Secretariat of Taiwan Semiconductor Industry Association	CEO, Director, President, Secretary, Chairman, Chairman, President of FocalTech Corporation, Ltd./ CEO, Director, President, Secretary of FocalTech Systems, Inc./ CEO, Director, President, Secretary, Chairman of FocalTech Systems, Ltd./ Director of FocalTech Electronics, Ltd./ Chairman of FocalTech Electronics Co., Ltd./ Executive Director, President, CEO of FocalTech Systems (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shenzhen) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd./ Executive Director, President of FocalTech Electronics (Shanghai) Co., Ltd. Beijing Branch	-	-	-	No suitable candidate has been appointed to the position of president of the Company. The Company has assigned a number of executive vice presidents to assist in the management of the Company. The Board of Directors includes four independent directors, who constitute half of the Board. Two of these directors are employees or managerial officers. Therefore, the Chairman and the President are the same person, which does not affect the operations or decision making of the Company.
Executive Vice President	Taiwan	Jui-Cheng Hsu	Male	Feb. 1, 2021	140,205	0.06	-	-	-	-	Master of Electrical Engineering, NTHU Manager of Sunplus Technology Co., Ltd./ Deputy Executive Vice President of Sunshine Sports Tech Co., Ltd.	FocalTech Smart Sensors, Ltd.: Director (Designated representative of FocalTech Systems Co., Ltd.) Director of Vitrio Technology Corporation	-	-	-	
Executive Vice President	China	Ching-Kai Chang	Male	Jan. 5, 2015	-	-	-	-	282,365	0.13	Master of Microelectronics and Solid State Electronics, Peking University	Executive vice president of FocalTech Electronics (Shenzhen) Co., Ltd./ FocalTech Smart Sensors, Ltd.: Director (Designated representative of FocalTech Electronics Co., Ltd.)	-	-	-	
Executive Vice President	China	Wei-Ching Hou	Male	Apr. 16, 2015	-	-	-	-	303,528	0.14	Bachelor of Radio Technology, Chongqing University/ Manager of iSolution Technologies Ltd. (Shenzhen)	Executive vice president of FocalTech Electronics (Shenzhen) Co., Ltd./ Chairman and President of Hefei PineTech Electronics Co., Ltd.	-	-	-	
Executive Vice President	China	Hsiao-Hsu Tu	Male	Apr. 11, 2016	-	-	-	-	494,058	0.234	Master, School of Computer Science & Technology, Huazhong University of Science and Technology/ Deputy Technical Manager of MediaTek Inc. (Shenzhen)	Executive vice president of FocalTech Electronics (Shenzhen) Co., Ltd./	-	-	-	
Executive Vice President	Taiwan	He-Nien Yang	Male	May 15, 2017	149,298	0.07	-	-	-	-	Institute of Communications Engineering, National Chiao Tung University/ R&D Engineer of VIA	None	-	-	-	

Title (Note 1)	Nationality	Name	Gender	Election (Appointment) Date	Shareholding		Shareholding held by spouse & minor children		Shareholding held through nominees		Principal work experience and academic qualifications (note 2)	Position(s) held concurrently in the company and/or in any other company	Manager with a spousal or other 2nd degree of kinship			Remark (Note 3)
					Number of Shares	Rate of shareholding	Number of Shares	Rate of shareholding	Number of Shares	Rate of shareholding			Position	Name	Relation-ship	
											Technologies, Inc./ R&D Engineer of Novatek Microelectronics Corp./ Director of Sunshine Sports Tech Co., Ltd.					
Executive Vice President	Taiwan	Sung-Tsan Chiang	Male	Oct. 8, 2020	64,000	0.03	—	—	—	—	Master of Material Science, NTHU President of Socle Technology Corp. Director of ANPEC ELECTRONICS CORPORATION Director of AOS Alpha & Omega Semiconductor	None	—	—	—	
Executive Vice President	Taiwan	Pei-Tzu Wu	Male	Aug. 1, 2018	154,514	0.07	—	—	—	—	Master, Institute of Mining, Metallurgy and Materials Science, National Cheng Kung University/ EMBA of National Chiao Tung University/ Deputy Executive Vice President of Cheertek Inc./ Deputy Executive Vice President of ILITEK/ Senior Manager of TSMC/ Executive vice presidents of Generalplus Technology Inc.	President of Ou Sheng Technology Company/ Executive Director of Pei Feng Management and Consulting Company/ President of Chengxin Care Association/ Consultant of Venture and Innovation Program, National Chiao Tung University FocalTech Smart Sensors, Ltd.: Director (Designated representative of GWAA LLC) Director of Vitrio Technology Corporation	—	—	—	
Business Executive Vice President	China	Ching-Suo Wang	Male	Jan. 5, 2015	—	—	—	—	168,919	0.08	Santa Clara University, EMBA/ Business Deputy Executive Vice President, China Area, Cypress Semiconductor Corporation	Business Executive Vice President of FocalTech Electronics (Shenzhen) Co., Ltd./	—	—	—	
Business Executive Vice President	China	Lien-Kuo Wang	Male	Apr. 1, 2017	—	—	—	—	161,018	0.07	Business Administration, International Business School, Peking	Business Executive Vice President of FocalTech Electronics (Shenzhen) Co., Ltd./ Director and Executive vice president of Hefei PineTech Electronics Co., Ltd.	—	—	—	
Business Assistant Executive Vice President	China	Te-Chih Kung	Male	Mar. 18, 2019	—	—	—	—	148,620	0.07	Beijing Institute of Finance and Commerce Management/ Sales Director of Mobile semi/ Senior Sales Manager, Huabei Area, Chipnuts Technology Inc.	Business Assistant Executive Vice President of FocalTech Systems (Shenzhen) Co., Ltd.	—	—	—	
Senior Deputy Executive Vice President	Taiwan	Ching-Hsing Chang	Male	Feb. 8, 2021	100,000	0.05	—	—	—	—	Bachelor of Department of Electronic Engineering, Southern Taiwan University/ Senior Business Manager of Solomon Technology Corporation	None				
Deputy Executive Vice President	Taiwan	Chun-Fu Wang	Male	Sep. 1, 2014	98,202	0.05	21,207	0.01	—	—	Master of Electrical Engineering, NTHU Senior Director of HannStar® Display Corporation	None	—	—	—	
Deputy Executive	Taiwan	Po-Sheng Shih	Male	Jan. 16, 2021	59,104	0.03	—	—	—	—	Ph. D. in Electronics Engineering, National	None	—	—	—	

Title (Note 1)	Nationality	Name	Gender	Election (Appointment) Date	Shareholding		Shareholding held by spouse & minor children		Shareholding held through nominees		Principal work experience and academic qualifications (note 2)	Position(s) held concurrently in the company and/or in any other company	Manager with a spousal or other 2nd degree of kinship			Remark (Note 3)
					Number of Shares	Rate of shareholding	Number of Shares	Rate of shareholding	Number of Shares	Rate of shareholding			Position	Name	Relation-ship	
Vice President											Chiao Tung University/ Director of HannStar® Display Corporation/ Director of Innolux Corporation/ Executive vice president of CNTouch Inc.					
Deputy Executive Vice President	Taiwan	Cheng-Tao Chuang	Male	Dec. 13, 2017	83,712	0.04	—	—	—	—	Master, Institute of Environmental Engineering, National San Ya-sen University/ Mater, EMBA, National Chiao Tung University/ Deputy Manager of AUO/ Plant Manager of Innolux Corporation/ Director of Japan Display Inc. Deputy Director, Display Technology Center, ITRI	None	—	—	—	
Corporate governance officer	Taiwan	Li-Hsin Yang	Male	Nov. 6, 2020	65,505	0.03	805	—	—	—	Ph. D in Institute of Human Resource Management, NSYSU/ President, Taiwan VTRON/ President, Arima Display Corporation/ Executive vice president of Operations, CPT Technology Co., Ltd. (Fuzhou); Director and President of Chunghwa Picture Tubes, Ltd.	None	—	—	—	
CFO	Taiwan	James Liao	Male	Jan. 5, 2015	673,528	0.31	—	—	—	—	MBA of NTU Financial Manager of MediaTek	Director of FocalTech Electronics Co., Ltd./ Director of Hefei PineTech Electronics Co., Ltd./ Chairman and CEO of FocalTech Smart Sensors Co., Ltd./ FocalTech Smart Sensors, Ltd.: Director/ Supervisor of Vitrio Technology Corporation	—	—	—	

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

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

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

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

1. Remuneration to general directors and independent directors

2020; Unit: NT\$ thousand; thousand shares; %

Title	Name	Remuneration to Directors								The sum of A, B, C and D in proportion to net profit after tax		Remuneration to the capacity as employees								The sum of A, B, C, D, E, F and G in proportion to net profit after tax		Remuneration received from an invested company other than the company's subsidiary or parent company		
		Remuneration (A)		Pension(B)		Remuneration to directors (C) (Note 1)		Professional fees(D)				Salaries, bonus and special disbursement(E)		Pension (F)		Remuneration to employees (G) (note 2)								
		The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company		All companies mentioned in the financial statements	Cash	Stock	Cash		Stock	The Company
Chairman	Genda Hu	—	—	—	—	—	—	90	90	0.01%	0.01%	10,320	11,617	—	—	1,262	—	1,262	—	—	1.15%	1.28%	None	
General Director	James Liao	—	—	—	—	—	—	90	90	0.01%	0.01%	8,719	8,719	108	108	802	—	802	—	—	0.96%	0.96%	None	
General Director	GWAA LLC	960	960	—	—	909	909	90	90	0.19%	0.19%	—	—	—	—	—	—	—	—	—	—	0.19%	0.19%	None
	Designated representative: Han-Ping Shieh																							
General Director	Maxbase Holdings Limited	352	352	—	—	314	314	20	20	0.07%	0.07%	—	—	—	—	—	—	—	—	—	—	0.07%	0.07%	None
	Representative: Yen Shen																							
Independent Director	Chintay Shih	960	960	—	—	1,387	1,387	120	120	0.24%	0.24%	—	—	—	—	—	—	—	—	—	—	0.24%	0.24%	None
Independent Director	Chan-Jane Lin	960	960	—	—	1,387	1,387	150	150	0.25%	0.25%	—	—	—	—	—	—	—	—	—	—	0.25%	0.25%	None
Independent Director	Linshan Lee	453	453	—	—	631	631	50	50	0.11%	0.11%	—	—	—	—	—	—	—	—	—	—	0.11%	0.11%	None
Independent Director	Nengmou Tu	453	453	—	—	513	513	50	50	0.10%	0.10%	—	—	—	—	—	—	—	—	—	—	0.10%	0.10%	None
General Director	GWAA LLC	509	509	—	—	458	458	30	30	0.10%	0.10%	—	—	—	—	—	—	—	—	—	—	0.10%	0.10%	None
	Designated Representative: Chenming Hu																							
General Director	Sense Investment and Consulting Inc.	509	509	—	—	482	482	40	40	0.10%	0.10%	—	—	—	—	—	—	—	—	—	—	0.10%	0.10%	0.10%
	Designated Representative: George Chang																							
Independent Director	Xuhui Xu	509	509	—	—	579	579	60	60	0.11%	0.11%	—	—	—	—	—	—	—	—	—	—	0.11%	0.11%	0.11%
Independent Director	Chang Xu	509	509	—	—	555	555	50	50	0.11%	0.11%	—	—	—	—	—	—	—	—	—	—	0.11%	0.11%	0.11%

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

2. Except as disclosed in the table above, remuneration received by the Company's directors for services rendered to all companies included in the financial statements (e.g., as consultants to non-employees) in the last year: None.

Notes 1 and 2: On February 4, 2021, the Board of Directors approved the distribution of employee compensation and director compensation for 2020 in the amounts of NT\$123,450,000 and NT\$7,214,000, respectively, all in cash.

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

### 3. President's and Executive Vice Presidents' Remuneration

2020; Unit: NT\$ thousand; thousand shares; %

Title	Name	Salaries (A)		Pension(B)		Bonus and special disbursement (C)		Remuneration to the employees (D) (Note 1)				The sum of A, B, C and D in proportion to net profit after tax (%)		Remuneration received from an invested company other than the company's subsidiary or parent company
		The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company		All companies mentioned in the financial statements		The Company	All companies mentioned in the financial statements	
								Cash	Stock	Cash	Stock			
CEO and President	Genda Hu	5,842	7,139	-	-	4,568	4,568	1,262	-	1,262	-	1.15%	1.28%	None
CFO	James Liao	5,204	5,204	108	108	3,606	3,606	802	-	802	-	0.96%	0.96%	None
Executive Vice President	Chien-kuo Wang(Note3)	4,109	4,109	108	108	631	631	710	-	710	-	0.55%	0.55%	None
Executive Vice President	Pei-Tzu Wu	4,680	4,680	108	108	990	990	769	-	769	-	0.65%	0.65%	None
Executive Vice President	He-Nien Yang	4,844	4,844	108	108	2,889	2,889	684	-	684	-	0.84%	0.84%	None
Executive Vice President	Sung-Tsan Chiang(Note 2)	1,200	1,200	27	27	809	809	600	-	600	-	0.26%	0.26%	None
Executive Vice President	Hsiao-Hsu Tu	-	5,035	-	-	-	-	-	-	-	-	-	0.76%	None
Executive Vice President	Ching-Kai Chang	-	4,343	-	-	-	-	-	-	-	-	-	0.56%	None
Executive Vice President	Wei-Ching Hou	-	3,364	-	-	-	-	-	-	-	-	-	0.57%	None

Note 1: On February 4, 2021, the Board of Directors approved the distribution of employee compensation and director compensation for 2020 in the amount of NT\$123,450 thousand and NT\$7,214 thousand respectively, all in cash.

Note 2 : Took office October 8, 2020.

Note 3 : Date discharged: February 8,2021.

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

2020; Unit: NT\$ thousand; thousand shares; %

Title	Name	Salaries (A)		Pension(B)		Bonus and special disbursement (C)		Remuneration to the employees (D) (Note 1)				The sum of A, B, C and D in proportion to net profit after tax (%)		Remuneration received from an invested company other than the company's subsidiary or parent company
		The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company	All companies mentioned in the financial statements	The Company		All companies mentioned in the financial statements		The Company	All companies mentioned in the financial statements	
								Cash	Stock	Cash	Stock			
CEO and President	Genda Hu	5,842	7,139	-	-	4,568	4,568	1,262	-	1,262	-	1.15%	1.28%	None
CFO	James Liao	5,204	5,204	108	108	3,606	3,606	802	-	802	-	0.96%	0.96%	None
Executive Vice President	He-Nien Yang	4,844	4,844	108	108	2,889	2,889	684	-	684	-	0.84%	0.84%	None
Executive Vice President	Hsiao-Hsu Tu	-	5,035	-	-	-	-	-	-	-	-	-	0.76%	None
Executive Vice President	Pei-Tzu Wu	4,680	4,680	108	108	990	990	769	-	769	-	0.65%	0.65%	None

Note 1: On February 4, 2021, the Board of Directors approved the distribution of employee compensation for 2020 in the amounts of NT\$123,450 thousand, all in cash

5. Names of and distribution to managerial officers distributing employee compensation

On February 4, 2021, the Board of Directors approved the distribution of employee compensation for 2020 in the amount of NT\$123,450 thousand, all in cash.

2020; Unit: NT\$ thousand; %

	Title	Name	Stock	Cash	Total	Proportion of total to net profit after tax (%)
Managerial personnel	CEO and President	Genda Hu	-	4,976	4,976	0.49%
	Executive Vice President	Sung-Tsan Chiang				
	Executive Vice President	Ching-Kai Chang				
	Executive Vice President	Wei-Ching Hou				
	Executive Vice President	Hsiao-Hsu Tu				
	Executive Vice President	He-Nien Yang				
	Executive Vice President	Chien-kuo Wang				
	Executive Vice President	Pei-Tzu Wu				
	Business Executive Vice President	Ching-Suo Wang				
	Business Executive Vice President	Lien-Kuo Wang				
	Business Assistant Executive Vice President	Te-Chih Kung				
	Deputy Executive Vice President	Chun-Fu Wang				
	Deputy Executive Vice President	Po-Sheng Shih				
	Deputy Executive Vice President	Cheng-Tao Chuang				
	Corporate governance officer	Li-Hsin Yang				
CFO	James Liao					

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

1. The proportion of net profit stated in the parent company only financial reports or individual financial reports, as paid by the Company and by each other company included in the

consolidated financial statements during the past 2 fiscal years to directors, supervisors, presidents, and executive vice presidents:

Item	2020		2019	
	Individual remuneration %	Consolidated remuneration %	Individual remuneration %	Consolidated remuneration %
Director remuneration (Note 1)	3.50%	3.63%	-13.52%	-13.98%
Supervisor remuneration (Note 2)	—	—	—	—
Presidents/executive vice presidents remuneration (Note 3)	4.41%	6.43%	-24.27%	-33.26%

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

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

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

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

The policy and standard for director remuneration distribution are based on the Company's Articles of Incorporation, and the remuneration, business execution expenses and compensation are calculated in accordance with the Company's Rules for Setting Director Remuneration. Director compensation is adjusted according to the results of their performance evaluations, including "Participation in Company Operations" and "Election and Continuing Education of Directors". In addition to the policy and standard for manager remuneration (which are based on industry standards), performance evaluations include profitability and capability in building long-term Company growth, such as new products, new technologies, team building, etc.; the amount of remuneration distributed is positively correlated to respective operational performance. Director and manager remuneration are evaluated by the Remuneration Committee and recommended to the Board of Directors. The Company also takes into account the growth of the industry, the Company's expansion policy, and cash flow in the coming years when granting remuneration to the aforementioned personnel, so that the Company has sufficient funds to meet the uncertainty of operational risks.

### 3. Implementation of Corporate Governance

#### (1) The function of the Board

A total of 7 (A) board meetings were held in the past year. Director attendance is as follows:

2020

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (B/A)(%)	Remarks
Chairman	Genda Hu	7	0	100%	Re-election Date re-elected: June 20, 2020
Director	James Liao	7	0	100%	
Director	GWAA LLC Designated Representative: Han-Ping Shieh	7	0	100%	
Director	GWAA LLC Designated Representative: Chenming Hu	3	1	75%	Date newly assumed: June 20, 2020
Director	Sense Investment and Consulting Inc. Designated Representative: George Chang	4	0	100%	
Director	Maxbase Holdings Limited Representative: Yen Chen	2	0	67%	Date discharged: May 12, 2020
Independent Director	Chintay Shih	6	1	86%	Re-election
Independent Director	Chan-Jane Lin	7	0	100%	Date re-elected: June 20, 2020
Independent Director	Chang Xu	3	1	75%	Date newly assumed: June 20, 2020
Independent Director	Xuhui Xu	4	0	100%	Date discharged: June 20, 2020
Independent Director	Linshan Lee	2	1	67%	
Independent Director	Nengmou Tu	3	0	100%	

Other matters to be noted:

- If any of the following is applied to the operation of the Board, specify the date and the session, the content of the motions, the opinions of all Independent Directors, and how the Company handled the opinions of the Independent Directors:
  - Items listed in Article 14-3 of the Securities and Exchange Act: The Company has set up an Audit Committee; refer to the Securities and Exchange Act Article 14-5 matters listed in Audit Committee Operations (1).
  - Except for the aforementioned matters, the resolutions reached by the Board of Directors with the objections or reservations of the independent directors documented or declared in writing: None
- Situations where the directors have personal interest conflicts to the proposal and are required to recuse themselves: Directors recused themselves from participating in the discussion and voting on their remuneration, bonuses, transfer of treasury stock, and Company credit lines of subsidiaries that are not one hundred percent owned by them.
- Implementation status of Evaluation of the Board of Directors: Refer to table (1)-1 for details.
- The objective for fortifying the function of the Board in the current period and the most recent period (e.g. the establishment of the Auditing Committee, and the upgrade of transparency in information) and the evaluation of the state of accomplishment:

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (B/A)(%)	Remarks
<p>(1) Four of the nine directors of the Company are independent directors, accounting for 44% of all directors. The Board of Directors has authorized the establishment of an Audit Committee and a Remuneration Committee, both of which are composed of independent directors.</p> <p>(2) During the year, a corporate governance officer was established as the top corporate governance manager, in order to assist the Board in fulfilling its functional objectives.</p>					

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

Evaluation Cycle	Evaluation Period	Evaluation Scope	Evaluation Method	Evaluation items
Annually	Jan. 1, 2020 - Dec. 31, 2020	Members of the Board of Directors, functional committees, and individual directors	Internal self-evaluation by the Board of Directors and functional committees; self-evaluation by individual directors	<p>(1) Board of Directors performance evaluations: Participation in the Company's operations; improvement of the quality of board decisions, board composition, and structure; election and continuing education of directors; and internal controls.</p> <p>(2) Board members' performance self-evaluations: Alignment with the Company's goals and missions; awareness of the duties of a director; participation in the Company's operations; management of internal relationships and communications; directors' professionalism and continuing education; and internal controls.</p> <p>(3) Audit Committee performance evaluations: Participation in the Company's operations; awareness of audit committee duties; improvement of quality in audit committee decisions; makeup of the audit committee and election of its members; and internal controls.</p> <p>(4) Remuneration Committee performance evaluations: Participation in the Company's operations; awareness of Remuneration Committee duties; improvement of quality in Remuneration Committee decisions; makeup of the Remuneration Committee and election of its members; and internal controls.</p>

(2) The function of Audit Committee

A total of 4 (A) Audit Committee meetings were held in the past year. The attendance of independent directors is as follows:

2020

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (%) (B/A)(Note )	Remarks
Independent Director	Chintay Shih	3	1	75%	Re-election Date of Re-election : June 20, 2020
Independent Director	Chan-Jane Lin	4	0	100%	
Independent Director	Chang Xu	2	0	100%	Date newly assumed: June 20, 2020
Independent Director	Xuhui Xu	2	0	100%	
Independent Director	Linshan Lee	1	1	50%	Date discharged: June 20, 2020
Independent Director	Nengmou Tu	2	0	100%	

Other matters to be noted:

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

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

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

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

(3) The CPAs explain the impact of the audit status, revision of Statement of Financial Accounting Standards (SFAS), and internal control issues on the Company to independent directors on a no less than quarterly basis at the Audit Committee meeting.

(4) In addition to sending audit reports to independent directors for review on a regular basis, the audit unit communicates with independent directors and provides explanation to them on a no less than quarterly basis at the Audit Committee meeting.

2. For the operation of the Audit Committee in any of the following circumstances, please specify the date, term, the contents of the proposals, the resolution of the Audit Committee, and the process of the opinions proposed by the Audit Committee:

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

Board Meeting	Proposal and Subsequent Handling	Securities and Exchange Act Article 14-5 matters	Resolutions not approved by the Audit Committee but approved by at least 2/3 of all directors
The 16th Board	1. 2019 Financial Statement.	V	
	2. Evaluation of CPAs' reappointment and independence.	V	

Meeting of the 6th Term Feb 7, 2020	3. 2019 Statement of Internal Control.	V	
	Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting.		
	Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting.		
The 18th Board Meeting of the 6th Term May 8, 2020	1. 2020 Q1 Financial Statement.		
	2. The loan of funds from subsidiaries to the Company.	V	
	Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting.		
	Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting.		
The 2nd Board Meeting of the 7th Term Aug 7, 2020	1. 2020 Q2 Financial Statement.	V	
	2. 2020 Audit Fee.	V	
	3. Company endorsement and guarantee of its subsidiaries' credit facilities with Company.	V	
	Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting.		
	Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting.		
The 4th Board Meeting of the 7th Term Nov 6, 2020	1. The Company's endorsement and guarantee of its subsidiaries' Company credit lines.	V	
	2. The Company's endorsement and guarantee of wafer procurement for its subsidiaries.	V	
	Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting.		
	Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting.		
The 5th Board Meeting of the 7th Term Feb 4, 2021	1. 2020 Financial Statement.	V	
	2. Evaluation of CPAs' reappointment and independence.	V	
	3. 2020 Statement of Internal Control.	V	
	Audit Committee resolution: Approved (as proposed) by all Audit Committee members who attended the meeting.		
	Company handling of Audit Committee opinion: Approved (as proposed) by all directors who attended the meeting.		

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

2. The avoidance of the conflict of interest by the Independent Directors on related motions, specify the names of the Independent Directors, the content of the motions, the principle of the avoidance of the conflict of interest, and the participation in casting the ballots: None
3. Communications between independent directors, the Company's Chief Internal Auditor and CPAs (which shall include events, methods, and results of communications with regard to the Company's financial and business conditions):

(1) The Chief Internal Auditor of the Company liaises with the members of the Auditing Committee on the audit findings regularly, and present audit reports in the quarterly meeting of the Auditing Committee. In case of special situation, report to the members of the Auditing Committee. No such event occurred in this year and

communication with the Chief Internal Auditor is positive.

Date of meeting	Communication item	Opinion of independent director
Feb. 7, 2020	1. Report on 2019 Q4 internal control deficiencies	Agree and no objection
	2. Report on 2019 Statement of Internal Control	Agree and no objection
May 8, 2020	Report on 2020 Q1 internal control deficiencies	Agree and no objection
Aug. 7, 2020	Report on 2020 Q2 internal control deficiencies	Agree and no objection
Nov. 6, 2020	1. Report on 2020 Q3 internal control deficiencies	Agree and no objection
	2. 2021 Audit Plan	

(2) CPAs attend the Audit Committee meeting on a quarterly basis to report on auditing status and legally-mandated matters of note. Members of the Audit Committee may communicate with the CPAs at any time if they have any questions about financial and business conditions, and may direct the Company's relevant units to conduct reviews and improvements.

Date of meeting	Communication item	Opinion of independent director
Feb. 7, 2020	Discussion of important issues	Agree and no objection
May 8, 2020	Discussion of important issues	Agree and no objection
Aug. 7, 2020	Discussion of important issues	Agree and no objection
Nov. 6, 2020	1. Discussion of important issues	Agree and no objection
	2. Discussion of key examination findings	

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

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

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
<p>3. Composition and Responsibilities of the Board of Directors</p> <p>(1) Has the Board established a diversity policy for the composition of its members and implemented it accordingly?</p>	✓		<p>(1) Article 20 of the Company's Corporate Governance Best Practice Principles (Required Competence of the Board of Directors as a Whole) stipulates that the election of the Board of Directors takes into account the knowledge, skills, qualities, and gender equality required to perform their duties. The current Board consists of 9 members:</p> <ol style="list-style-type: none"> <li>1. There is one female director, accounting for 11.11% of all directors, and eight male directors, accounting for 88.89% of all directors.</li> <li>2. 22% of the directors are employees of the Company, and 44.44% are independent directors. Of the four independent directors, two have 6 years of service, with the other two being newly appointed this year. Of the nine directors, three are over 70 years old, three are 60-69 years old, and the other three are 40-50 years old.</li> <li>3. In addition to the Taiwanese directors, there are two American directors, who have brought multinational culture to the team.</li> <li>4. The Board is composed of members with industrial and academic backgrounds. Four of the members are from the Department of Electrical Engineering, Princeton University; Department of Electrical Engineering and Computer Sciences, University of California, Berkeley; Department of Electrical and Computer Engineering, Carnegie Mellon University; and the University of Southern California MBA program, respectively. One member comes from the Department of Business Administration, National Taiwan University.</li> <li>5. The independent directors possess professional backgrounds, skills, and industry experience. Two of the directors are from the Department of Electrical Engineering, Princeton University, and the School of Industrial Engineering, Purdue University, respectively. The other two directors are from the Accounting program at the University of Maryland, and the Business Administration program at Freeman School of Business, Tulane University.</li> <li>6. The diversity policy of the Board of Directors is summarized below and is disclosed on the Company's website:</li> </ol>	None

Items for evaluation	Implementation Status							Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons			
	Yes	No	Summary								
			Core for diversification	Gender	Business management	Leadership and Decision-making	Industrial knowledge	International market view	Crisis management	Financial Accounting	
			Name of Director								
			Genda Hu	Male	v	v	v	v	v		
			James Liao	Male	v	v	v	v	v	v	
			GWAALLC Designated Representative: Han-Ping Shieh	Male	v	v	v	v	v		
			GWAALLC Designated Representative: Chenming Hu	Male	v	v	v	v	v		
		✓	Sense Investment and Consulting Inc. Representative: George Chang	Male	v	v	v	v	v	v	
			Chintay Shih	Male	v	v	v	v	v		
			Chan-Jane Lin	Female	v	v	v	v	v	v	
			Chang Xu	Male	v	v	v	v	v		
			Xuhui Xu	Male	v	v	v	v	v		
			7. It is estimated that the number of female board members will be increased to one-fourth in the future.								
(2) Further to the establishment of the Remuneration Committee and the Auditing Committee, has the Company voluntarily established other functional committees?	✓		(2) The Company has the Remuneration Committee and the Audit Committee in accordance with the law, and has not established any other functional committees.								
(3) Has the Company established a methodology for evaluating the performance of its Board of Directors, performed evaluations on an annual basis, submitted the results of the performance evaluation to the Board, and used such as a reference for individual director remuneration and renomination?	✓		(3) The Company conducts annual self-evaluation of the Board's performance in accordance with the Board of Directors Rules for Self-evaluation and Peer Evaluation. In addition, performance self-evaluation questionnaires are given to all members of the Board of Directors each year. Refer to (1)-1 Board of Directors' Evaluation under III. Corporate Governance Operations for the sections evaluated: The 2020 Annual Self-evaluation Questionnaire consisted of 41 questions in five major sections. Each director evaluated the Board's overall operation performance based on the 41 questions in the questionnaire, on a scale of 5 to 1. Evaluation results were all excellent (grade 4) or above. The results of the performance evaluations from Directors' Participation in the Company's Operations, Elections, and Continuing Education are positively correlated with director compensation.								
			No other functional committees have currently been established								
			None								
			None								

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons																														
	Yes	No	Summary																															
(4) Has the Company evaluated the independence of the commissioned certified public accountants regularly?			<p>(4) The Company evaluates the independence of the appointed CPAs on an annual basis, in accordance with Article 29 of the Corporate Governance Best Practice Principles. The evaluation results were reported to the Audit Committee and the Board of Directors on February 4, 2021. In addition, the Board of Directors formulated the evaluations for CPAs' independence (as listed in the table below) with reference to Article 47 of the Certified Public Accountant Act and the evaluations stated in No. 10, "Integrity, Objectivity and Independence", from the Bulletin on Norms for Certified Public Accountant Professional Ethics in the Republic of China, and completed the Report on Independence Evaluation for Certified Public Accountants Lilac Shue and Chih-Ming Shao, the Deloitte &amp; Touche CPAs appointed by the Company. After referring to the Statement of Certified Public Accountant Independence issued by the CPAs, the results were approved by all Directors in attendance at the meeting.</p> <p>Standards for Evaluating CPAs' Independence and Competence</p> <table border="1"> <thead> <tr> <th>Point of evaluation</th> <th>Result</th> <th>Compliance with CPA Independence</th> </tr> </thead> <tbody> <tr> <td>1. CPA is employed by the Company to perform regular work receives a fixed salary or serves as a director or supervisor.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>2. CPA who once served as a director, supervisor, managerial officer, or officer of the Company has significant influence on the certification of documents/statements and has been dismissed for less than 2 years.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>3. The accounting firm and the Company are affiliates.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>4. CPA and Company responsible person/managerial officer are spouses, or relatives within the second degree of kinship.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>5. CPA, their spouse, or minor children has/have an investment or benefit-sharing relationship with the Company.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>6. CPA, their spouse, or minor child has/have fund lending with the Company.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>7. CPA has been continuously appointed to provide certification services for 7 years.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>8. The Company does not acquire the Statement of Independence issued by the CPA annually.</td> <td>No</td> <td>Yes</td> </tr> <tr> <td>9. CPA has not been subject to disciplinary action by the competent authorities and the CPA Associations R.O.C. (Taiwan), or under</td> <td>No</td> <td>Yes</td> </tr> </tbody> </table>	Point of evaluation	Result	Compliance with CPA Independence	1. CPA is employed by the Company to perform regular work receives a fixed salary or serves as a director or supervisor.	No	Yes	2. CPA who once served as a director, supervisor, managerial officer, or officer of the Company has significant influence on the certification of documents/statements and has been dismissed for less than 2 years.	No	Yes	3. The accounting firm and the Company are affiliates.	No	Yes	4. CPA and Company responsible person/managerial officer are spouses, or relatives within the second degree of kinship.	No	Yes	5. CPA, their spouse, or minor children has/have an investment or benefit-sharing relationship with the Company.	No	Yes	6. CPA, their spouse, or minor child has/have fund lending with the Company.	No	Yes	7. CPA has been continuously appointed to provide certification services for 7 years.	No	Yes	8. The Company does not acquire the Statement of Independence issued by the CPA annually.	No	Yes	9. CPA has not been subject to disciplinary action by the competent authorities and the CPA Associations R.O.C. (Taiwan), or under	No	Yes	
Point of evaluation	Result	Compliance with CPA Independence																																
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Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
			<p>Article 37-3 of the Securities and Exchange Act.</p> <p>10. The quality and timeliness of audit and tax services do not meet the requirements.</p> <p>11. The Company has been subject to litigation or correction by the competent authorities for financial reporting.</p> <p>12. The accounting firm's size and reputation were significantly damaged in the year under review.</p> <p>13. Poor interaction between the CPA, management level, governance units, and the Chief Internal Auditor.</p> <p>Note: The cooperating CPAs and the audit service team led by them are unrelated to the recent news of the accounting firm; the matter does not affect the competence of the CPAs.</p>	

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
4. Does the TWSE/GTSM Listed Company have an appropriate and appropriate number of corporate governance personnel, and has the Company designated a Corporate Governance Senior Officer to deal with corporate governance related affairs (including, but not limited to, providing directors and supervisors with information required for the execution of their duties; assisting directors and supervisors in complying with the laws and regulations; conducting board meeting and shareholders' meeting related matters; and preparing the minutes for board meetings and shareholders' meeting in accordance with the law, etc.)?	✓		<p>(1) On November 6, 2020, the Company's Board of Directors approved to appoint Mr. Yang Li-hsin, Chairman's Office Special Assistant, as the Corporate Governance Senior Officer. He meets the eligibility criteria from the Establishment of Board of Directors by TWSE/GTSM Listed Companies and the Board's Exercise of Powers in that he has more than three years of relevant work experience; is responsible for corporate governance-related matters on a part-time basis; and convenes a governance group to assist directors and independent directors in complying with laws and regulations. This group includes the Board of Directors' Secretary; Finance and Accounting Department; Auditing Department; Legal Affairs Department; and Investor Relations Department. All of these have at least three years of experience in the management of finance, stock affairs, or business affairs of public companies. Their primary duties include, but are not limited to:</p> <ol style="list-style-type: none"> <li>1. Proposing and implementing CSR policies, systems, and related management guidelines and specific promotion plans, and for reporting on such to the Board of Directors annually.</li> <li>2. Implementing, coordinating, and planning ethical corporate policy promotion and relevant trainings, to ensure the effectiveness of implementation.</li> <li>3. Assisting the Board of Directors and management in examining and evaluating the effectiveness of ethical corporate management practices, regularly assessing compliance with business processes, and reporting annually to the Board of Directors.</li> <li>4. Providing directors, independent directors, and functional committees with information required for the execution of their duties; amending corporate governance regulations; and assisting directors in complying with laws and regulations.</li> <li>5. Conducting board meetings and shareholders' meetings in accordance with the Corporate Governance Best Practice Principles and corporate governance regulations.</li> <li>6. Pre-registering the date of shareholders' meetings; preparing notices, manuals, and minutes of meetings within the statutory period; and registering changes in the Articles of Incorporation and re-election of directors in accordance with laws and regulations.</li> <li>7. Maintaining investor relations, and establishing communications with institutional investors and general shareholders, in order to ensure that investors receive adequate information and that shareholder rights are well-protected.</li> </ol>	None

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
			<p>(2) In 2021, the 2020 business development status was reported to the Board of Directors as follows:</p> <ol style="list-style-type: none"> <li>1. The Company ranked Top 20% in 2019 Corporate Governance Evaluation held by Taiwan Stock Exchange (TWSE) and expected to maintain Top 20% in 2020.</li> <li>2. Added the new position of Corporate Governance Senior Officer.</li> <li>3. Attendance rates for 2020 Board Meetings reached 92%.</li> <li>4. Conducted awareness-raising sessions for employees and specific personnel on insider trading, protection of intellectual property rights and trade secrets, code of ethics, and the whistleblowing system.</li> <li>5. Completed the signing of Integrity Commitment Letter by senior executives.</li> </ol>	
5. Has the Company established a communications channel and established a designated zone on its website for stakeholders (including, but not limited to, shareholders, employees, customers, and suppliers), and has the Company properly responded to all CSR issues such stakeholders are concerned with?	✓		<p>(1) In pursuit of sustainable development, the Company has appointed a spokesman and an acting spokesman, and has established a designated stakeholder zone on its website. Stakeholders may contact the Company at any time by phone, letter, fax, or email with the information listed on the Company's website, in order to meet their needs and concerns, as well as to serve as a reference and basis for the Company's CSR and operations &amp; development plans in the future.</p> <p>(2) Stakeholders include investors, employees, customers, and suppliers, with each having dedicated communication channels in addition to phone, postal mail, and email.</p> <p>(3) After receiving information, internal staff transfer it to the responsible departments for coordination as circumstances require. Together with relevant departments, they communicate, discuss, settle, and respond accordingly to solve the risks and opportunities of the Company's situation, and further enhance its competitiveness. All of the above are regulated in the Consultation and Communication Management Procedures.</p>	None
6. Has the Company appointed a professional shareholder services agent to deal with shareholder affairs?	✓		The Company has appointed a professional shareholder services agent (the Transfer Agency Department of CTBC Bank Co., Ltd.) to deal with shareholder affairs.	None
7. Disclosures (1) Has the Company	✓		(1) The Company has established a website	

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
<p>established a website for the disclosure of Company's financial and business, and corporate governance?</p> <p>(2) Has the Company adopted other means of disclosures (e.g., the installation of a website in English language, appointment of designated persons for the gathering and disclosure of information, the proper implementation of the spokesman system, and the minutes of the investor conference on record posted on the website)?</p> <p>(3) Does the Company announce and report the annual financial report within two months after the end of the fiscal year? Does the Company announce and report the first, second, and third quarter financial reports and the monthly operating conditions well in advance of the required deadlines?</p>	<p>✓</p>	<p>✓</p>	<p>(http://www.focaltech-electronics.com/) that is maintained by a dedicated unit. In addition to the collation and disclosure of corporate information, the Unit also regularly discloses the Company's financial- and business-related information.</p> <p>(2) The Company has established a website in both English and Chinese, and has appointed a spokesman and an acting spokesman in accordance with their duties, who are responsible for disclosing the Company's information to the public and on the Company's website.</p> <p>(3) The Annual Financial Report 2019 was announced within three months after March 31, 2020. Financial reports for the first, second, and third quarters of 2020, as well as monthly operating conditions, were all announced and reported within the statutory period.</p>	<p>None</p> <p>The Company's financial report was announced and reported within the statutory three-month period; reports were not made earlier within two months.</p>
<p>8. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (including, but not limited to, employee rights and benefits, employee care, investor relations, supplier relations, stakeholder rights, status of directors' and supervisors' continuing education, implementation of risk management policies and risk assessment criteria, implementation of customer related policies, and purchase</p>	<p>✓</p>		<p>(1) Implementation of employee rights and benefits, and employee care: Refer to "V. Industrial Relations" within Chapter 5. Operations Overview of this annual report.</p> <p>(2) Investor relations, supplier relations, and stakeholder rights: The Company discloses its financial, business, and corporate governance information on its website at all times, providing open and transparent information for free access by general employees, investors, suppliers, and stakeholders.</p> <p>(3) Status of directors' continuing education: As shown in the table below.</p> <p>(4) Implementation of risk management policies and risk assessment criteria: Refer to "VI. Analysis and Evaluation of Risk Matters for the Most Recent Fiscal Year and Up to the Publication Date of the Annual Report" within Chapter 7. Review and Analysis of Financial Conditions, Performance, and Risk Matters of</p>	<p>None</p>

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/GTSM Listed Companies and reasons
	Yes	No	Summary	
of liability insurance for directors and supervisors by the Company)?			<p>this annual report.</p> <p>(5) Implementation of customer policy: We have established a dedicated customer service unit and an application engineering unit, to provide timely and optimal service to our customers.</p> <p>(6) Directors and Officers Liability Insurance: Liability insurance has been taken out for directors and managers.</p>	
<p>9. State of corrective action taken for responding to the results of the corporate governance assessment announced by Taiwan Stock Exchange Corporation in the Corporate Governance Center the most recent fiscal year, and the priority for improvement on issues pending further corrective action and related measures.</p> <p>(1) Improvements made: The position of Corporate Governance Senior Officer was established and appointed in 2020.</p> <p>(2) Future enhancements: The Company intends to advance the appointment of an external professional body to 2021, in order to evaluate the Board of Directors and functional committees in accordance with the Rules for Self-evaluation or Peer Evaluation of the Board of Directors.</p>				

#### Further Studying Status of Directors in 2020:

Title	Name	Date of Advanced study	Organized by	Course Name	Number of Hours
Director	Genda Hu	Oct. 28, 2020	Securities & Futures Institute	Approaching Employee and Director Remunerations in Terms of Securities and Exchange Act Amended Article 14	3
		Nov. 3, 2020	Securities & Futures Institute	Examining Directors and Supervisors' Legal Risks and Responses from the Perspective of Major Corporate Fraud Cases	3
Director	James Liao	July 21, 2020	Accounting Research and Development Foundation	Policy Analysis and Internal Control Practices for "Assisting Companies to Improve their Financial Report Self-preparation Capacity"	6
		Nov. 11, 2020	Accounting Research and Development Foundation	Application of "Commercial Arbitration" to Businesses, and Analysis of Legal Liability	3
		Nov. 25, 2020	Accounting Research and Development Foundation	Tracing "Funding Flows" in Fraudulent Financial Reporting, and Discussion of Legal Liability Case Examples	3

Corporate Director Representative	Han-Ping Shieh	July 20, 2020	Accounting Research and Development Foundation	Labor Law Compliance Practices and COVID-19 Outbreak Case Studies	6
Corporate Director Representative	Chenming Hu	Oct. 7, 2020	Accounting Research and Development Foundation	Amendment Highlights and Common Deficiencies in the Preparation of IFRS Financial Reporting-Related Regulations	3
		Oct. 13, 2020	Accounting Research and Development Foundation	Common Corporate Governance Failures and Related Laws	3
Corporate Director Representative	George Chang	Aug. 12, 2020	Taiwan Corporate Governance Association	Trends in Digital Technology, Artificial Intelligence, and Risk Management	3
		Oct. 27, 2020	Taiwan Corporate Governance Association	ESG Development Trends and Socially Responsible Investment (SRI)	3
		Nov. 11, 2020	Taiwan Corporate Governance Association	Viewing Corporate Directors and Supervisors' Legal Liabilities from the Perspective of Intellectual Property Rights	3
		Nov. 26, 2020	Taiwan Academy of Banking and Finance	Corporate Mergers and Acquisitions and Legal Risks	3
Independent Director	Chan-Jane Lin	Feb. 18, 2020	Taiwan Corporate Governance Association	Impact Investing: Do Well by Doing Good	1
		July 14, 2020	Securities & Futures Institute	How to Innovate KPIs and Performance Management in the Digital Economy Era	3
		Aug. 7, 2020	Taiwan Corporate Governance Association	Key Technologies and Market Applications for 5G and IoT	3
		Dec. 2, 2020	Taiwan Corporate Governance Association	The 16th Corporate Governance Summit: Corporate Governance Moving Forward - Corporate Governance Blueprint 3.0; Blueprint Planning and Practice for Sustainable Development; Independent Directors and Competition for Management Authority	3
Independent Director	Chintay Shih	July 30, 2020	Securities & Futures Institute	The Impact of COVID-19 on the Global Economy	3
		Sep. 29, 2020	Taiwan Corporate Governance Association	Current Status of Director and Supervisor Liability Insurance and Sharing of Recent Case Studies	1.5
		Sep. 29, 2020	Taiwan Corporate Governance Association	Competition for Management Authority and Case Studies	1.5
Independent Director	Chang Xu	Oct. 15, 2020	Securities & Futures Institute	Analysis of Director and Supervisor Related-Party Transactions and Case Studies	3
		Oct. 15, 2020	Securities & Futures Institute	New Forms of Corporate Governance and Exercise of	3

				Powers to be Followed by Boards of Directors	
Independent Director	Xuhui Xu	Oct. 13, 2020	Accounting Research and Development Foundation	Common Corporate Governance Failures and Related Laws	3
		Nov. 3, 2020	Accounting Research and Development Foundation	Compliance-based Audit Practices for Corporate Shareholders' Meetings	3

(4) The operation of the Remuneration Committee

1. Information on the members of the Remuneration Committee

March 31, 2021

By identity	Name	Conditions	Have more than 5 years of experience and professional qualifications		Status of independence(Note )										Number of public companies where the members of the Remuneration Committee are also the members of the remuneration committees of these companies	Remark	
			An instructor or higher in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the company in a public or private junior college, college, or university.	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company.	Have work experience in the area of commerce, law, finance, or accounting, or otherwise necessary for the business of the company.	1	2	3	4	5	6	7	8	9			10
Independent Director	Chintay Shih	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	Chan-Jane Lin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Committee	Chun-Hao Lai	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	

Note: Respective member who meet the following qualifications 2 years before assumption of office and at the time of assumption office shall put a “✓” in the appropriate space.

- (1) Not an employee of the Company or its affiliated companies.
- (2) Not a director or supervisor of the Company or any of its affiliates. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Company or ranking in the top ten in holdings.
- (4) Not a manager in preceding subparagraph (1) or a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding subparagraph (2) and (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of issued shares of the Company, or that ranks among the top five in shareholdings, or designates its representative to serve as a director or supervisor of the Company under Article 27(1) or (2) of the Company Act. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (6) Not a director, supervisor or employee of other company such that a majority of the Company's director seats or voting shares are controlled by the same person. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with

- the laws of the country of the parent or subsidiary.)
- (7) The chairman, president, or a person holding an equivalent position of the Company is not a director (or governor), supervisor, or employee of other company or institution, or are spouses. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
  - (8) Not a director (or governor), supervisor, manager, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the Company. (Not applicable in cases where the specified company or institution holds at least twenty percent but not exceeding fifty percent of the total number of issued shares of the Company, and the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
  - (9) Not a professional individual who, or an owner, partner, director (or governor), supervisor, or manager of a sole proprietorship, partnership, company, or institution that, provides auditing services to the Company or any affiliate of the Company, or that provides commercial, legal, financial, accounting or related services to the Company or any affiliate of the Company for which the provider in the past 2 years has received cumulative compensation not exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations
  - (10) Those who are not subject to any of the conditions listed in Article 30 of the Company Act.

## 2. Information on Operations of Remuneration Committee

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

2020

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (B/A) (%)	Remarks
Convener	Chintay Shih	1	1	50%	Re-election
Committee	Chan-Jane Lin	2	0	100%	Date re-elected: Aug. 7, 2020
Committee	Linshan Lee	2	0	100%	Date discharged: June 20, 2020
Committee	Chun-Hao Lai	0	0	--	Date newly assumed: Aug. 7, 2020

### Other notes:

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

Remuneration Committee	Proposal and Subsequent Handling
7 <sup>th</sup> session of 4 <sup>th</sup> term of the Board Mar. 20, 2020	1. Evaluation of 2019 Manager Remuneration
	2. 2020 Manager Remuneration system
	3. Formulation of operation procedures for employees to subscribe to treasury stock
	4. List of employees subscribing to treasury stock
	5. Manager bonuses
	Remuneration Committee resolution: Approved (as proposed) by all committee members who attended the meeting.
	Company handling of Remuneration Committee opinion: Approved (as proposed) by all directors who attended the meeting.

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (B/A) (%)	Remarks
8 <sup>th</sup> session of 4 <sup>th</sup> term of the Board May 8, 2020	Establishment of Rules for Retirement and Dismissal of Managers				
	Remuneration Committee resolution: Approved (as proposed) by all committee members who attended the meeting.				
	Company handling of Remuneration Committee opinion: Approved (as proposed) by all directors who attended the meeting.				

(5) Differences Between the Implementation of CSR and the CSR Best Practice Principles for TWSE/GTSM Listed Companies and Reasons Thereof

Items for evaluation	Implementation Status		Summary	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No		
1. Does the Company conduct risk assessment on environmental, social, and corporate governance issues related to the Company's operations, and has the Company established risk management policies or strategies?	✓		<p>The Company performs a comprehensive risk assessment annually, which involves operational, environmental, and corporate governance issues. The 2020 Risk Assessment was reported to the Board of Directors on February 7, 2020 and the Risk Assessment 2021 was completed in February 2021, with the Corporate Governance Team leading the identification work and developing improvement plans. The management unit has taken necessary improvement measures; risks identified include:</p> <p>1. Environment: Environmental Protection Issues Suppliers are required to comply with the Management Regulations for Environmental Banned Substances and obtain ISO 140001 Environmental Management System Certification. These criteria are included in the annual supplier evaluations; if they fail to meet the requirements, guidance is provided for improvement.</p> <p>2. Society: Employee Safety Issues As a non-manufacturing IC design company, the Company pays attention to the physical and mental health of its employees. In addition to regular fire prevention inspections/fire drills, workplace inspections, and other hardware safety checks, the Company also holds activities every year to increase employee interaction and cohesion.</p> <p>3. Corporate Governance: Issues Regarding Implementation of Internal Control System (risks identified in 2021-Productivity, Talents, Quality, etc.) The group discusses corresponding measures, such as wafer strategy meetings, quality meetings, etc., which are implemented or strengthened by management units. The Auditing Department formulates audit plans annually based on risk assessments to ensure that there are no major deficiencies in the Internal Control System and perform control point checks during regular audit processes. The Corporate Governance Team was established with the approval of the Board of Directors. The Team consists of the Board of Directors' Executive Secretary, Finance and Accounting Department, Auditing Department, Legal Affairs Department, and Investor Relations Unit, all of whom have at least three years of relevant work experience in public companies.</p>	None

Items for evaluation	Implementation Status		Summary	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No		
2. Has the Company established a designated (part-time) body for the advocacy of corporate social responsibility headed by a senior executive at the authorization of the Board, and report to the Board on the performance of corporate social responsibility?	✓		The Company's Corporate Governance Team is responsible for corporate governance, CSR, ethical corporate management, and other related matters. Its duties are as described above for the operations of corporate governance, in addition to reporting the CSR Program and its implementation status to the Board of Directors on a regular basis.	None
3. Environmental Issues				
(1) Has the Company established an appropriate environmental management system in accordance with its industrial characteristics?	✓		(1) In accordance with the law and the premise of sustainable development, the Company has established environmental management systems and policies. In addition, the Company has dedicated environmental safety personnel to plan, supervise, and implement environmental systems; select environmentally responsible suppliers; use recycled materials; reduce pollutant emissions; establish proper disposal methods for waste materials; and provide customers with products that are free of toxic substances. The Company has been granted ISO 14001 International Certification.	None
(2) Has the Company made effort to enhance the efficient use of all resources and used regenerated materials to mitigate the impact on the environment?	✓		(2) As a fabless IC design company, the Company's business activities have low impact on the environment. In 2020: (1) Obtained SONY GP Certification. (2) Completed cleaning the HVAC ducts in the Company's building to improve air-conditioning energy efficiency. (3) Arranged centralized offices for plant planners to enhance energy efficiency. (4) Completed all regular environmental monitoring and awareness-raising activities.	Response measures to address climate change impacts have yet to be discussed
(3) Has the Company assessed the potential current and future risks and opportunities from climate change for the Company, and has the Company taken measures to address climate-related issues?		✓	(3) As an IC design company, the Company has no manufacturing plant, and thus current and future climate change impacts on the Company are relatively low. As a result, these response measures have not yet been discussed.	None
(4) Has the Company compiled statistics on greenhouse gas emissions, water	✓		(4) The Company's statistics on greenhouse gas emissions, water consumption, and total volume of	

Items for evaluation	Implementation Status		Summary	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons															
	Yes	No																	
consumption, and total volume of waste materials for the past two years, and has the Company formulated policies for energy conservation and carbon reduction, greenhouse gas reduction, water use reduction, and other waste management?			<p>waste materials over the past two years are as follows:</p> <table border="1"> <thead> <tr> <th>Statistical Item</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Greenhouse Gas Emissions</td> <td>871 tons</td> <td>1,115 tons</td> </tr> <tr> <td>Carbon Emissions Per Capita</td> <td>2.49 tons</td> <td>2.82 tons</td> </tr> <tr> <td>Water Consumption</td> <td>7,607 degrees</td> <td>8,470 degrees</td> </tr> <tr> <td>Total Volume of Recycled Materials</td> <td>1.24 tons</td> <td>1.53 tons</td> </tr> </tbody> </table> <p>The Company's policies on energy conservation and carbon reduction, greenhouse gas reduction, and water use reduction are as follows:</p> <ol style="list-style-type: none"> <li>To regulate energy conservation and carbon, greenhouse gas reduction measures for the Company, including installing water-saving facilities, reducing environmental burdens, continuing to promote digital signing procedures, reducing paper consumption, installing blinds and curtains to reduce solar radiation heat transmission into the office, reducing the amount of electricity used for air conditioning, and ensuring that basic lighting matches illumination level standards and requirements with the use of appropriate energy-efficient daylight lighting.</li> <li>To formulate the energy conservation and carbon reduction targets such that the increment in the carbon emissions per capita should be less than 10%, since the factory and office areas are integrated.</li> <li>To formulate a water conservation management plan and enhance water resource efficiency, including raising employees' water conservation awareness, and continuing to adjust both the water supply valves (50% of water supply valves have been closed), and adjusting the office air-conditioning temperature to 27 degrees in order to save water used in air-conditioning.</li> </ol>	Statistical Item	2019	2020	Greenhouse Gas Emissions	871 tons	1,115 tons	Carbon Emissions Per Capita	2.49 tons	2.82 tons	Water Consumption	7,607 degrees	8,470 degrees	Total Volume of Recycled Materials	1.24 tons	1.53 tons	
Statistical Item	2019	2020																	
Greenhouse Gas Emissions	871 tons	1,115 tons																	
Carbon Emissions Per Capita	2.49 tons	2.82 tons																	
Water Consumption	7,607 degrees	8,470 degrees																	
Total Volume of Recycled Materials	1.24 tons	1.53 tons																	
4. Social issues (1) Has the Company established related management policy and procedure in accordance with applicable legal rules and international conventions on human rights?	✓		(1) The Company complies with labor-related laws and regulations, and establishes work rules to protect employees' rights and benefits.																

Items for evaluation	Implementation Status		Summary	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No		
(2) Has the Company established and implemented reasonable employee benefit measures (including compensation, leave, and other benefits), and are operational performance and results appropriately reflected in employee compensation?	✓		(2) Compensation for the Company's new employees is certified in accordance with the Employee Compensation Criteria Guidelines, and employee promotion is handled annually in accordance with the Employee Promotion Management Guidelines. In addition to leave granted in accordance with the Labor Standards Act, the Company's leave policy allows an additional 7 days of flexible leave per year for employees. Based on the employee's rank, years of service, contributions, and Company operating performance, the Company grants employees various types of benefits and compensation packages, which are paid out in accordance with regulations.	None
(3) Has the Company provided a safe and health work environment for the employees, and provided education on labor safety and health regularly?	✓		(3) The Company provides a safe and healthy working environment for its employees. The Company appoints professional licensed industrial plant nursing personnel and employs occupational physicians to provide employees with regular psychological, medical, health consultation services, and annual health checks that are better than those required by law. In addition, the Company has also established a dedicated team and personnel in accordance with the law to manage environmental safety and health management related matters. This team conducts regular workplace inspections to ensure the safety of employees, the environment, and equipment. The Company has achieved ISO45001 Certification – an international standard for environmental and occupational health and safety management.	
(4) Has the Company established the training program for the effective planning of career development for the employees?	✓		(4) The Company provides a variety of education and training programs, and internal and external professional education and training, to enhance employees' career skills. Additionally, the Company also encourages employees to assess their own interests, skills, values and goals, and communicate their career intentions to their managerial officers, so as to formulate their future career plans.	
(5) Does the Company comply with laws, regulations, and international standards when managing customer health and safety, customer privacy, and marketing	✓		(5) All of the Company's customers are corporate businesses; their information – including transaction prices and terms – is deemed to constitute a Company trade secret. Thus, all of this information is managed	

Items for evaluation	Implementation Status		Summary	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No		
<p>and labeling of products and services? Has the Company established a policy and complaint procedure to protect consumer rights?</p> <p>(6) Has the Company established a supplier management policy that requires suppliers to comply with regulations on environmental protection, occupational safety and health, and labor rights issues? Has the Company established an implementation method for such?</p>	✓		<p>via computer information security &amp; permissions. The Auditing Department conducts annual audits on information security, and signs a Client Confidentiality Agreement based on the level of technical and commercial secrets discussed during product development. Our products are marketed in accordance with laws and regulations, as well as international standards (ISO 9001, ISO 14001, ISO 45001).</p> <p>(6) The Company has established 40 regulations for suppliers to comply with in accordance with manufacturing processes, such as the Production Control Regulations, the Outsourcing Factory Management Regulations for the selection of new suppliers and regular audits, and the Management Regulations for Environmental Banned Substances. Before a supplier is selected, the Company first ascertains the supplier's compliance with environmental protection, occupational safety and health, and labor rights via QSA and QPA questionnaires and on-site examinations. The Company then selects qualified suppliers after a comprehensive evaluation.</p>	None
<p>5. Does the Company refer to internationally standards/guidelines in the preparation of its reports, such as CSR reports, that disclose non-financial information? Has the Company obtained a third-party verification or assurance opinion on previously-disclosed reports?</p>		✓	<p>The Company has not compiled a CSR report yet.</p>	<p>No CSR report has been compiled yet</p>
<p>6. If the Company has formulated its own CSR Best Practice Principles in accordance with the CSR Best Practice Principles for TWSE/GTSM Listed Companies, specify the differences between its implementation and the Principles formulated: The Company has not formulated its own CSR Best Practice Principles, but a CSR plan that has been implemented after submission to the Board of Directors for approval. Also, the CSR plan implementation status is reported to the Board of Directors on a regular basis. Other related issues, such as sustainable development, environmental protection, and employee rights and benefits, are implemented in accordance with the Company's internal systems and regulations. The CSR plan and its implementation status are disclosed on the Company's website.</p>				
<p>7. Other important information for understanding the Company's CSR operations: In 2020, the Company became involved in social welfare activities, including supporting the Taiwan Fund for Children and Families in Hsinchu County for the campaign named "Foster Care: It Can't Happen Without You!" to collect winter quilts and Christmas gifts for underprivileged families.</p>				

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

Items for evaluation	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No	Summary	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Has the Company established an ethical corporate management policy that has been approved by the Board of Directors, and clearly stated the ethical corporate management policy and practices, as well as the commitment of the Board of Directors and the top management to actively implementing the management in the Articles of Incorporation and external documents?</p> <p>(2) Has the Company established a mechanism to assess unethical conduct risks? Does that Company regularly analyze and evaluate the business activities within its scope of business that have a higher risk of unethical conduct? Has the Company accordingly formulated a plan to prevent unethical conduct, covering at a minimum the preventive measures for the acts mentioned in Article 7-2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?</p> <p>(3) Whether the Company has stipulated the operating procedures, conduct guidelines, disciplinary actions against violations as well as grievance system in the plan to prevent unethical conducts, implemented the execution thereof, and regularly reviewed and revised the aforementioned plan?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(1) The Company's Board of Directors approved the Code of Business Conduct and Ethics on October 26, 2018. The Company's policies and practices on ethical corporate management are clearly stated on the Company's website and in external customer and supplier documents. Internally, the Company provides training to new employees annually, holds meetings from time to time to promote integrity and ethical conduct, and has adopted a whistleblowing system to demonstrate the commitment of the Board of Directors and management to actively implementing the ethical corporate management policy.</p> <p>(2) The Company has established an Internal Control System, Internal Audit System, Whistleblowing System, Employee Grievance System, and Code of Business Conduct and Ethics to prevent unethical conduct. Furthermore, the Company completed signing of the Integrity Commitment Letter by senior executives in 2020.</p> <p>(3) The Company has established the Code of Business Conduct and Ethics and the Whistleblowing System to provide clear guidelines and operation procedures for the conduct of directors, managerial officers, employees, appointees, and persons having substantial control over the Company, and to help Company customers, suppliers, external parties, and other stakeholders be more aware of the Company's ethical standards. As for confirmed cases of unethical conduct, disciplinary measures are taken against the violators; if necessary, legal action is also taken.</p>	None

Items for evaluation	Implementation Status			Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	Yes	No	Summary	
			Also, relevant departments are then instructed to review the Internal Control System and operation procedures.	
<p>2. The Materialization of Ethical Management</p> <p>(1) Has the Company evaluated the record on ethical practices of its counterparties, and has specified the clause of business ethic in the agreements binding the Company and its counterparties?</p> <p>(2) Has the Company established a dedicated unit under the Board of Directors to promote ethical corporate management, and to report to the Board of Directors on a regular basis (at least once a year) regarding ethical corporate management policies and plans, in order to prevent unethical conduct and to monitor their implementation?</p> <p>(3) Has the Company mapped out the policy for the avoidance of the conflict of interest and has provided suitable channels for such purpose, and properly pursued the policy?</p> <p>(4) Has the Company established an effective accounting system and internal control system for the implementation of ethical corporate management? Has the internal auditing unit prepared an audit plan based on the assessment results for unethical conduct risks, and checked compliance with the unethical conduct prevention plan accordingly, or appointed a CPA to conduct the audit?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>(1) The Company conducts credit checks before entering into transactions with important customers and credit trading, in order to avoid dealing with those who have a history of unethical conduct. Moreover, the Company signs honesty and integrity clauses with some customers or suppliers, and requires both parties to conduct business based on the principles of honesty and integrity.</p> <p>(2) The Company's Board of Directors approved the Code of Business Conduct and Ethics on October 26, 2018. The Corporate Governance Team, which is part of the Board of Directors, is responsible for the establishment and promotion of ethical corporate management policy. The Team's duties are as described above for the operations of corporate governance operations, and such operations are reported to the Board of Directors on an annual basis. The implementation status for 2020 was reported to the Board of Directors on February 4, 2021.</p> <p>(3) The Company has established a Whistleblowing System and employee grievance procedures to provide appropriate channels for those who have the need to file a complaint and with specific reasons for any illegal, abusive, or improper conduct related to official duties.</p> <p>(4) The Company has established an accounting system for accounting personnel to follow in the execution of their duties. In addition, the Company has established an internal control system in accordance with laws and regulations along with actual operating circumstances. The Company also conducts audit-related work, and reports the results to Audit Committee and the Board of Directors on a regular basis.</p>	None

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

- (7) If the Company has formulated a code of corporate governance and related regulations, the inquiry method shall be disclosed: The Company has formulated Corporate Governance Best Practice Principles and related regulations, which are publicly disclosed on the Company's website (<http://www.focaltech-electronics.com/>) to regulate the ethical conduct of the Company's directors, supervisors, and all subordinate personnel.
- (8) Other important information to enhance the understanding of the Company's corporate governance implementation: None.

(9) Implementation Status of Internal Control System

1. Internal Control System Statement

FocalTech Systems Co., Ltd.  
Internal Control System Statement



Date: February 4, 2021

With regard to the 2020 internal control system, the Company declares the following based on the self-evaluation findings:

1. The Company is fully aware that establishing, implementing, and maintaining an internal control system are the responsibility of its Board of Directors and managerial officers. The Company has established such a system to provide reasonable assurance for attaining the aims of the effectiveness and efficiency of business operations (including profits, performance, safeguarding of asset security, etc.); reliability, timeliness, transparency of reporting; and compliance with the governing laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system provides assurance to the aforementioned aims only to a reasonable extent. Moreover, due to changes of environments and circumstances, the effectiveness of an internal control system may change accordingly. Nevertheless, the internal control system of the Company is equipped with a self-monitoring mechanism, and the Company takes corrective actions as soon as any fault is identified.
3. The Company determines the design and operating effectiveness of its internal control system in accordance with the determining factors provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as the “Regulations”). The internal control system determining factors specified in the Regulations divide an internal control system into five elements based on its management: 1. Control Environment, 2. Risk Assessment, 3. Control Operations, 4. Information and Communications, and 5. Monitoring. Each element further contains several items. Refer to the Regulations for the aforementioned items.
4. The Company has adopted the aforementioned internal control system determining factors to examine the design and operating effectiveness of its internal control system.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, the Company deems that the internal control system as of December 31, 2020 (including supervision and management of subsidiaries), which encompass internal controls for knowledge of the accomplishment degree of operating effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with the governing laws and regulations, are effectively designed and implemented, and reasonably assure accomplishment of the abovementioned aims.
6. This Statement constitutes the main content of the Company’s annual report and prospectus, and will be made public. Any wrongful act pertaining to falsification or concealment involving the above public declaration will be subjected to legal liabilities under Articles 20, 32, 171, and 174 of, and other regulations relating to, the Securities and Exchange Act.
7. This Statement was approved by the Board Meeting of the Company held on February 4, 2021, where none of the nine attending directors expressed dissenting opinions, and all consented to the content of this Statement.

FocalTech Systems Co., Ltd.

Chairman: Genda Hu  Signature/Stamp

President: Genda Hu  Signature/stamp

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

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

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

#### 1. Important Resolutions of the Board of Directors

Date	Important Resolutions
Feb. 7, 2020	Approved the 2019 Financial Statement.
	Approved the amount of director and employee compensation for 2019, and its distribution method and recipients.
	Approved election of the 7th term Board of Directors.
	Convened the Company's 2020 Annual General Shareholders' Meeting.
May 8, 2020	Approved the 2020 Q1 Financial Statement.
	Approved the 2019 Loss Make-up Proposal.
	Approved the distribution of cash dividends out of capital reserve.
	Approved the cash capital reduction.
June 20, 2020	Approved update to the proposals for the 2020 Annual General Shareholders' Meeting.
	Elected the Chairman of the Board of Directors.
Aug. 7, 2020	Approved the 2020 Q2 Financial Statement.
	Approved authorization of the Chairman to determine the Record Date of capital reduction.
	Approved appointment of the Remuneration Committee.
Nov. 6, 2020	Approved the 2020 Q3 Financial Statement.
Feb. 4, 2021	Approved the 2020 Financial Statement.
	Approved the amount of director and employee compensation for 2020, and its distribution method and recipients.
	Convened the Company's 2021 Annual General Shareholders' Meeting.

## 2. Important Resolutions of Shareholders' Meeting and Implementation Status

Date	Important Resolutions and Implementation Status Thereof
June 20, 2020	<p>1. Recognition of 2019 Business Report and Financial Statement. Implementation Status: Resolution was adopted.</p> <p>2. Recognition of 2019 Loss Make-up Proposal. Implementation Status: Resolution was adopted.</p> <p>3. Approval of amendment to the Articles of Incorporation. Implementation Status: Resolution was adopted and implemented. The change registration was completed on July 3, 2020.</p> <p>4. Approval for issuance of new restricted employee shares. Implementation Status: Resolution was adopted and implemented, and was approved by the Financial Supervisory Commission on August 12, 2020.</p> <p>5. Approval for distribution of cash dividends out of capital reserve. Implementation Status: July 20, 2020 was set as the Record Date, and August 14, 2020 was set as the Ex-dividend Date; cash distribution of approximately NT\$0.50291032 per share has been completed.</p> <p>6. Approval for cash capital reduction. Implementation Status: September 8, 2020 was set as the Record Date of Capital Reduction, and the new shares began trading on October 26, 2020. A return of NT\$3 per share to the capital reduction shareholders was completed on October 28, 2020.</p> <p>7. Re-election of the 7<sup>th</sup> term Board of Directors. Implementation Status: Re-election was completed, and the director change registration was completed on July 3, 2020.</p> <p>8. Dismissal of the non-compete clause for directors and their representatives. Implementation Status: Resolution was adopted.</p>

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

(13) In the most recent year to the date this report was printed, the information on the resignation and discharge to Chairman, President, chief accountant, chief financial officer, chief internal auditor, corporate governance officer and R&D officer : None

## 4. Disclosure of the CPAs' fee

### (1) Fee information

#### 1. Disclosure of the CPA's Fee Range

Accounting Firm	Names of CPAs		Duration of Audit	Remarks
Deloitte & Touche	Lilac Shue	Chih-Ming Shao	Jan. 1, Jan. 1, 2020 to Dec. 31, 2020	—

Unit: NT\$ thousand

Fee Range		Fee items	Audit fee	Non- Audit fee	Total
1	Less than 2,000,000			✓	
2	2,000,000 (inclusive) ~ 4,000,000				
3	4,000,000 (inclusive) ~ 6,000,000		✓		✓

4	6,000,000 (inclusive) ~ 8,000,000			
5	8,000,000 (inclusive) ~ 10,000,000			
6	Over 10,000,000 (inclusive)			

2. Non-audit Fees Paid to CPAs, the CPAs' Firm and Their Affiliates by the Company for 2020

Unit: NT\$ thousand

Accounting Firm	Names of CPAs	Auditing Fee	Non-Auditing fee					Period Covered by CPA's Audit	Remarks
			System design	Corporate registration	Human resources	Other (note)	Subtotal		
Deloitte & Touche	Lilac Shue	4,750	0	0	0	417	417	Jan. 1, 2020 to Dec. 31, 2020	—
	Chih-Ming Shao								

Note: Non-audit fees – During the audit period, NT\$287,000 for CPAs, NT\$30,000 for obsolete-inventory review fee, NT\$50,000 for payroll information checklist, and NT\$50,000 for capital increase checklist of subsidiaries were paid on behalf of the Company.

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

5. **Changes of CPA: None**

6. **Information regarding to the chairman, president, chief financial or accounting manager of the Company holding position in the business under the commissioned CPA firm or its affiliates in 1 year: None**

7. **The change of the share holding status and the share pledged information of directors, supervisors, managerial officers and the shareholders holding more than 10% of the shares in the most recent year to the date this report was printed.**

(1) Changes in shareholdings:

Unit: Share

Title	Name	2020		As of April 26, 2021	
		Increase (decrease) in No. of Shares(Note 3)	Increase (decrease) in No. of Pledged Shares	Increase (decrease) in No. of Shares	Increase (decrease) in No. of Pledged Shares
Director, CEO and President	Genda Hu	1,133,397 (1,426,361)	—	328,261	—
Director	GWAALLC Representative: Han-Ping Shieh	— (1,781,356)	—	—	—

Title	Name	2020		As of April 26, 2021	
		Increase (decrease) in No. of Shares(Note 3)	Increase (decrease) in No. of Pledged Shares	Increase (decrease) in No. of Shares	Increase (decrease) in No. of Pledged Shares
Director	GWAALLC Representative: Chenming Hu	—	—	—	—
Director and CFO	James Liao	322,500 (446,951)	—	167,005 (70,000)	—
Independent Director	Chang Xu (Date assumed: Jun. 20, 2020)	—	—	—	—
Independent Director	Xuhui Xu (Date assumed: Jun. 20, 2020)	—	—	—	—
Independent Director	Chan-Jane Lin	—	—	—	—
Independent Director	Chintay Shih	—	—	—	—
Executive Vice President	Ching-Kai Chang	88,000 (48,135)	—	170,000	—
Executive Vice President	Wei-Ching Hou	160,000 (221,968)	—	108,000 (18,004)	—
Business Executive Vice President	Lien-Kuo Wang	72,000 (89,167)	—	56,000 (69,815)	—
Business Executive Vice President	Ching-Suo Wang	40,000 (291,148)	—	40,000 (3,000)	—
Executive Vice President	Hsiao-Hsu Tu	180,000 (206,942)	—	120,000 (18,000)	—
Executive Vice President	He-Nien Yang	270,000 (270,109)	—	148,004 (19,000)	—
Executive Vice President	Pei-Tzu Wu	190,000 (163,992)	—	98,506	—
Business Assistant Executive Vice President	Te-Chih Kung	64,000 (135,821)	—	42,000 (19,803)	—
Executive Vice President	Sung-Tsan Chiang (Date assumed: Oct. 8, 2020)	100,000 (100,000)	—	64,000	—
Executive Vice President	Jui-Cheng Hsu (Date discharged: Sep. 30, 2020; Date assumed: Feb. 1, 2021)	232,500 (120,000)	—	85,003	—
Deputy Executive Vice President	Chun-Fu Wang	115,000 (108,084)	—	35,202 (39,916)	—
Deputy Executive Vice President	Cheng-Tao Chuang	131,000 (131,792)	—	103,504 (69,000)	—

Title	Name	2020		As of April 26, 2021	
		Increase (decrease) in No. of Shares(Note 3)	Increase (decrease) in No. of Pledged Shares	Increase (decrease) in No. of Shares	Increase (decrease) in No. of Pledged Shares
Deputy Executive Vice President	Po-Sheng Shih (Date discharged: Sep. 30, 2020; Date assumed: Jan. 16, 2021)	117,000 (207,000)	—	46,602	—
Senior Deputy Executive Vice President	Ching-Hsing Chang (Date discharged: Jan. 24, 2020; Date assumed: Feb. 8, 2021)	—	—	100,000	—
Corporate governance officer	Li-Hsin Yang (Date assumed: Nov. 6, 2020)	—	—	65,503	—
Shareholders holding more than 10% of the shares	Egis Technology Inc. (Date assumed: Nov. 6, 2020; Date discharged: Apr. 19, 2021)	48,516,000 (14,549,425)	—	— (33,966,575)	—
Director	Sense Investment and Consulting Inc. Representative: George Chang (Date assumed: Jun. 20, 2020; Date discharged: Apr. 19, 2021)	— (14,995)	—	— (35,005)	—
Director	CTBC Bank Trusteeship for Jifu Holding Group (shares) Investment Account Representative: Yen Shen (Date discharged: Jun. 20, 2020)	— (4,126,703)	—	—	—
Independent Director	Neng-Mou Tu (Date discharged: Jun. 20, 2020)	—	—	—	—
Independent Director	Lin-Shan Li (Date discharged: Jun. 20, 2020)	—	—	—	—
Executive Vice President	Chien-kuo Wang (Date discharged: Feb. 8, 2021)	170,000 (121,985)	—	—	—
Deputy Executive Vice President	Cheng-Yi Hsieh (Date discharged: Sep.30, 2021; Date assumed: Jun. 16, 2021; Date discharged: Mar. 3, 2021)	119,750 (117,064)	—	—	—

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

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

Note 3: It was approved for reduction of capital in the Company's shareholders' meeting on June 20, 2020.

Company's share capital was eliminated 89,972,074 shares. The ratio of capital reduction was 29.98892%. The capital reduction was completed on October 26, 2020. Therefore, the number of shares has changed significantly in 2020.

- (2) Information on any transfer of equity interests by a director, supervisor, managerial officer, shareholder related party with a stake of more than 10 percent (where the counterparty in any such transfer of equity interests is a related party):

transferor	Reasons for Transaction	Transaction date	transferee	Relation of Transferor and Transferee	Number of Shares	Transfer prices
Genda Hu	Gift	Jun.19,2020	Wen-Min Shen	Spouse	650,000	30.35

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

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

April 26, 2021; Unit: share; %

Name	Own shareholdings		Shares Held by Spouse & minor children		Shareholdings under the title of a third party		If there are related parties, spouses, kindred within the 2nd degree of kinship among the top 10 shareholders, give the names and affiliations of such shareholders		Note
	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Name	Relation	
Acer Incorporated Responsible Person : Jun-Sheng Chen	7,537,688	3.48	—	—	—	—	—	—	—
CTBC Bank has been entrusted with the custody of a collective investment account for the transfer, subscription, and allotment of marketable securities for FocalTech Electronics, Ltd.'s Mainland China employees issued by FocalTech Systems Co., Ltd.	6,734,632	3.11	—	—	—	—	—	—	—
Ling-Chuan Ting	5,840,000	2.70	—	—	—	—	—	—	—
Employee shareholding trust asset account of FocalTech Systems Co., Ltd. under CTBC Bank	5,641,503	2.61	—	—	—	—	—	—	—
GWAALLC Responsible Person : Genda Hu	4,158,691	1.92	—	—	—	—	—	—	—
	1,232,138	0.57	—	—	—	—	—	—	—
Labor Pension Fund	3,708,000	1.71	—	—	—	—	—	—	—
Standard Chartered Bank (Taiwan) Limited as custodian of Credit Suisse Securities Limited	3,400,807	1.57	—	—	—	—	—	—	—

Name	Own shareholdings		Shares Held by Spouse & minor children		Shareholdings under the title of a third party		If there are related parties, spouses, kindred within the 2nd degree of kinship among the top 10 shareholders, give the names and affiliations of such shareholders		Note
	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Name	Relation	
Morgan Standley Co. International PLC	2,851,981	1.32	—	—	—	—	—	—	—
Investment Account of JP Morgan Chase Bank Taipei Branch	2,768,303	1.28	—	—	—	—	—	—	—
Labor Insurance Fund	2,424,000	1.12	—	—	—	—	—	—	—

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

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

Dec. 31, 2020; Unit:Shares; %

Investee	Investment made by the Company		Investment made by directors, supervisors, managerial official and direct or indirect subsidiaries		Combined investment	
	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding	Number of Shares	Rate of share-holding
FocalTech Corporation, Ltd.	5,491,200	100	—	—	5,491,200	100
FocalTech Electronics, Ltd.	2	100	—	—	2	100
FocalTech Systems, Inc.	—	—	100	100	100	100
FocalTech Systems, Ltd.	—	—	2	100	2	100
FocalTech Electronics Co., Ltd.	—	—	2,000,000	100	2,000,000	100
FocalTech Electronics (Shanghai) Co., Ltd.	—	—	Note	100	Note	100
FocalTech Electronics (Shenzhen) Co., Ltd.	—	—	Note	100	Note	100
FocalTech Systems (Shenzhen) Co., Ltd.	—	—	Note	100	Note	100
FocalTech Smart Sensors Co., Ltd.	—	—	12,179,708	69.93	12,179,708	69.93
Hefei PineTech Electronics Co., Ltd.	—	—	Note	100	Note	100
FocalTech Smart Sensors, Ltd.	—	—	19,593,050	69.93	19,593,050	69.93
Vitrio Technology Corporation	142,000	50	—	—	142,000	50

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

## IV. Capital Overview

### 1. Capital and Shares

#### (1) Sources of Capital Stock

##### 1. Formation process of Capital Stock

April 30, 2021; Unit: Thousand share; NT\$ thousand

Period	Price at issuance	Authorized shares capital		Paid in capital		Remarks		
		Number of Shares	Amount	Number of Shares	Amount	Sources of Capital Stock	Property other than cash is paid by subscribers	Other
Mar. 2019	12.2~17.24	500,000	5,000,000	298,743	2,987,432	Common share transfer from employee stock options: 1,025 thousand	—	Mar. 15, 2019-Zhu-shang-tzu No.1080007161
May 2019	12.2~17.24	500,000	5,000,000	298,792	2,987,924	common share transfer from employee stock options: 492 thousand	—	May 22, 2019-Zhu-shang-tzu No.1080014570
Aug. 2019	12.2~13.68	500,000	5,000,000	299,439	2,994,394	common share transfer from employee stock options: 6,470 thousand	—	Aug. 23, 2019-Zhu-shang-tzu No.1080024643
Dec. 2019	12.2	500,000	5,000,000	299,486	2,994,857	common share transfer from employee stock options: 463 thousand	—	Dec. 2, 2019-Zhu-shang-tzu No.1080034877
Feb. 2020	12.2~17.24	500,000	5,000,000	299,676	2,996,759	common share transfer from employee stock options: 1,903 thousand	—	Feb. 25, 2020-Zhu-shang-tzu No.1090005750
May 2020	4.2~28.3	500,000	5,000,000	299,907	2,999,069	common share transfer from employee stock options: 2,310 thousand	—	May 27, 2020-Zhu-shang-tzu No.1090014602
Aug. 2020	12.2~24.51	500,000	5,000,000	299,995	2,999,949	common share transfer from employee stock options: 880 thousand	—	Aug. 19, 2020-Zhu-shang-tzu No.1090023661
Sep. 2020	10	500,000	5,000,000	210,023	2,100,228	Cash reduction common share : 899,721 thousand	—	Sep. 14, 2020-Zhu-shang-tzu No.1090026694
Nov. 2020	12.2~24.51	500,000	5,000,000	210,046	2,100,456	common share transfer from employee stock options: 228 thousand	—	Nov. 24, 2020-Zhu-shang-tzu No.1090033305
Mar. 2021	15.9~36.8	500,000	5,000,000	210,353	2,103,532	common share transfer from employee stock options: 3,076 thousand	—	Mar. 3, 2021-Zhu-shang-tzu No.1100005620
Apr. 2021	10	500,000	5,000,000	216,102	2,161,022	issue restricted stocks for employees: 57,490 thousand	—	May. 3, 2021-Zhu-shang-tzu No.1100012259
May. 2021	15.9~36.8	500,000	5,000,000	216,277	2,162,769	common share transfer from employee stock options: 1,747 thousand	—	The employee stock options have been exercised in 2021Q1, but the change registration have not been completed . It is expected to be completed in May, 2021.

Period	Price at issuance	Authorized shares capital		Paid in capital		Remarks		
		Number of Shares	Amount	Number of Shares	Amount	Sources of Capital Stock	Property other than cash is paid by subscribers	Other
Aug. 2021	15.9~36.8	500,000	5,000,000	216,344	2,163,443	common share transfer from employee stock options:674 thousand	—	The employee stock options have been exercised in April, 2021, but the change registration have not been completed . It is expected to be completed in August, 2021.

## 2. Type of Stock

April 30, 2021; Unit: shares

Type of Stock	Authorized shares capital			Remarks
	Outstanding shares	Unissued stock	Total	
common shares	216,344,342	283,655,658	500,000,000	Listed shares

## (2) Composition of Shareholders

April 26, 2021; Unit: shares

Quantity	Composition of Shareholders	Government Apparatus	Financial Institution	Other Juridical person	Individual	Foreign Institution and Foreigner	Total
Shareholding (Shares)	—	7,278,384	31,829,629	126,051,061	51,185,268	216,344,342	
Ratio of Shareholding (%)	—%	3.36%	14.72%	58.26%	23.66%	100.00%	

Note: The above information is summarized from the shareholders' register on the latest transfer suspension date prior to the publication date of the annual report.

## (3) Shareholding Distribution Status

### 1. Common Share Distribution Status

April 26, 2021; Unit: shares

Holding share classification	No. of Shareholders	Shareholding	Ratio of Shareholding
1 to 999	16,563	2,467,989	1.14%
1,000 to 5,000	28,404	49,673,289	22.96%
5,001 to 10,000	1,886	14,518,154	6.71%
10,001 to 15,000	517	6,644,860	3.07%
15,001 to 20,000	299	5,552,510	2.57%
20,001 to 30,000	282	7,185,150	3.32%
30,001 to 50,000	202	7,871,877	3.64%
50,001 to 100,000	161	11,438,625	5.29%
100,001 to 200,000	77	11,307,013	5.23%

Holding share classification	No. of Shareholders	Shareholding	Ratio of Shareholding
200,001 to 400,000	39	11,260,191	5.2%
400,001 to 600,000	20	9,791,542	4.53%
600,001 to 800,000	11	7,660,249	3.54%
800,001 to 1,000,000	5	4,478,649	2.07%
1,000,001 and above	23	66,464,244	30.73%
Total	84,489	216,344,342	100.00%

Note: The above information is summarized from the shareholders' register on the latest transfer suspension date prior to the publication date of the annual report.

2. Preferred Share Distribution Status: N/A.

(4) List of Major Shareholders

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

April 26, 2021; Unit: shares

Name of major shareholder	Shares	Shareholding	Ratio of Shareholding
Acer Incorporated		7,537,688	3.48%
CTBC Bank is entrusted with the custody of the securities collective investment account issued by FocalTech Systems Co., Ltd. to the Mainland China employees of FocalTech Systems (Cayman) Co., Ltd. for the transfer, subscription and allotment		6,734,632	3.11%
Ling-Chuan Ting		5,840,000	2.70%
Employee shareholding trust asset account of FocalTech Systems Co., Ltd. under CTBC Bank		5,641,503	2.61%
GWAA LLC		4,158,691	1.92%
Labor Pension Fund		3,708,000	1.71%
Standard Chartered Bank (Taiwan) Limited as custodian of Credit Suisse Securities Limited		3,400,807	1.57%
Morgan Standley Co. International PLC		2,851,981	1.32%
Investment Account of JP Morgan Chase Bank Taipei Branch		2,768,303	1.28%
Labor Insurance Fund		2,424,000	1.12%

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

Unit: NT\$; Thousand shares

Item/Year		2019	2020	As of April 30, 2021(Note 5)
Market Price Per Share	The Highest	27.3	102	247.5
	The Lowest	19.55	22.45	79.2

Item/Year		2019	2020	As of April 30, 2021 (Note 5)	
	Average	23.28	38.64	135.01	
Net Value Per Share	Before distribution	26.66	37.28	41.3	
	After distribution	26.14	(Note 1)	—	
Earnings per share	Weighted average shares	276,714	254,897	199,649	
	Earnings per share (Note 7)	-0.63	3.97	4.24	
Dividend Per Share	Cash dividends		0.50291032 (Note 6)	(Note 1)	—
	Stock dividend distribution	Retained Shares Distribution	—	—	—
		Capital reserve Shares Distribution	—	—	—
	Retained Dividends		—	—	—
Return on Investment Analysis	Price-to-Earnings Ratio (Note 2)		-36.95	9.73	—
	Price-to-Dividend Ratio (Note 3)		46.29	(Note 1)	—
	Cash Dividend Yield Rate (Note 4)		2.16%	(Note 1)	—

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

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

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

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

Note 5: Net value per share and earnings per share are based on the information reviewed by CPAs for the most recent quarter ended before the publication date of the annual report. The remaining columns show the information for the current year ended before the publication date of the annual report.

Note 6: The distribution of cash dividends out of capital reserve.

Note 7: The Company has not made any stock dividend distribution that is subject to retroactive adjustment.

## (6) Dividend Policy and Implementation Status

### 1. Dividend policy as regulated in the Articles of Incorporation

In accordance with the Company's Articles of Incorporation for earnings distribution, if the Company reports a profit at the end of the fiscal year, after paying taxes in accordance with the law, the Company shall make up for the accumulated deficit from previous years, then set aside 10% of such earnings as legal reserve, and set aside or reverse a special reserve as required by laws and regulations. If there is any remaining balance, the Board of Directors shall prepare a proposal for earnings distribution together with the unappropriated retained earnings. The proposal shall be submitted to the shareholders' meeting for resolution, and the amount shall then be distributed to the recipients.

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

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

The Company's proposal for 2020 annual earnings distribution was resolved by the board meeting on April 28, 2021. The board meeting proposed distribution of the 2020 annual earnings in the amount of NT\$700,000 thousand in cash dividends to shareholders, with each share to be distributed in the amount of NT\$3.32 based on the outstanding shares on March 31, 2021. After the resolution of the shareholders' meeting this year, the Chairman is authorized to set another Record Date.

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

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

In accordance with the Company's Articles of Incorporation, if the Company makes profits in the fiscal year, the Company shall set aside not less than 1% of the Company's annual profits as employee compensation, which shall be distributed in shares or cash by resolution of the Board of Directors, to employees of the Company's subsidiaries who meet certain criteria that are authorized by the Board of Directors. In addition, the Company shall set aside not more than 1.5% of the Company's annual profits as director compensation by the resolution of the Board of Directors. The compensation to employees and directors shall be reported to the shareholders' meeting. However, the Company shall first reserve an amount to make up for the accumulated deficit beforehand (if any), then only allocate the compensation to employees and directors based on the aforementioned percentage.

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

The Company allocates no less than 1% and no more than 1.5% of the pretax income before deducting the amount of employee and director compensation, as employee and director compensation respectively for the fiscal year. In 2020, the net income attributable to owners of the Company is NT\$1,011,992,036. It is proposed to allocate 9.4% and 0.6% of the Company's profit for employee and director compensation, amounting to NT\$123,450,390 and NT\$7,213,921, respectively, all in cash. If there is any discrepancy between the estimated figure and the actual distributed amount approved by the Board of Directors, it will be recorded as profit or loss in the following fiscal year.

3. Differences between the proposal for 2020 approved by the Board of Directors and actual distribution of employee bonus, director and supervisor compensation for the previous fiscal year, and the recognized employee bonus and director and supervisor compensation, reasons and the handling thereof:

Unit: NT\$

Item	Earning distribution of 2019	Earning distribution of 2020
	Actual number of distributions	Proposed distribution approved by the board of directors
Remuneration of Directors and Supervisors	—	7,213,921
Remuneration of employee — cash	—	123,450,390
Remuneration of employee — shares	—	—
Percentage of Employee Compensation Distributed in Shares as Proportion of the Total Individual or Individual Financial Reports' After-tax Net Income and the Total Employee Compensation for the Period	—	—
Discrepancy between recognized and estimated figures, and reasons and handling thereof	None	None

## (9) Repurchase of Company shares

## 1 Repurchase of the shares by the Company (exercised)

Apr. 30, 2021

Term of Repurchase	First	Second	Third	Fourth	Fifth
Purpose of Repurchase	Transfer shares to employees				
Period of Repurchase	Sep. 3, 2015 to Nov. 2, 2015	Apr. 29, 2016 to June 28, 2016	May 15, 2017 to July 14, 2017	July 27, 2018 to Sep. 26, 2018	Aug. 24, 2018 to Oct. 23, 2018
Price Range of the Shares to Be Repurchased	NT\$17.01 to NT\$35.13 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases.	NT\$19.67 to NT\$42.94 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases.	NT\$21.98 to NT\$56.79 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases.	NT\$17.68 to NT\$39.65 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases.	NT\$17.22 to NT\$37.26 per share. However, the Company will continue to execute share repurchases when the Company's share price falls below the price range lower limit in place for share repurchases.
Type(s) and Numbers of Shares Repurchased	Common share: 0 share	Common share: 5,000,000 shares	Common share: 6,808,000 shares	Common share: 8,000,000 shares	Common share: 7,689,000 shares
Monetary Amount of Shares Repurchased	NT\$0	NT\$132,625,675	NT\$245,812,665	NT\$192,810,452	NT\$192,095,557
Ratio of Shares Repurchased to Shares Planned to be Repurchased (%)	0.00%	100.00%	85.10%	100.00%	96.11%
Number of Shares Canceled and Transferred	Common share: 0 share	Common share: 5,000,000 shares	Common share: 6,808,000 shares	Common share: 7,997,683 shares	Common share: 7,591,742 shares
Cumulative Number of Shares Held by the Company	Common share: 0 shares	Common share: 0 shares	Common share: 0 shares	Common share: 2,317 shares	Common share: 99,575 shares
Proportion of Company's Cumulative Number of Shares Held to Total Shares Issued (%)	0.00%	0.00%	0.00%	0.00%	0.05%

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

2. Issuance of corporate bonds: None

3. Preferred shares: None

4. Issuance of overseas depositary shares: None

5. Status of employee stock option plan

(1) Status of employee share warrants issued by the Company that have not yet matured

April 26, 2021

Type of Employee Share Warrants Issued	Share warrants from former FocalTech employees by inheritance (Note 1)	Fourth (Period) Issuance								
Date of Effective Registration from the Competent Authority	Oct. 27, 2014	July 6, 2015								
Issue (Execution) Date	Oct. 27, 2014	Sep. 2, 2015								
Number of Units Issued	11,697,976	2,800,000								
Proportion of Subscribable Shares to Total Issued Shares	5.41%	1.29%								
Subscription Period	April 29, 2010 to June 24, 2023	September 2, 2015 to September 2, 2025								
Exercise Method	New Common Share	New Common Share								
Duration and Percentage in which Subscription is Restricted	(1) From the beginning of the vesting period to the end of one-year service period, employees receive 25% share warrants. For every six months thereafter, they receive 12.5% share warrants. (2) The share warrants are exercised in accordance with their performance status.	<table border="1"> <thead> <tr> <th>Duration</th> <th>Percentage of Exercisable Shareholding</th> </tr> </thead> <tbody> <tr> <td>2 years</td> <td>50%</td> </tr> <tr> <td>3 years</td> <td>75%</td> </tr> <tr> <td>4 years</td> <td>100%</td> </tr> </tbody> </table>	Duration	Percentage of Exercisable Shareholding	2 years	50%	3 years	75%	4 years	100%
Duration	Percentage of Exercisable Shareholding									
2 years	50%									
3 years	75%									
4 years	100%									
Number of Shares that Have Been Obtained Through Exercise of Subscription Rights	8,773,977	1,562,750								
Amount of Shares Subscribed	NT\$136,488,000	NT\$19,981,000								
Number of Unsubscribed Shares	264,599	289,000								
Subscription Price Per Share of Unsubscribed Shares	NT\$5.46-NT\$36.8	NT\$15.9								
Proportion of Unsubscribed Shares to Total Issued Shares (%)	0.12%	0.13%								
Effect on Shareholders' Equity	There is no significant effect on share dilution for existing common shareholders.	There is no significant effect on share dilution for existing common shareholders.								

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

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

1. Managerial officers who have obtained employee share warrants

April.26, 2021; Unit: NT\$, shares

Title	Name	Number of Subscribable Shares Acquired	Percentage of Subscribable Shares Acquired to Total Issued Shares	Exercised				Not exercised			
				Number of Subscribable Shares	Price of Subscribable Shares	Amount of Subscribable Shares	Percentage of Subscribable Shares to Total Issued Shares	Number of Subscribable Shares	Price of Subscribable Shares	Amount of Subscribable Shares	Percentage of Subscribable Shares to Total Issued Shares
CEO and President	Genda Hu	1,940,000	0.90%	1,678,000	NT\$1.63~ NT\$15.90	17,087,000	0.78%	238,000	NT\$5.46~ NT\$22.42	3,878,000	0.11%
Executive Vice President	He-Nien Yang										
Executive Vice President	Jui-Cheng Hsu(Note1)										
Executive Vice President	Ching-Kai Chang										
Executive Vice President	Wei-Ching Hou										
Executive Vice President	Hsiao-Hsu Tu										
Business Assistant Executive Vice President	Lien-Kuo Wang										
Business Assistant Executive Vice President	Te-Chih Kung										
Deputy Executive Vice President	Ching-Hsing Chang (Note2)										
Deputy Executive Vice President	Chun-Fu Wang										
Deputy Executive Vice President	Po-Sheng Shih(Note3)										
Deputy Executive Vice President	Cheng-Yi Hsieh (Note 4)										
CFO	James Liao										

Note 1: Resigned and transferred to the affiliate on Sep. 30, 2020. Returned on Feb. 1, 2021.

Note 2: Resigned on Jan. 24, 2020, and returned on Feb 8,2021.

Note 3: Resigned and transferred to the affiliate on Sep. 30, 2020. Returned on Jan. 16, 2021.

Note 4: Resigned and transferred to the affiliate on Sep. 30, 2020. Returned on Jan. 16, 2021. Resigned on Mar. 3, 2021.

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

April 26, 2021; Unit: NT\$, shares

Title	Name	Number of Subscribable Shares Acquired	Proportion of Subscribable Shares Acquired to Total Issued Shares	Exercised				Not exercised			
				Number of Subscribable Shares	Price of Subscribable Shares	Amount of Subscribable Shares	Proportion of Subscribable Shares to Total Issued Shares	Number of Subscribable Shares	Price of Subscribable Shares	Amount of Subscribable Shares	Proportion of Subscribable Shares to Total Issued Shares
Senior Manager	Chuan Ting	1,342,292	0.62%	1,211,292	NT\$1.75~ NT\$36.8	20,238,000	0.56%	131,000	NT\$15.9~ NT\$36.8	3,272,000	0.06%
Vice General Supervisor	Chin-Cheng Tien										
General Supervisor	Ta-Chun Wu										
Senior Manager	Hua Lee										
Senior Tech. Manager	Chen-Wei Lee										
Manager	Shen Lee										
Senior Manager(Note1)	Chun-Yu Chiu										
Vice Director	Kuan-Hua Liao										
General Supervisor	Hsin-Hsi Chiang										
Senior Manager	Wen-Yung Lung										

Note1: Resigned on Apr 1, 2021

**6. Status of employee restricted stock shall include the following:**

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

Apr. 26, 2021

Type of New Restricted Employee Shares Issued	Third (period) Issuance
Date of Effective Registration from the Competent Authority	August 12, 2020
Issue Date	April 20, 2021
Number of New Restricted Employee Shares Issued	5,749,000 shares
Issue Price	NT\$10 per share
Proportion of New Restricted Employee Shares Issued to Total Issued Shares	2.66%
Vesting Conditions of New Restricted Employee Shares	<p>The proportion of shares subject to the vesting conditions (namely, that employees are still in service, have served in good faith, and have not violated the Company's labor contract, work regulations, or the Company's employee management regulations), after the end of each of the following vesting periods from the date of new restricted employee share allotment, are as follows:</p> <p>2 years of service after share allotment: 50% of the number of allotted shares.  3 years of service after share allotment: 25% of the number of allotted shares.  4 years of service after share allotment: 25% of the number of allotted shares.</p>
Restricted Rights of New Restricted Employee Shares	<ol style="list-style-type: none"> <li>1. Prior to the fulfillment of the vesting conditions set forth in the preceding Article, employees shall not sell, pledge, transfer, give to others, create, or otherwise dispose of the new restricted employee shares allotted under this Regulation.</li> <li>2. The rights to attend, propose, speak, vote, and elect at shareholders' meetings of new restricted employee shares issued under this Regulation shall be the same as those of the Company's issued common shares until the vesting conditions set forth in the preceding Article are met, and shall be exercised in accordance with the Trust Deed or other custodian methods as otherwise determined by the Company.</li> </ol>

	<p>3. Before the new restricted employee shares issued under this Regulation meet the vesting conditions set forth in the preceding Article, the allotment of shares (including dividends of common shares and reserve transferred to capital increase) and dividends (including cash dividends and cash allotment of capital reserves) derived from such new shares will not be subject to the same restrictions as the new restricted employee shares issued in the year.</p> <p>4. If the new restricted employee shares are issued to an employee who is an ROC national, the employee shall deliver the shares to a trustee institution designated by the Company for safekeeping immediately after being granted, and shall continue to deliver the shares to the trustee institution for safekeeping until the fulfillment of the vesting conditions, unless otherwise specified in this Regulation. If the granted employee is a national of another country, the granted shares shall be held in trust of the Company appointed for that purpose.</p>
Custody Status of New Restricted Employee Shares	All shares are held in trust
Measures to be Taken when Employees Have Not Met the Vesting Conditions After Being Granted or Subscribing New Shares	The shares allotted were bought back by the Company at the original issue price and were canceled.
Number of New Restricted Employee Shares that Have Been Redeemed or Bought Back	0
Number of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Been Released	0
Number of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Not Been Released	5,749,000 shares
Proportion of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Not Been Released to the Total Issued Shares (%)	2.66%
Effect on Shareholders' Equity	There is no significant effect on share dilution for existing common shareholders.

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

April 26, 2021

	Job Title (Note 1)	Name	Number of New Restricted Employee Shares Acquired	Proportion of New Restricted Employee Shares Acquired to Total Issued Shares (Note 4)	Restrictions on Rights Released (Note 2)				Restrictions on Rights Not Released (Note 2)			
					Number of Shares in which the Restrictions on Rights Have Been Released	Issue Price	Issue Amount	Proportion of Shares in which the Restrictions on Rights Have Been Released to the Total Issued Shares (Note 4)	Number of Shares in which the Restrictions on Rights Have Not Been Released	Issue Price	Issue Amount	Proportion of Shares in which the Restrictions on Rights Have Not Been Released to the Total Issued Shares (Note 4)
Managerial Officers	CEO and President	Genda Hu	1,320,000	0.61%	—	—	—	—	1,320,000	NTD10	13,200,000	0.61%
	CFO	James Liao										
	Executive Vice President	Wei-Ching Hou										
	Executive Vice President	He-Nien Yang										
	Executive Vice President	Jui-Cheng Hsu										
	Executive Vice President	Sung-Tsan Chiang										
	Executive Vice President	Pei-Tzu Wu										
	Executive Vice President	Hsiao-Hsu Tu										
	Business Executive Vice President	Ching-Suo Wang										
	Business Assistant Executive Vice President	Lien-Kuo Wang										
	Business Assistant Executive Vice President	Te-Chih Kung										
	Senior Deputy Executive Vice President	Ching-Hsing Chang										
	Deputy Executive Vice President	Cheng-Tao Chuang										
Deputy Executive Vice President	Po-Sheng Shih											
Corporate governance officer	Li-Hsin Yang											

Employees	Senior General Supervisor	Yun-Hua Wang	540,000	0.25%	—	—	—	—	540,000	NTD10	5,400,000	0.25%
	General Supervisor	Da-Chun Wu										
	Senior Manager	Wen-Jun Zhang										
	Director	Wei-Quan Zhang										
	Director	Ming-Yu Chen										
	Deputy Executive Vice President	Jun-Qin Huang										
	Director	Wei-Zhang Huang										
	Vice General Supervisor	Jun-Qiao Liu										
	General Supervisor	Guo Liu										
	Director	Hong-Ren Jian										

**7. Status of new share issuance in connection with mergers and acquisitions: None.**

**8. Funding plans and implementation: N/A.**

## V. Operational Highlights

### 1. Business activities

#### (1). Scope of business

##### 1. Major businesses

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

##### 2. Proportion of operation ( 2020 ) : 100% from human-machine interface application ICs

##### 3. Current products (services) of the company

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

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

- (1). Integrated driver controller (IDC)
  - A. IDC products that support C-phy interface
  - B. Develop COG ultra-narrow bezel products
  - C. High frame rate applies IDC technology
  - D. IDC IC development that supports active stylus
  - E. IDC product development for notebook computer panel applications
- (2). TFT-LCD panel driver IC
  - A. Development of IC for special-purpose panels (such as digital cameras and other special-purpose electronic products)
  - B. Special driver IC for transparent display panels
- (3). Capacitive touch IC
  - A. Development of TFT panel capacitive active stylus technology
  - B. Development of TFT panel ultra-fine tip passive stylus IC
  - C. Development of AMOLED panel touch technology with multi-finger and high touch reporting rate
  - D. Development of the finger and stylus touch integration technology for flexible panel
- (4). Fingerprint recognition IC and module
  - A. High-sensitivity optical fingerprint recognition IC and corresponding optical collimator and lens
  - B. Optical fingerprint recognition algorithm
  - C. Development of ultra-thin optical fingerprint technology
  - D. Research and development of ultra-narrow side-mounted capacitive fingerprint recognition technology
  - E. Curved and narrow side-mounted capacitive fingerprint recognition IC
  - F. Active capacitive fingerprint recognition IC (MOC)
- (5). AMOLED panel driver IC
  - A. FHD + RAM display driver IC for mobile phones

- B. Wearable and low-power consumption Integrated Driver controller (IDC)
  - C. Development of high-efficiency demura data processing technology
  - D. Development of driver IC technology for foldable ultra-high-resolution 4K panel
- (6). Automotive and industrial control ICs
    - A. Development and promotion of IDC ICs for cars
    - B. Highly reliable circuit architecture
    - C. Development of ICs that support the cascaded architecture for large-size automotive panel applications
  - (7). Human-machine interface module for notebook computer
    - A. Development of touchpad technology that integrates touch and fingerprint recognition
  - (8). Physiological monitoring technology
    - A. Development of PPG heartbeat and arrhythmia detection algorithm
    - B. Development of non-binding blood pressure measurement technology

## (2). Industry Overview

### 1. Current status of human-machine interface related industries

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

According to the research report of Research And Markets, since 5G technology started to gain popularity in 2020 and promoted the transformation of the digital society, it is estimated that the global 5G market will rise to US\$ 251 billion in 2025, and the compound annual growth rate (CAGR) from 2020 to 2025 will reach as high as 97%. After the popularization of 5G technology, it will provide larger and faster communication bandwidth for portable mobile devices and IoT (Internet of Things) applications, offering more business opportunities for the industry.

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

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

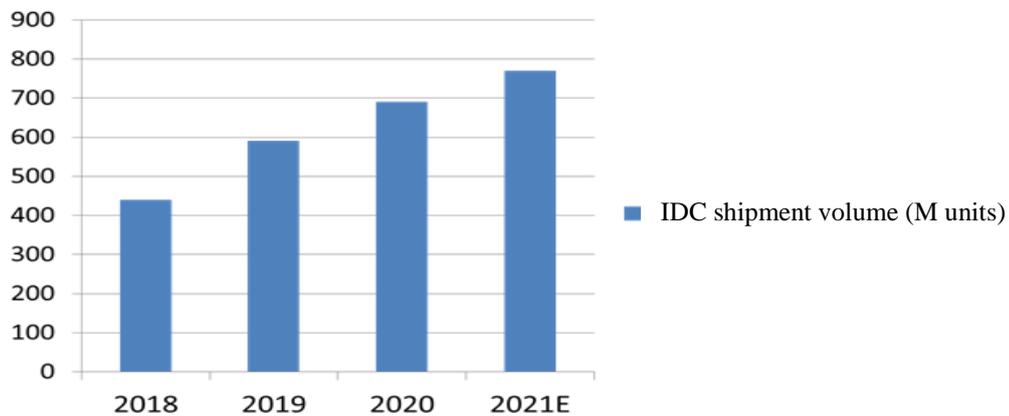
Portable mobile devices include mobile phones, laptops, tablets, etc., among which smartphone is the majority. Due to the advancement of the aforementioned industries, the growth of smartphone panels has been significantly promoted. Furthermore, the requirements for panels are different from those in the past; they are incorporated not just for making call, but bringing new functions for multimedia. In addition, the development of mobile phone displays has been directed towards large screen size and high resolution. To enhance user experience for

consumers, the technical specifications of products are improved continuously, adding fuel to the supply chain to open up new business opportunities.

Consumers continue to expect mobile phones display to be larger, thinner, and bezel-free. Therefore, full-screen mobile phones have become the current trend. However, the requirement for full-screen display has reduced the frame design space for mobile phones, allowing integrated IC to become the mainstream. The integration of in-cell panels can enhance the added value of products, provide complete product solutions to brand customers, and help simplify the complex supply chain of traditional mobile phone assembly. Therefore, the IDC IC integrated with touch IC and display driver is quickly accepted by the TFT panel supply chain. With the maturity of the technology, TFT panel yield as well as production capacity is promoted to benefit the panel price, accelerating the penetration rate of IDC.

The foundry capacity of IDC was adequate in 2020. To achieve higher screen-to-body ratio and increase the screen frame rate, mobile phone manufacturers adopted the IDC solution. Therefore, the annual shipment volume in 2020 was close to 700 million units. It is expected that the annual shipment volume in 2021 will reach as high as 770 million units.

Figure 5-1: Global shipment volume of smartphones that adopt IDC from 2018 to 2021



Source: Prepared by FocalTech in February 2021

In addition to TFT in-cell display technology, AMOLED is also one of the main display technologies that are adopted by smartphones and recognized by the industry. In terms of the technological development of AMOLED panel manufacturers, the current shipments are mostly based on rigid AMOLED. However, with international big companies, such as Samsung and Apple, starting to use flexible AMOLED panels in high-end models (i.e., model S and Note series for Samsung), the majority of new production capacity of AMOLED panel manufacturers is switched to flexible display. From the perspective of panel resolution, the panel resolution of major mobile phone brands currently on the market is FHD+, with only a few flagship models have panel resolution of WQHD+. In addition, many brand manufacturers have begun to promote

foldable AMOLED mobile phones.

As the in-cell technology is still immature, the touch function of AMOLED panels is based mainly on on-cell technology, which is further divided into on-cell technology for rigid panels and on-cell technology for flexible panels. With the increase of AMOLED's market share in mobile phone panels, on-cell technology has become the largest touch technology besides TFT in-cell technology.

According to the report of Omdia Touch Panel Market Tracker, TFT in-cell touch panels accounted for 50.7% of the overall smartphone market in 2020, while AMOLED on-cell touch panels accounted for 33.9% of the overall smartphone market. The percentage of traditional out-cell capacitive touch display was reduced to less than 15%.

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

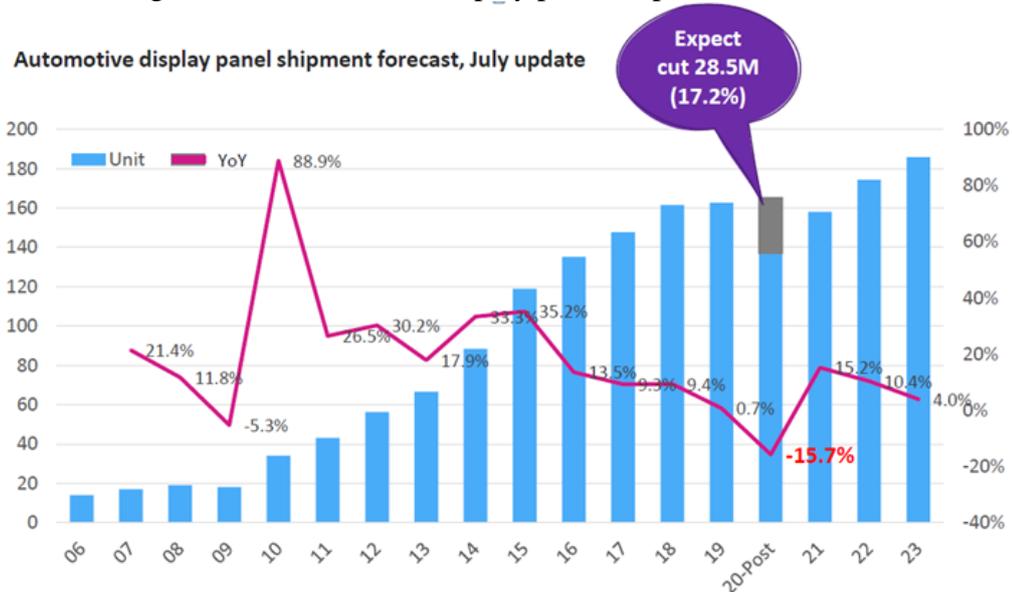
**Mobile phone: Major technology**

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

Source : Omdia Touch Panel Market Tracker report (Q3 of 2020)

In addition to smartphones, touch and display-related technologies have gradually expanded to the automotive industry. In 2020, impacted by the COVID-19 epidemic, the shipment of automotive panels was dropped sharply from a positive growth estimate to a double-digit decline, returning to the level in 2016. However, as the epidemic eases, the shipment is expected to recover gradually.

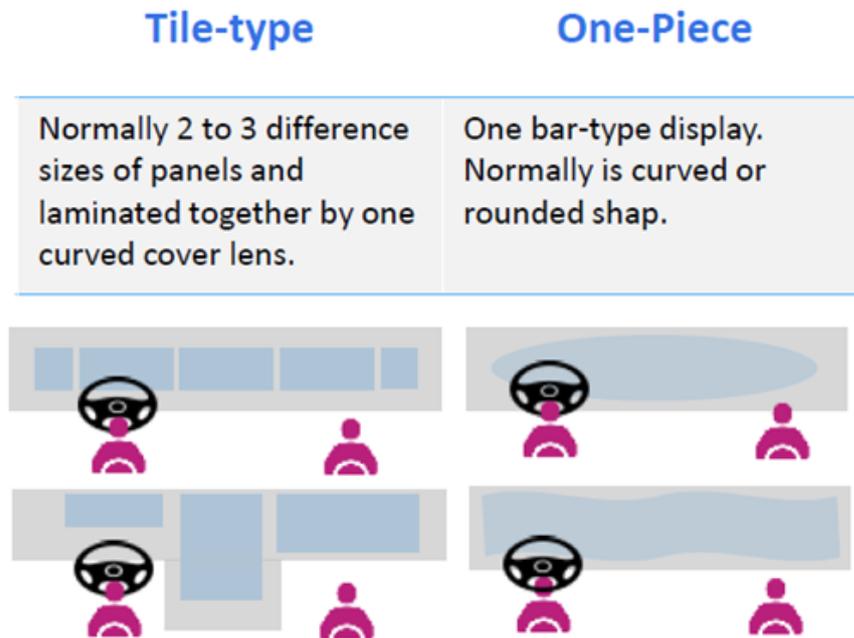
Figure 5-3: Automotive display panel shipment forecast



Source : Omdia Touch Panel Market Tracker report (Q3 of 2020)

A car will be equipped with multiple display screens; therefore, the growth of automotive display panels will be higher than that of other car body parts. It can be seen from Figure 5-4 that, regardless of the tile-type or one-piece display, the display screens in cars will become bigger or increase, and the growth of the required driver and touch IC will be multiplied. Furthermore, automotive ICs will pay more attention to safety, and the development as well as implementation time is longer, suggesting that the development difficulty is greater than that of general consumer products.

Figure 5-4: Type of automotive display



As for devices such as tablets, notebooks, and wearables, human-machine interface will also be added in the future to provide better user experience for consumers. A highly integrated IDC solution or a more power-saving AMOLED integration solution can make the module architecture lighter and thinner, which helps to control the cost of the module, further accelerating the introduction and adoption of more devices.

(2) Fingerprint recognition IC industry:

Biometric identification are mainly used in consumer electronics (smartphones, notebook computers, wearable devices, smart cards, smart homes, etc.), industry (automotive, office access, medical, retail, finance, etc.), homeland security (government, security, military departments, etc.) and other devices. With the popularization of mobile Internet applications and the rapid growth of 5G in 2020 as well as the coming of the electronic transaction era, the risk of using traditional password authentication is increasing. The application of biometric authentication can effectively solve the security problem. Therefore, related technologies have been developed rapidly in recent years. ABI Research predicts that the total output value of the global biometrics market will exceed US\$ 10 billion in 2021.

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

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

(3) Industry for physiological monitoring products:

The impact of the COVID-19 outbreak has boosted the demand for medical equipment. Epidemic-prevention materials, rapid screening reagents, medical equipment for disease diagnosis, such as thermometers, physiological monitoring devices, epidemic-prevention robots, and remote health monitoring devices, have all gained tremendous attention. To ensure the safety of public health and epidemic prevention, medical services may be carried out in the form of distance diagnosis, telemedicine, and in-home medical treatment. This will increase the demand for personalized medical equipment and services, making manufacturers to produce small volume and customized products. On top of that, more and more people prefer to work from home, and people are aware of the importance for health monitoring, which is expected to promote the growth of wearable, portable or in-home physiological monitoring devices.

2. Correlation between upstream, middle-stream and downstream of the industry  
IC industry chain can be divided into :

A : Upstream: IC design ( design house )

B : Middle-stream: Mask and wafer production (foundry/IDM)

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

The IC industrial structure is consisted of design, manufacturing (process),

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

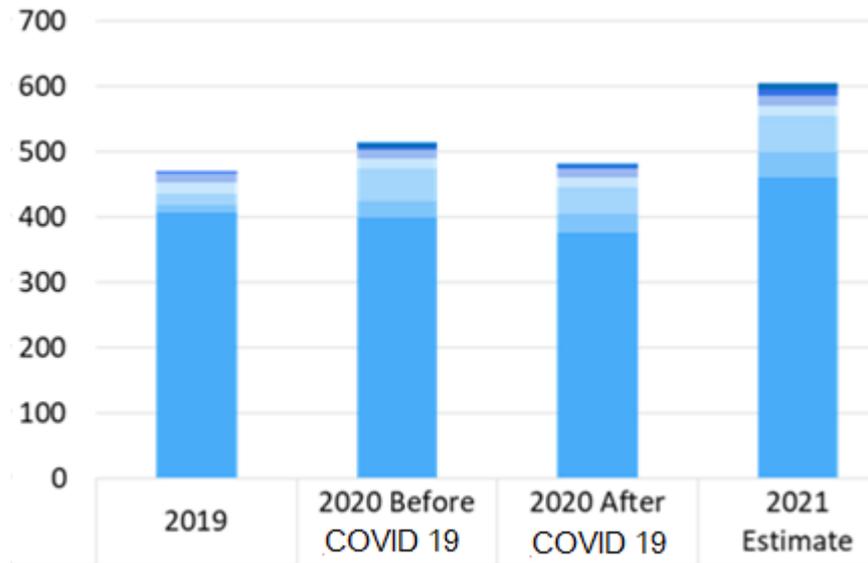
### 3. Market trend of Company’s products

#### (1) Portable mobile device panel driver IC and touch IC:

Although the displays of smartphones in 2020 were equally shared by AMOLED, TFT a-si, and TFT LTPS panels, with the increasing production capacity of AMOLED, some intermediate-level models have begun to use AMOLED panels, which may gradually suppress the growth of LTPS LCD panels in the future. In response to the threat of AMOLED, TFT panel manufacturers will continue to increase the frame rate or adopt the LTPS Mux6 technology to make TFT panels more competitive comparing with AMOLED.

According to the data shown in Figure 5-5, although the growth of AMOLED panel shipment for mobile phone was limited in 2020, there will be substantial growth in the future.

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



Source : Omdia Touch Panel Market Tracker report (Q3 of 2020)

In the long run, with the increasing of AMOLED production capacity and the improvement of yield panel manufacturers in China, AMOLED will gradually take over the market share of TFT LCD. AMOLED has several advantages including compact, light weight, self-emitting display (without the need of backlight), high color saturation, wide viewing angle, high contrast, fast response time, low energy consumption, and the possibility to realize flexible display, many of which are difficult to achieve with TFT LCD panels.

Therefore, it is expected that after 2023, AMOLED will keep pace with TFT panels. For this reason, the development of AMOLED driver and touch screen related technologies as well as products will become particularly important and urgent.

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

The power-saving requirement to driver ICs or IDC used in the aforementioned handheld mobile devices is increasing gradually. As a result, the production will be evolved towards low power consumption. For this reason, process miniaturization will be adopted to reduce IC power consumption, forcing IC suppliers to consider 12-inch wafers so that more advanced processes for wafer fabrication (i.e., 55-nm and 40-nm processes) will be developed.

(2) Fingerprint recognition IC:

As far as technology is concerned, even though the evaluation of FRR (False Rejection Rate) and FAR (False Acceptance Rate) showed promising results in 3D face recognition, the current 3D structured light face recognition module still requires the use of IRGS Camera+DOT Projector, resulting in higher costs. If there is room for cost reduction in the future, 3D face recognition can only have the chance to compete with the fingerprint recognition market. Moreover, due to the COVID-19 epidemic, people are wearing masks in many occasions, which further affects the performance of face recognition. Therefore, fingerprint recognition technology will continue to dominant the biometric recognition market with its advantages of stable performance, rapid response, lower cost, and mature technology.

In the future, fingerprint recognition technology will develop towards side-mounted capacitive fingerprint solution and optical in-display fingerprint solution. The side-mounted capacitive fingerprint solution is low in cost, but the required algorithm is more difficult, where as the in-display fingerprint solution is easy to operate, adaptable to various environment, conforming with the traditional operation habits of users, and compatible with flexible/rigid OLED display, continuing to win the favor of high-end mobile phones.

(3) Physiological monitoring products:

Medtronic, a major international medical equipment manufacturer, is most active in the research and development of new medical equipment. It is a global leader in medical care for treating diabetic patients and offering cardiovascular monitoring solutions. In 2020, the Food and Drug Administration, MOHW (Ministry of Health and Welfare) approved the medical equipment application for Apple's "ECG App" and "Arrhythmia Notification App", allowing complicated ECG measurement to be performed in everyday life. Apple's App can also measure blood oxygen concentration. However, the measurement

is limited to general fitness and health purposes and cannot be used for medical purposes. The mobile devices of Samsung, Huawei, and Fitbit are capable of measuring blood oxygen as well. Nevertheless, there is currently no smart watch with blood oxygen measurement that can pass the U.S. Food and Drug Administration (FDA) medical certification. Google has completed the acquisition of Fitbit in January 2021, implying that Google's smart wearable device will compete with that of Apple and Samsung in the future.

Currently, smart wearable or portable non-invasive health monitoring sensors can be used to measure temperature, heartbeat, blood oxygen, and other vital statistics. They can also provide services for remote drug management, which will be beneficial for monitoring insulin use in diabetic patients.

#### 4. Product Competition

##### (1) Portable mobile device panel driver IC and touch IC:

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

In addition to smartphone application, FocalTech's IDC solution for TFT in-cell tablet is currently in the leading position in terms of technology. Since FocalTech has exclusive technologies and substantial production capacity as well as experience, it continues to widen the gap with its competitors, becoming one of the most important suppliers for the market in 2020. It is expected that the shipments will continue to grow in 2021. Moreover, FocalTech also incorporated the active stylus function into tablets to continue its leading position in this application.

For AMOLED panels, currently, Samsung has the largest shipment. Its leading position in terms of shipment is expected remain before 2021, accounting for more than 80% of the total AMOLED panel shipments around the world. FocalTech has taken the initiative to engage in the development of AMOLED driver IC, expecting to join the supply chain of Korean manufacturers which was mainly relied STMicroelectronics. For touch IC, FocalTech is one of the few manufacturers around the world who are capable of mass-producing on-cell touch ICs. FocalTech has entered into the Korean supply chain, which will definitely benefit the company's revenue and profitability.

Besides smartphones and tablets, FocalTech also applied the display driver IC, touch IC and other human-machine interface solutions to wearable, and automotive devices. In addition to achieving compact and light-weight structure demanded by the market, it also

helps to control the overall panel module costs, meeting the expected prices of the market.

(2) Fingerprint recognition IC:

Since 2018, fingerprint recognition IC manufacturers have been intensively investing in technology R&D, resulting in the successful development of the in-display fingerprint recognition technology. Currently, major suppliers of capacitive fingerprint recognition sensors include FocalTech, FPC, Goodix, and EgisTec, while the major supplier of ultrasonic in-display fingerprint recognition sensor is Qualcomm. The in-display optical fingerprint recognition technology is dominated by manufacturers such as Goodix, EgisTec, and Silead. Although Synopsys has launched optical fingerprint recognition product before, the research and development focus currently has been shifted to other products.

FocalTech also actively engaged in the development of optical in-display fingerprint recognition IC, optical devices and algorithms. In addition to the current mainstream lens technology, FocalTech also invested in the development of ultra-thin optical in-display fingerprint recognition technology, providing solutions for full-screen display and competing in the market of fingerprint recognition.

(3) Physiological monitoring products:

In 2019, a biomedical technology company in Israel, Biobeat, announced that it will provide household-use blood pressure, heart rate, oxygenation patches and watches to home use, medical institutions and long-term caring centers. The equipment has obtained the 510K input permit from the Food and Drug Administration (FDA) of the United States, hoping to provide solutions for the remote monitoring of the patient's life signs and the cloud health care. The Freescan (cuffless sphygmomanometer) developed by Maisense Taiwan can directly measure blood pressure through pulse reading technology, allowing users to easily manage blood pressure data. The device has been launched to the European market. Although the product mentioned above has made technological breakthroughs, there are still many challenges in terms of usage and price that need to be overcome, preventing it to become a hot-selling product in the market. Since 2017, FocalTech has started to develop physiological monitoring products mobile phones, and has collaborated with National Taiwan University Hospital to jointly develop quick screening software for Arrhythmia. The quick screening software was submitted to the Ministry of Health and Welfare for registration and approval in 2020. In the future, FocalTech will collaborate with National Taiwan University Hospital to carry out a large-scale community screening by using this software, which will be the pioneer to achieve early discovery of heart disease in Taiwan. In addition, the development of a mini-wireless cuffless heart rate and blood pressure monitoring module with medical-grade accuracy will begin this year, which will allow users to measure their physiological data anytime, making blood pressure measurement simple and easy.

(3). Technology and R&D status

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

Unit: NT\$ thousand

Item	2019	2020	Q1 of 2021
R&D expenses (A)	1,551,946	1,636,018	476,900
Net operating revenue (B)	9,160,261	13,800,348	4,349,854
(A)/(B)	16.94%	11.85%	10.96%

2. Successfully developed technologies or products

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

(1).TFT-LCD driver IC :

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

(2). Capacitive touch IC :

R&D items or products	Applications
Double area Trangle Pattern	Mobile phone
Single Layer Sensor for Mutual-cap ( SLM )	Mobile phone , Tablet

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

(3) Integrated touch and display driver IC :

R&D items or products	Applications
A-Si Dual Gate COG/COF HD IC solution	Mobile phone
A-Si Single Gate COG HD IC solution	Mobile phone
LTPS MUX 1:6 FHD COG/COF IDC IC solution	Mobile phone
LTPS MUX 1:3 FHD COG/COF IDC IC solution	Mobile phone
A-Si Cascade IDC IC solution	Tablet
A-Si Automotive IDC IC solution	Automotive
LTPS Automotive IDC IC solution	Automotive
LTPS NB IDC IC solution	NB
AMOLED Wearable IDC IC solution	Wearable
High Frame Rate Solution	Mobile phone

(4).Fingerprint recognition IC :

R&D items or products	Applications
Coating type of capacitive fingerprint recognition IC	Mobile phone
Ceramic covered or, glass covered capacitive fingerprint recognition IC	Mobile phone
Active narrow side-mounted capacitive (including flat and curved surface) fingerprint recognition IC	Mobile phone
Active capacitive fingerprint recognition IC ( MOC )	Notebook
Optical in-display fingerprint recognition IC	Mobile phone
Development of lens, collimator optics and	Mobile phone

R&D items or products	Applications
algorithms	

(5). AMOLED driver IC :

R&D items or products	Applications
Global and Local Auto current limit (ACL)	Mobile phone , Wearable
Always on Display (AOD)	Mobile phone , Wearable
Dynamic ELVSS	Mobile phone , Wearable
SPR Compensation	Mobile phone , Wearable
Dynamic Gamma Control	Mobile phone , Wearable
Demura	Mobile phone , Wearable
IR Drop	Mobile phone , Wearable
Partial Area Gamma	Mobile phone , Wearable
Super RAM Solution	Mobile phone

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

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

1. Short-term development plan

(1). Marketing strategy

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

(2). Production strategy

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

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

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

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

## 2. Long-term development plan

- (1). Marketing strategy
  - A. Strengthen international market capabilities and enhance strategic collaboration with international customers.
  - B. Innovate market demand; create new consumer demand
  - C. Integrate industrial supply chain, strengthen the communication and cooperation between brand owners and panel manufacturers.
- (2). Production strategy
  - A. Share jointly the risks involved in new process and technology development with the supply chain partners.
  - B. Expand economic scale and reduce production costs.
  - C. Prepare our own test and production equipment to reduce costs and meet the production capacity expansion needs.
- (3). Product strategy
  - A. Increase technology lead, and strengthen the R&D of products.
  - B. Integrate related technologies, expand the scope of product lines and deepen the level of technologies.
  - C. Strengthen the technology for high-speed analog and mixed signals.

- D. Develop high-efficiency image processing technology.
  - E. Develop optical fingerprint and bio-sensing technologies.
  - F. Develop touch technology with features of strong signal penetration, high signal-to-noise ratio, and good interference-resistance, as well as expand the application of touch IC in the area of industrial control and medical care.
- (4). R&D strategy
- A. Expand business operation teams, plan core products, establish the company's key technologies and patents, and continue to invest in the development of new generation products to pursue leading technologies.
  - B. Enhance product design capacity, improve R&D processes, and establish the techniques for standardization and modularization to shorten development time and reduce development costs, increasing the competitiveness of new products.
- (5). Operation management and financial planning
- A. Establish a sound management system, implement the company's business philosophy, create an excellent corporate culture, and realize the vision of sustainable operation.
  - B. Utilize the diversified funding channels of capital market to strengthen the financial structure of the company as well as the capability for long-term development. In coordination with the growth of the company, reinforce the business operation teams and improve the company's popularity as well as image.

## 2. Market, Production, and Sales Outlook

### (1). Market analysis

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

Unit : NT\$ thousand

Year Region	2019		2020	
	Sales amount	Percentage	Sales amount	Percentage
China	7,848,830	85.68%	12,527,084	90.77%
Taiwan	1,007,669	11%	1,121,492	8.13%
Others	303,762	3.32%	151,772	1.10%
Total	9,160,261	100%	13,800,348	100%

#### 2. Market share

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

#### (1). Integrated Driver controller (IDC):

In recent years, FocalTech continued to devote itself to the launch of Integrated Driver Controller (IDC). Since LTPS MUX6 technology is widely used in high-end smartphones and high frame rate display technology has been adopted by HD+ and FHD+ smartphones, the shipments of Integrated Driver Controller (IDC) in 2020 have exceeded 200 million units. In addition, several tablet manufacturers have largely adopted IDC into their new models. It is expected that FocalTech's IDC shipments and market share will continue to grow in 2021, maintaining its leading position in the market.

(2). Out-cell capacitive touch IC:

As the touch and driver IC integrated chips are gradually accepted by the market, the market share of out-cell touch ICs in TFT panels has dropped sharply. However, with the increase production of AMOLED panels, and the fact that FocalTech's touch ICs for AMOLED have successfully entered the supply chain of Korea, FocalTech's capacitive touch solution still maintains its leading position in terms of market share in the global smartphone market.

(3).TFT LCD driver IC:

Since Integrated Driver Controller (IDC) is widely accepted by the market, the number of smartphones using TFT LCD driver ICs has declined rapidly. For this reason, FocalTech has shifted its business focus to applications related to medium and large-size panels, such as smart speakers, notebook computers, digital cameras, automotives, etc, continuously evolving the product structure towards the direction of high-tech requirements and high integration. In addition to the mainstream specifications, high-resolution and high-PPI products such as WXGA+, FHD, and QHD were also launched. Due to the long lifecycle of medium and large size products, FocalTech's shipments and revenue have been maintained in 2020, resulting in a fixed market share as in the past.

(4). Fingerprint recognition IC:

After years of research and development, FocalTech began to increase the shipments of capacitive fingerprint recognition IC in 2020, a substantial growth compared with 2019. FocalTech will continue to put more efforts in product promotion, with the shipments of other human-machine interface solutions ICs, to provide customers with the convenience of one-stop shop service.

3. Supply, demand and growth of the future market

(1). Portable mobile device panel driver IC and touch IC:

For the supply of driver ICs for small and medium-sized LCD, China's driver IC manufacturers such as NewVision, ViewSil Microelectronics, Chipone, Solomon Systech, etc., have devoted themselves to the development of LCD driver ICs in recent years. However, their technologies are not mature. On the other hand, although manufacturers in Europe, the United State, Japan, and Korea have well developed technologies, they are less competitive than Taiwanese manufacturers in terms of price, delivery time, service, and flexibility. As a result, they can only win the favor of some brand customers. Since manufacturers in Taiwan have the advantages in technologies, costs, local services and flexibility, and have a better control of the front-end wafer fabrication as well as the back-end package, they are capable of fulfilling most of the market needs. Therefore, Taiwanese manufacturers are currently the leading providers of driver ICs for small and medium-sized LCD.

IDC products and technologies are well developed. They have been mass-produced for mobile phone brand customers and tablet brand customers, providing them with lighter, thinner and better-performing device structure and outstanding touch performance. Therefore, IDC products will maintain its high competitiveness for the future market. With

IDC, FocalTech can expand its market share for intermediate-level products. In 2020, FocalTech shipped more than 200 million units of Integrated Driver Controller (IDC), and was the first to launch the new-generation IDC products for new applications, such as tablets, smart wearables, and automobiles. It is expected that in 2021, FocalTech will continue to maintain its leading position in the market and lead the advancement of in-cell technologies.

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

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

In the application of out-cell capacitive touch IC, FocalTech has developed mature LCD on-cell touch technology which can be applied to AMOLED on-cell solution. FocalTech will continue to promote the technology to international brand mobile phones and various AMOLED panel manufacturers. With the increase of AMOLED's market share in the mobile phone panels, the growth of AMOLED on-cell touch IC will be promoted as well.

Furthermore, FocalTech's touch products have been successfully applied to smart watches, bracelets and earphones. The shipment of touch ICs in the wearable device market will continue to increase, creating more revenue and profits for the company.

(2). Fingerprint recognition IC:

Currently, capacitive fingerprint recognition ICs are widely used for the front, back, and sides of portable electronic devices. They support the cutting of various sizes (track type, square and round), allowing pressing in all directions (360 degrees). They also support coating, ceramic cover, and glass cover. Capacitive fingerprint recognition ICs have been affected by the in-display fingerprint recognition solution in terms of application, making their market share in high-end mobile phones to decline in the future. However, the technology can still be regarded as the mainstream for intermediate-level and low-end mobile phones; consequently, considerable shipments can be maintained. FocalTech has its own algorithm that enables quick unlocked. It can provide functions such as black screen wake-up, file folder privacy protection, fingerprint photo shooting, and fingerprint phone answering. As the number of fingerprint recognition operations increases, the algorithm will perceive changes in fingerprint characteristics caused by temperature and humidity, continue to carry out detection, and automatically update the collection of samples, thereby ensuring a consistent user experience. While ensuring both FRR (False Rejection Rate) and FAR (False Acceptance Rate) are good, the smallest array in the industry, and the

fastest unlocking speed of less than 0.2 seconds were achieved, maintaining the leading position in gesture performance and low power consumption in the industry. These technologies and achievements will increase the willingness of customers to adopt them in the mature market of capacitive fingerprint recognition products. In addition, FocalTech will take the initiative to explore the notebook computer market, winning substantial orders from the market.

With the promotion of full-screen mobile phones, in-display optical fingerprint recognition technology and side-mounted capacitive fingerprint recognition technology will enter a period of rapid growth. In the future, with the decrease in cost, penetration rate and market size will be increased rapidly. In the course of the development process, FocalTech will ensure its full participation, and act aggressively to seize any market opportunities. Since in-display optical fingerprint recognition must be used together with AMOLED displays at current stage, AMOLED display shipment is also an important factor that restricts the penetration of in-display optical fingerprint recognition.

Currently, full-screen displays have become the major configuration for intermediate-level and high-end smartphones, and continue to penetrate towards the whole mobile market. FocalTech's in-display optical fingerprint recognition solution is expected to begin small-volume shipments to end customers in 2021.

(3). Physiological monitoring products:

Taiwan's population over the age of 65 reached 14% in March 2018, officially entering an aging society. It is estimated that by 2026, the population over the age of 65 will exceed 20%, entering a super-aged society, which will increase the number of people in need of long-term caring. Moreover, since the pressure on individual and family caring is increasing, social as well as economic problems may therefore arise. Common diseases of elderly may include chronic diseases such as high blood pressure, diabetes, and heart failure. Patients with these diseases can live like normal people most of the time. However, these diseases may occur from time to time. Therefore, regular monitoring of the conditions of the patient is required, so that appropriate response measures can be taken at the beginning of the onset. Even before the onset, and prediction and warning through various indicators can be provided to achieve the purpose of reducing personal health damage as well as treatment costs.

Through smart sensors and advanced application tools, information collection and management of body data can be carried out. The data can then be returned to the central database for medical care. In addition, video conferencing equipment, medical monitoring, and remote monitoring interfaces can be adopted to observe conditions of patients, improving the management of medical processes. Whether it is Compal and Rueifang Miner Hospital, BenQ Group's medical-related companies in China, ASUS and Show Chwan Health Care System, or Quanta's smart medical cloud, they all hope to utilize the huge resources accumulated by the original Group in the electronics industry and apply them to the biomedical industry. Their main point of entry is based on products related to the medical

equipment industry. FocalTech's core technology lies in the development of electronic devices and algorithms. In the future, we will integrate biomedical health monitoring solutions with the existing optical fingerprint recognition solutions to link personal physiological information with personal data protection, allowing users to feel more secure about data safety.

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

(1). Professional management team: FocalTech's management team has complete training and rich experiences in product market strategy and positioning.

(2). Strong R&D capability :

A. FocalTech continues to demonstrate strong capability in technological innovation and new product development, and has taken the leading position in several areas of the the market.

B. The technical support service bases established at home and abroad can promptly solve customers' product application and production problems, enhancing customer's efficiency in mass production.

(3). Reliable and close customer relationship: FocalTech has an excellent corporate culture, and maintains a long-term close relationship with upstream, midstream and downstream customers and the supply chain. When facing problems, we always adhere to the idea of integrity and do our best to help customers solve their problems. Therefore, we can maintain long-term, close and reliable partnerships with both customers and suppliers.

(4). Deep understanding of various display platforms and products: In addition to solid research and development capabilities, FocalTech has a deep understanding of various display platforms, such as mobile phones, tablets, notebooks, digital cameras, printers, etc., to create more added value for customers.

(5). Good strategic partner: In addition to deep-rooted customer relationships, actively form strategic alliances with brand customers and platform solution providers.

5. Advantages and disadvantages of FocalTech's future development and corresponding countermeasures

(1). Advantages

A. The display industry and its application market are changing rapidly; therefore, operating efficiency and rapid response capabilities are particularly important. In the fast-changing environment, the operating efficiency of professional IC design companies has surpassed the group operation model of traditional Integrated Device Manufacturer (IDM). With the performance of domestic professional wafer fabrication, testing and package plants have reached world-class standards, the long-term competitiveness of professional IC design companies is promising.

B. The overall Touch with Display Driver Integration (TDDI) market continues to grow, especially in the application of small-size panels. The output value of ICs in the market aforesaid is still increasing. This area is currently the focus of FocalTech and is the momentum to continuously boost FocalTech's revenue growth.

C. The brand owners of flat-panel displays attach great importance to the

development of related display technologies and standards. The demand for collaboration with related domestic flat-panel display manufacturers is increasing. Therefore, it is beneficial to FocalTech, who has a solid R&D capability. Regardless of technology development or innovation, FocalTech is in the leading position.

- D. With IC design and software development capabilities, FocalTech owned ITO touch patented patterns will be able to effectively provide customers with solutions in the shortest time and avoid been accused.
- E. Stay close to the market to grasp the market trend, and meet customer order requirements at any time. FocalTech is one of the few IC design companies who can meet the rapidly changing market in China, enhancing the company's position in the market.

(2). Disadvantages and corresponding countermeasures

A. Product prices are facing downward pressure

To stimulate the end consumer market, flat-panel display manufacturers and mobile phone brand customers may adopt low-price strategies, and they also require upstream component suppliers to reduce prices. Although the production capacity has experienced shortage since the second half of 2020, FocalTech strives for production capacity at higher cost, which can also be passed on to customers, reducing the risk of price decline. However, the cost increase level may exceed the that in selling price. In addition, if the production capacity of suppliers in the future is increased, FocalTech will have to face the pressure of falling prices from customers and high production cost inventory on hand, which may seriously affect the profitability.

Countermeasures :

FocalTech will continue to improve product manufacturing processes as well as R&D and design capabilities. In addition, we will seek lower-cost wafer and packaging technologies to reduce manufacturing costs and increase product profit margins. In response to market development trends, we will accelerate the development of new technologies and new products in order to widen the technological gap with competitors in the industry. Furthermore, we will explore new applications, such as wearables, smart home devices, security devices, and automobiles, to increase product competitiveness. We will also take the initiative to sign production capacity guarantee agreements and supply guarantee agreements with suppliers and customers to lock in prices between both parties to avoid the double troubles of high inventory cost and declining of prices after the production capacity is increased.

B. Competitors have engaged in integrated IC solutions

Traditional display driver IC manufacturers and touch IC manufacturers are eager to try. They all launched solutions for Touch with Display Driver Integration to take over a share of the market, worsening the subsequent market competition.

Countermeasures :

Continue to strengthen the deployment of domestic and international patents to increase the entry barrier, and focus on R&D to develop

next-generation products, widening the gap with competitors, and providing customers with more cost-effective and competitive solutions.

#### C. R&D personnel resign risk

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

##### Countermeasures :

FocalTech adopts various equity retention tools, sets rules for the distribution of earnings to employees, implements the product line profit-sharing system, conducts performance assessment and promotion, and carries out specific measures such as internal/external education and training to improve the adhesion and loyalty of employees.

#### D. Risk of inadequate wafer production capacity

With the continuous innovation of electronic products, the demand for semiconductor has increased significantly. In addition to smartphone applications, automotive electronics will consume semiconductor production capacity significantly in the future. Therefore, the amount of production capacity that can be secured will affect the extent of future operational growth.

##### Countermeasures :

Continue to strengthen the strategic partnership with wafer fabs, closely develop product application processes, and obtain certain degree of supply guarantee. In addition, spread the sources of production capacity can reduce the risk of insufficient production capacity from a single wafer fab.

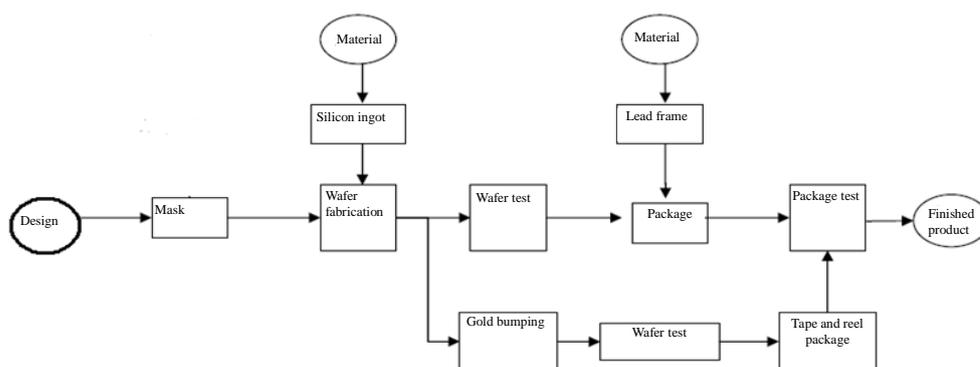
### (2). Important use and production process of major products

#### 1. Important use of major products

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

#### 2. Production process of major products

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



(3). Supply of major material

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

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

1. Information of major suppliers in the past two years

Unit : NT\$ thousand

N o.	2019				2020				Q1 of 2021			
	Name	Amount	Percentage to annual net purchases (%)	Relationship with the issuer	Name	Amount	Percentage to annual net purchases (%)	Relationship with the issuer	Name	Amount	Percentage to net purchases in the current quarter (%)	Relationship with the issuer
1	Supplier A	1,852,265	42%	Non	Supplier A	2,898,657	39%	Non	Supplier A	854,246	42%	Non
2	Supplier B	369,847	8%	Non	Supplier B	2,173,710	29%	Non	Supplier B	679,382	34%	Non
3	Supplier C	1,853,794	42%	Non	Supplier C	1,798,039	24%	Non	Supplier C	290,247	14%	Non
	Others	378,338	8%	—	Others	606,544	8%	—	Others	202,665	10%	—
	Net purchases	4,454,244	100%	—	Net purchases	7,476,950	100%	—	Net purchases	2,026,540	100%	—

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

2. Information of major customers in the past two years

Unit : NT\$ thousand

N o.	2019				2020				Q1 of 2021			
	Name	Amount	Percentage to annual net sales (%)	Relationship with the issuer	Name	Amount	Percentage to annual net sales (%)	Relationship with the issuer	Name	Amount	Percentage to net sales in the current quarter (%)	Relationship with the issuer
1	Company A	1,193,501	13%	Non	Company A	2,060,074	15%	Non	Company H	677,985	16%	Non

No.	2019				2020				Q1 of 2021			
	Name	Amount	Percentage to annual net sales (%)	Relationship with the issuer	Name	Amount	Percentage to annual net sales (%)	Relationship with the issuer	Name	Amount	Percentage to net sales in the current quarter (%)	Relationship with the issuer
2	Company E	1,292,221	14%	Non	Company G	1,666,900	12%	Non	Company A	456,236	10%	Non
3	Company D	1,793,388	20%	Non	Company E	1,539,211	11%	Non	Company I	453,061	10%	Non
					Company D	1,166,796	8%	Non				
	Others	4,881,151	53%	—	Others	7,367,367	54%	—	Others	2,762,572	64%	—
	Net sales	9,160,261	100%	—	Net sales	13,800,348	100%	—	Net sales	4,349,854	100%	—

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

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

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

Unit : 1000 units ; NT\$ thousand

Year	2019			2020		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Major product						
Human-machine interface application related ICs	—	403,595	7,296,496	—	518,318	10,617,261

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

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

Unit : 1000 units ; NT\$ thousand

Year	2019				2020			
	Domestic sales		International sales		Domestic sales		International sales	
Major product	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Human-machine interface application related ICs	7,715	246,411	417,604	8,913,850	13,810	555,576	510,052	13,244,772

## 3. Information of employees

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

2021.04.30; Unit : person

Year		2019	2020	2021 As of April 30
No. of empl oyees	managerial officers	17	15	17
	Production line operator	—	—	—
	Regular staff	771	787	813
	Total	788	802	830
Average age		35	36	36
Seniority of service		4.4	5.1	5
Educ ation back grou nd	PhD	1%	1%	1%
	Master degree	48%	46%	47%
	College	50%	52%	51%
	Senior high school	1%	1%	1%
	Under Senior high school	—%	—%	—%

#### 4. Information on environmental protection expenditures

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

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

#### 5. Labor relations

##### (1). Employee welfare and benefits

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

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

(2). Education and training of employees

1. FocalTech provides employees with rich learning resources. Employees can enhance their knowledge and skills through internal and external training, on-the-job training, knowledge management systems, and guidance from supervisors and peers. Furthermore, through courses for new recruits, professional competencies, supervisory talents, as well as general courses and self-inspired training systems, employees are able to obtain assistance in learning and growth. On the other hand, through dual-track promotion, job rotation, and project assignment, the career and job of employees can be integrated, allowing them to enjoy the pleasure of learning and growing, and create a better future.
2. FocalTech has formulated the "Management Guidelines for Employee Education and Training" and planned related training courses in accordance with the requirements of competencies, professions, regulations and ISO to enhance the knowledge and the quality of employees, improving business performance. The education and training conducted in 2020 are as follows :

Type of training	No. of people	Costs	Class hours
Management training course	133	337,272	156
Professional training course	1,833	602,790	3,575
Self-development training course	322	144,121	158
General training course	0	0	0
New employee orientation	157	4,250	377
Total	2,445	1,088,433	4,266

(3). Retirement system and its implementation status

To secure the retirement life of employees, and improve the spirit of working, FocalTech has formulated the Employee Retirement Management Guidelines in accordance with the Labor Standards Act, specifying the retirement conditions, payment standards and application procedures, and establishing an Employee Retirement Reserve Supervision Committee in accordance with related laws. Retirement funds are allocated monthly and deposited in a special account of the Bank of Taiwan under the name of the Employee Retirement Reserve Supervisory Committee. At the end of the year, if the estimated balance of the special account is insufficient to pay for the employees who are qualified for retirement in the next year, the difference in amount will be provided by the company at once before the end of March of the next year. Since the Labor Pension Act came into effect on July 1, 2005, employees can choose to follow the old pension system or the new system and retain the working experience that are applicable according to the related regulations (retain the working experience accumulated during the old pension system). For employees who are eligible for the new pension system, FocalTech will allocate 6% of the employee's salary

every month to the individual labor insurance account. Subsidiaries are handled in accordance with local laws and regulations.

(4). Labor-management agreement

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

(5). Various employee rights protection measures

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

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

## **6. Material Contracts :**

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

## VI. Financial Status

### 1. Condensed Balance Sheets, Statements of Comprehensive Income, and CPA Audit Opinions for the latest five Years

#### (1) Condensed Balance Sheet

##### 1. Consolidated Financial Statement - IFRS

Unit: NT\$ thousand

Item	Year	Financial information for the Most Recent five Years					Financial information as of March 31, 2021
		2016	2017	2018	2019	2020	
Current assets		9,565,949	8,173,173	8,033,023	8,531,407	8,970,922	10,550,394
Property, plant and equipment		112,096	1,408,474	1,394,372	1,361,478	1,321,940	1,302,523
Intangible assets		3,440,250	3,447,982	1,386,266	1,336,457	1,300,470	1,296,456
Other assets		1,839,036	514,439	486,460	373,627	751,721	917,799
Total assets		14,957,331	13,544,068	11,300,121	11,602,969	12,345,053	14,067,172
Current liabilities	Before distribution	3,162,905	2,543,857	2,879,228	3,412,424	3,956,253	4,681,351
	After distribution	3,352,890	2,693,857	3,029,228	3,562,424	Note 1	/
Non-current liabilities		356,044	256,847	343,278	462,375	577,340	690,469
Total liabilities	Before distribution	3,518,949	2,800,704	3,222,506	3,874,799	4,533,593	5,371,820
	After distribution	3,708,934	2,950,704	3,372,506	4,024,799	Note 1	/
Equity attributable to owners of the parent							
Share capital		2,965,344	2,983,700	2,987,432	2,996,759	2,103,532	2,105,279
Capital surplus		6,625,846	6,654,876	6,551,481	5,145,377	4,843,642	4,851,110
Retained earnings	Before distribution	1,500,205	1,245,139	(1,248,601)	(183,307)	1,012,301	1,857,784
	After distribution	1,310,220	1,245,139	0	0	Note 1	/
Other Equity		396,046	44,363	147,164	5,807	(122,316)	(127,536)
Treasury share		(62,992)	(191,998)	(393,203)	(267,158)	(24,316)	(24,316)
Non-controlling interest		13,933	7,284	33,342	30,692	(1,383)	33,031
Total shareholders' equity	Before distribution	11,438,382	10,743,364	8,077,615	7,728,170	7,811,460	8,695,352
	After distribution	11,248,397	10,593,364	7,927,615	7,578,170	Note 1	/

Data Source: Financial statements audited or reviewed by CPAs.

Note 1: The distribution proposal of 2020 earnings has not yet been resolved by the shareholders' meeting.

2. Individual Financial Statement - IFRS

Unit: NT\$ thousand

Item	Year	Financial information for the Most Recent five Years ( Note 1 )				
		2016	2017	2018	2019	2020
Current assets		2,879,316	2,827,100	1,789,171	2,240,119	5,449,676
Property, plant and equipment		28,837	27,744	30,753	19,408	15,226
Intangible assets		3,365,109	3,350,278	1,328,629	1,312,375	1,296,766
Other assets		6,362,052	5,663,752	5,575,173	5,363,643	4,845,714
Total assets		12,635,314	11,868,874	8,723,726	8,935,545	11,607,382
Current liabilities	Before distribution	1,023,164	972,667	505,919	1,052,458	3,225,284
	After distribution	1,213,149	1,122,667	655,919	1,202,458	Note 1
Non-current liabilities		187,701	160,127	173,534	185,609	569,255
Total liabilities	Before distribution	1,210,865	1,132,794	679,453	1,238,067	3,794,539
	After distribution	1,400,850	1,282,794	829,453	1,388,067	Note 1
Equity attributable to owners of the parent						
Share capital		2,965,344	2,983,700	2,987,432	2,996,759	2,103,532
Capital surplus		6,625,846	6,654,876	6,551,481	5,145,377	4,843,642
Retained earnings	Before distribution	1,500,205	1,245,139	(1,248,601)	(183,307)	1,012,301
	After distribution	1,310,220	1,245,139	0	0	Note 1
Other Equity		396,046	44,363	147,164	5,807	(122,316)
Treasury share		(62,992)	(191,998)	(393,203)	(267,158)	(24,316)
Non-controlling interest		—	—	—	—	—
Total shareholders' equity	Before distribution	11,424,449	10,736,080	8,044,273	7,697,478	7,812,843
	After distribution	11,234,464	10,586,080	7,894,273	7,547,478	Note 1

Data Source: Financial statements audited by CPAs.

Note 1: The distribution proposal of 2020 earnings for has not yet been resolved by the shareholders' meeting.

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

## 1. Consolidated Financial Statement - IFRS

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

Item \ Year	Financial information for the Most Recent five Years					Financial information as of Q1 of 2021
	2016	2017	2018	2019	2020	
Operating revenue	11,018,225	10,798,334	9,919,368	9,160,261	13,800,348	4,349,854
Operating gross profit	2,266,437	2,270,185	1,562,300	1,993,200	3,428,776	1,628,584
Operating profit or loss	207,484	162,215	(675,056)	(340,656)	1,030,737	925,494
Non-operating income and expenses	34,411	41,518	(1,828,593)	160,295	126,360	52,919
Profit before tax	241,895	203,733	(2,503,649)	(180,361)	1,157,097	978,413
Net profit of continued operations for the year	210,109	(103,210)	(2,488,118)	(205,680)	983,458	836,951
Loss of discontinued operations	—	—	—	—	—	—
Net profit (loss) for the year	210,109	(103,210)	(2,488,118)	(205,680)	983,458	836,951
Other comprehensive income for the year (profit after tax)	(176,390)	(373,132)	107,575	(141,671)	(131,355)	(5,033)
Total comprehensive income for the year	33,719	(476,342)	(2,380,543)	(347,351)	852,103	831,918
Net profit attributable to owners of the parent	211,094	(79,680)	(2,451,642)	(175,249)	1,011,992	845,740
Net profit attributable to non-controlling interest	(985)	(23,530)	(36,476)	(30,431)	(28,534)	(8,789)
Comprehensive income attributable to owners of the parent	34,704	(452,812)	(2,346,299)	(315,164)	884,178	840,520
Comprehensive income attributable to non-controlling interest	(985)	(23,530)	(34,244)	(32,187)	(32,075)	(8,602)
Earnings per share	0.73	(0.28)	(8.66)	(0.63)	3.97	4.24

Data Source: Financial statements audited or reviewed by CPAs.

## 2. Individual Financial Statements - IFRS

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

Item	Year	Financial information for the Most Recent five Years				
		2016	2017	2018	2019	2020
Operating revenue		5,637,003	5,197,671	4,298,242	2,901,766	11,410,350
Operating gross profit		1,218,548	1,244,047	679,540	956,905	2,598,804
Operating profit or loss		104,236	303,405	(195,555)	70,632	1,227,794
Non-operating income and expenses		121,048	(347,946)	(2,278,218)	(231,226)	(51,815)
Profit (loss) before tax		225,284	(44,541)	(2,473,773)	(160,594)	1,175,979
Net profit of continued operations for the year		211,094	(79,680)	(2,451,642)	(175,249)	1,011,992
Loss of discontinued operations		—	—	—	—	—
Net profit (loss) for the year		211,094	(79,680)	(2,451,642)	(175,249)	1,011,992
Other comprehensive income for the year (profit after tax)		(176,390)	(373,132)	105,343	(139,915)	(127,814)
Total comprehensive income for the year		34,704	(452,812)	(2,346,299)	(315,164)	884,178
Earnings per share		0.73	(0.28)	(8.66)	(0.63)	3.97

Data Source: Financial statements audited by CPAs.

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

Year	Accounting Firm	Names of CPAs	Audit opinions
2016	Deloitte & Touche	CPA Lilac Shue, CPA Shu-Wan Lin	Unqualified opinion
2017	Deloitte & Touche	CPA Lilac Shue, CPA Shu-Wan Lin	Unqualified opinion
2018	Deloitte & Touche	CPA Lilac Shue, CPA Shu-Wan Lin	Unqualified opinion
2019	Deloitte & Touche	CPA Lilac Shue, CPA Chih-Ming Shao	Unqualified opinion
2020	Deloitte & Touche	CPA Lilac Shue, CPA Chih-Ming Shao	Unqualified opinion

## 2. Financial Analysis for the latest five Years

### (1) Consolidated Financial Statements - IFRS

Analytical items (Note 2)		Financial Analysis for the Most Recent five Years					Financial Information as of March 31, 2021
		2016	2017	2018	2019	2020	
Financial Structure (%)	Debt-asset Ratio	23.53	20.68	28.52	33.39	36.72	38.19
	Ratio of Long-term Capital to Property, Plant and Equipment	10,521.72	780.48	601.53	599.34	634.69	718.05
Solvency (%)	Current Ratio	302.44	321.29	279.00	250.01	226.75	225.37
	Quick Ratio	219.59	212.82	202.62	195.64	180.46	180.86
	Interest Coverage Ratio	2,924.56	2,205.55	(318,430.41)	(15,556.34)	57,95.67	41,16.89
Operating Efficiency (Note 1)	Receivables Turnover Rate (times)	7.54	8.33	8.85	7.62	9.04	10.07
	Average Collection Days for Receivables	48.4	43.81	41.24	47.89	40.37	36.26
	Inventory Turnover Rate (times)	3.44	3.27	3.48	3.88	6.24	5.77
	Payables Turnover Rate (times)	6.96	5.98	5.69	3.97	5.58	5.74
	Average Days of Sale	105.96	111.62	104.88	94	58.49	63.3
	Property, Plant and Equipment Turnover Rate (times)	84.66	14.2	7.08	6.65	10.29	13.26
	Total Asset Turnover Rate (times)	0.73	0.76	0.8	0.8	1.15	1.32
Profitability	Return on Assets (%)	1.44	(0.67)	(20.02)	(1.79)	8.23	6.35
	Return on Equity (%)	1.83	(0.72)	(26.11)	(2.23)	13.05	10.27
	Ratio of Income Before Tax to Paid-in Capital (%)	8.16	6.83	(83.81)	(6.02)	55.01	46.47
	Profit Margin Before Tax(%)	1.91	(0.96)	(25.08)	(2.25)	7.13	19.24
	Earnings per share(NT\$)	0.73	(0.28)	(8.66)	(0.63)	3.97	4.24
Cash Flow	Cash Flow Ratio(%)	36.28	17.31	(3.73)	29.22	22.31	20.73
	Cash Flow Adequacy Ratio (%)	293.81	267.18	131.81	170.34	183.83	195.24
	Cash Flow Reinvestment Ratio (%)	10.88	3.18	(3.51)	11.8	9.81	11.43
Leveraging	Operating Leverage	2.20	2.39	0.64	0.26	1.28	1.07
	Financial Leverage	1.04	1.06	1	1	1	1

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

1. Interest Coverage Ratio: Primarily due to the significant 2020 increase in income before income tax and interest expenses.
2. Inventory Turnover Rate and Payables Turnover Rate: Primarily due to the increase in cost of goods sold in 2020.
3. Average Days of Sale: Primarily due to the increase in inventory turnover rate.
4. Property, Plant and Equipment Turnover Rate and Total Asset Turnover Rate: Primarily due to the 2020 increase in operating revenue.
5. Return on Assets, Return on Equity, Ratio of Income Before Tax to Paid-in Capital, Profit Margin Before Tax, and Earnings per Share: The significant increase in Net Profit for the Year was primarily due to the 2020 increase in operating revenue and gross margin.
6. Cash Flow Ratio: Primarily due to the 2020 increase in current liabilities.
7. Operating Leverage: Primarily due to the 2020 increase in gross margin.

Data Source: Financial reports audited or reviewed by CPAs.

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

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

1. Financial Structure:

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

(2) Ratio of Long-term Capital to Property, Plant and Equipment = (Total Equity / Non-Current Liabilities) / Net Worth of Property, Plant and Equipment

2. Solvency:

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets – Inventory – Prepaid Expenses) / Current Liabilities

(3) Interest Coverage Ratio = Income Before Income Tax and Interest Expenses / Interest Expenses for the Period

3. Operating Ability:

(1) Receivables (including accounts receivable and notes receivable arising from business operations) Turnover Rate = Net Sales / Average Receivables (including accounts receivable and notes receivable arising from business operation) for Each Period

(2) Average Collection Days for Receivables = 365 / Receivables Turnover Rate

(3) Inventory Turnover Rate = Cost of Goods Sold / Average Inventory

(4) Payables (including accounts payable and notes payable arising from business operations) Turnover Rate = Cost of Goods Sold / Average Payables (including accounts payable and notes payable arising from business operations) for Each Period

(5) Average Days of Sale = 365 / Inventory Turnover Rate

(6) Property, Plant and Equipment Turnover Rate = Net Sales / Average Net Worth of Property, Plant and Equipment

(7) Total Asset Turnover Rate = Net Sales / Average Total Assets

4. Profitability:

(1) Return on Assets = [Net Income + Interest Expenses × (1 – Tax Rate)] / Average Total Assets

(2) Return on Equity = Net Income / Average Total Equity

(3) Profit Margin Before Tax = Net Income / Net Sales

(4) Earnings per Share = (Profit and Loss Attributable to Owners of the Parent – Dividends on Preferred Shares) / Weighted Average Number of Issued Shares (Note 4)

5. Cash Flow:

(1) Cash Flow Ratio = Net Cash Flow from Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Net Cash Flow from Operating Activities for the Most Recent Five Fiscal Years / (Capital Expenditures + Inventory Increase + Cash Dividend) for the Most Recent Fiscal Years

(3) Cash Flow Reinvestment Ratio = (Net Cash Flow from Operating Activities – Cash Dividend) / (Gross Value of Property, Plant and Equipment + Long-term Investment + Other Non-current Assets + Working Capital) (Note 5)

6. Leveraging:

(1) Operating Leverage = (Net Operating Revenue – Variable Operating Costs and Expenses) / Operating Income (Note 6)

(2) Financial Leverage = Operating Income / (Operating Income – Interest Expenses)

(2) Individual Financial Statements - IFRS

Analytical items (Note 1)		Financial Analysis for the Most Recent five Years				
		2016	2017	2018	2019	2020
Financial Structure(%)	Debt-asset Ratio	9.58	9.54	7.79	13.86	32.69
	Ratio of Long-term Capital to Property, Plant and Equipment	40,268.23	39,274.10	26,721.97	40,617.72	55,051.22
Solvency(%)	Current Ratio	281.41	290.65	353.65	212.85	168.97
	Quick Ratio	177.07	198.21	246.14	133.77	130.89
	Interest Coverage Ratio	3,529.50	(11,007.48)	(315,835.25)	(13,840.45)	62,255.34
Operating Efficiency	Receivables Turnover Rate (times)	4.56	5.56	5.45	5.02	11.49
	Average Collection Days for Receivables	80.12	65.59	66.93	72.78	31.76
	Inventory Turnover Rate (times)	3.20	4.13	5.2	3.37	9.62
	Payables Turnover Rate (times)	6.27	5.52	7.05	3.86	6.68
	Average Days of Sale	114.23	88.29	70.25	108.2	37.95
	Property, Plant and Equipment Turnover Rate (times)	172.89	183.72	146.96	115.7	658.91
	Total Asset Turnover Rate (times)	0.43	0.42	0.42	0.33	1.11
Profitability	Return on Assets (%)	1.65	(0.65)	(23.8)	(1.97)	9.87
	Return on Equity (%)	1.84	(0.72)	(26.11)	(2.23)	13.05
	Ratio of Income Before Tax to Paid-in Capital (%)	7.60	(1.49)	(82.81)	(5.36)	55.9
	Profit Margin Before Tax(%)	3.74	(1.53)	(57.04)	(6.04)	8.87
	Earnings per share(NT\$)	0.73	(0.28)	(8.66)	(0.63)	3.97
Cash Flow	Cash Flow Ratio(%)	145.82	36.31	40.9	38.65	35.42
	Cash Flow Adequacy Ratio (%)	5.19	3.98	3.25	1.81	1.84
	Cash Flow Reinvestment Ratio (%)	17.74	2.14	0.82	3.9	14.06
Leveraging	Operating Leverage	2.11	1.31	0.38	2.09	1.07
	Financial Leverage	1.07	1.00	1.00	1.02	1.00

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

1. Debt-asset Ratio and Current Ratio: Primarily due to the 2020 increase in current liabilities.
2. Ratio of Long-term Capital to Property, Plant and Equipment: Primarily due to the significant 2020 increase in shareholders' equity.
3. Interest Coverage Ratio: Primarily due to the significant 2020 increases in income before income tax and interest expenses.
4. Receivables Turnover Rate; Average Collection Days for Receivables; Inventory Turnover Rate; Payables Turnover Rate; Average Days of Sale; Property, Plant and Equipment Turnover Rate ; Total Asset Turnover Rate: Primarily due to the significant 2020 increases in operating revenue and cost of goods sold.
5. Return on Assets, Return on Equity, Ratio of Income Before Tax to Paid-in Capital , Profit Margin Before Tax, and Earnings per Share: The significant increase in Net Profit for the Year was primarily due to the 2020 increases in revenue and gross margin.
6. Cash Flow Reinvestment Ratio: Primarily due to the 2020 increase in the net cash inflow from operating activities.
7. Operating Leverage: Primarily due to the increase in operating income and the decrease in the ratio of interest expenses to operating income.

Data Source: Financial reports audited by CPAs.

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

### 1. Financial Structure

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

(2) Ratio of Long-term Capital to Fixed Assets = (Net Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

### 2. Solvency

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets – Inventory – Prepaid Expenses) / Current Liabilities

(3) Interest Coverage Ratio = Income Before Income Tax and Interest Expenses / Interest Expenses for the Period

### 3. Operating Ability

(1) Receivables (including accounts receivable and notes receivable arising from business operations) Turnover Rate = Net Sales / Average Receivables (including accounts receivable and notes receivable arising from business operation) for Each Period

(2) Average Collection Days for Receivables = 365 / Receivables Turnover Rate

(3) Inventory Turnover Rate = Cost of Goods Sold / Average Inventory

(4) Payables (including accounts payable and notes payable arising from business operations) Turnover Rate = Cost of Goods Sold / Average Payables (including accounts payable and notes payable arising from business operations) for Each Period

(5) Average Days of Sale = 365 / Inventory Turnover Rate

(6) Fixed Assets Turnover Rate = Net Sales / Average Net Worth of Fixed Assets

(7) Total Asset Turnover Rate = Net Sales / Average Total Assets

### 4. Profitability

(1) Return on Assets = [Net Income + Interest Expenses × (1 – Tax Rate)] / Average Total Assets

(2) Return on Shareholders' Equity = Net Income / Average Net Shareholders' Equity

(3) Profit Margin Before Tax = Net Income / Net Sales

(4) Earnings per Share = (Profit after tax – Dividends on Preferred Shares) / Weighted Average Number of Issued Shares (Note 4)

### 5. Cash Flow

(1) Cash Flow Ratio = Net Cash Flow from Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Net Cash Flow from Operating Activities for the Most Recent Five Fiscal Years / (Capital Expenditures + Inventory Increase + Cash Dividend) for the Most Recent Fiscal Years

(3) Cash Flow Reinvestment Ratio = (Net Cash Flow from Operating Activities – Cash Dividend) / (Gross Value of Fixed Assets + Long-term Investment + Other Assets + Working Capital) (Note 5)

### 6. Leveraging:

(1) Operating Leverage = (Net Operating Revenue – Variable Operating Costs and Expenses) / Operating Income (Note 6)

(2) Financial Leverage = Operating Income / (Operating Income – Interest Expenses)

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

#### **FocalTech Systems Co., Ltd. Audit Committee' Review Report**

The Board of Directors has prepared the 2020 Business Report, Financial Statements, and proposal for earnings distribution of the Company. The CPA firm of Deloitte & Touche was appointed to audit the Company's Financial Statements and has issued an audit report accordingly. The Business Report, Financial Statements, and proposal for earnings distribution have been reviewed by the Audit Committee members of the Company and determined to be correct and accurate. We hereby submit this report in accordance with the Securities and Exchange Act and the Company Act.

Chairperson of Audit Committee Chan-Jane Lin



April 28, 2021

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

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

### 1. Financial Position

Unit: NT\$ thousand

Item \ Year	2020	2019	Variation	
			Amount	%
Current assets	8,970,922	8,531,407	439,515	5
Fund and investments	482,636	117,252	365,384	312
Property, plant and equipment	1,321,940	1,361,478	(39,538)	(3)
Intangible assets	1,300,470	1,336,457	(35,987)	(3)
Other assets	269,085	256,375	12,710	5
Total assets	12,345,053	11,602,969	742,084	6
Current liabilities	3,956,253	3,412,424	543,829	16
Non-current liabilities	577,340	462,375	114,965	25
Total liabilities	4,533,593	3,874,799	658,794	17
Share capital	2,103,532	2,996,759	(893,227)	(30)
Capital surplus	4,843,642	5,145,377	(301,735)	(6)
Retained earnings	1,012,301	(183,307)	1,195,608	(652)
Other Equity	(122,316)	5,807	(128,123)	(2,206)
Treasury share	(24,316)	(267,158)	242,842	(91)
Non-controlling interest	(1,383)	30,692	(32,075)	(105)
Total shareholders' equity	7,811,460	7,728,170	83,290	1

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

1. Increase in Funds and Investments: Primarily due to the increase in financial product investments.
2. Increase in Non-current Liabilities: Primarily due to the increase in guarantee deposits received and deferred income tax liabilities.
3. Decrease in Share Capital: Primarily due to cash refund capital reduction in 2020.
4. Increase in Retained Earnings: Primarily due to the 2020 increase in net income.
5. Decrease in Other Equity: Primarily due to the decrease in gains (losses) on the exchange differences resulting from translating the financial statements in foreign operations.
6. Treasury Shares: Primarily due to the transfer of treasury shares to employees.
7. Decrease in Non-controlling Interest: Primarily due to subsidiaries' net losses.

## 2. Financial Conditions

Unit: NT\$ thousand

Item	Year	2020	2019	Variation	
				Amount	%
Operating revenue		13,800,348	9,160,261	4,640,087	51
Operating gross profit		3,428,776	1,993,200	1,435,576	72
Net operating profit or loss		1,030,737	(340,656)	1,371,393	403
Non-operating income and expenses		126,360	160,295	(33,935)	(21)
Profit before tax		1,157,097	(180,361)	1,337,458	742
Net profit for the year		983,458	(205,680)	1,189,138	578
Other comprehensive income for the year (profit after tax)		(131,355)	(141,671)	10,316	7
Total comprehensive income for the year		852,103	(347,351)	1,199,454	345
Net profit (loss) attributable to owners of the parent		1,011,992	(175,249)	1,187,241	677
Comprehensive income attributable to owners of the parent for the year		884,178	(315,164)	1,199,342	381

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

1. Increase in Operating Revenue, Operating Gross Profit, and Operating Profit: Primarily due to the significant 2020 increases in operating revenue and gross margin.
2. Decrease in Non-operating Income and Expenses: Primarily due to the decrease in interest income.
3. Increase in Profit Before Tax, Net Profit for the Year, Net Profit, and Total Comprehensive Income Attributable to Owners of the Company: Primarily due to the significant 2020 increases in operating revenue and gross margin.

## 3. Cash Flow

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

Beginning of year cash balance	Expected net operating activities cash flow for the whole year	Expected net cash flow of investing and financing activities for the whole year	Exchange rate effects	Estimated cash surplus (deficit)	Correction action for cash deficit	
					Investment	Financing
3,461,503	726,916	(104,085)	(72,652)	4,011,682	—	—

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

1. Operating Activities: Net cash inflow of NT\$726,916,000 was primarily due to the increase in Net Profit for the Year.
2. Investing Activities: Net cash inflow of NT\$63,318,000 was primarily due to the decrease in other financial assets and the increase in the financial products acquired.
3. Financing Activities: The net cash of NT\$167,403,000 used was primarily due to the cash refund capital reduction, and the increase in cash dividend distribution, transfer of treasury shares to employees, and guarantee deposits received in 2020.

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

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

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

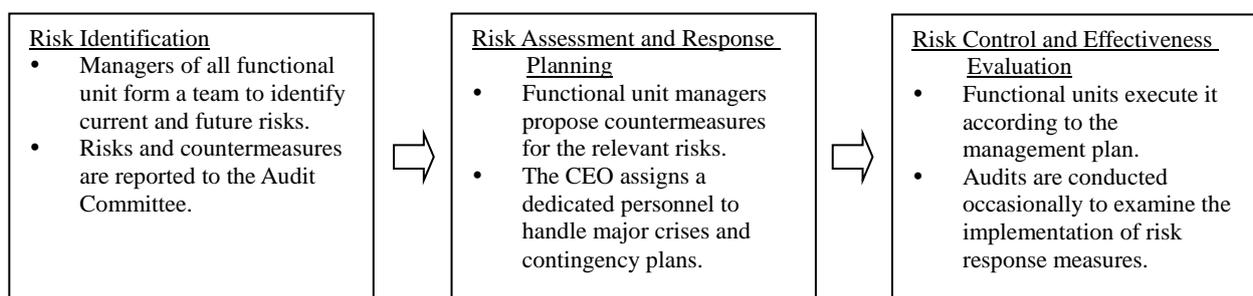
- (1) Utilization of major capital expenditures: None.
- (2) Projected possible effects: None.

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

The Company's investments in other companies are primarily strategic investments. The investment loss under equity method of NT\$16,072,000 in 2020 was primarily due to operating losses by Company-owned subsidiaries in 2020. In the future, the Company will continue to prudently assess and substantially manage investments in other companies based on the long-term strategic principle.

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

Risk Management Framework



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

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

The Consolidated Company's interest rate risk arose primarily from both fixed deposits and bond investments with fixed interest rates, as well as from cash in bank and structured investment products with floating rates. The Consolidated Company's time deposits had fixed interest rates, and its bond investments had fixed or guaranteed minimum interest rates and were measured at amortized cost; therefore, changes in interest rates did not affect future cash flows. As for the Group's financial assets held as of December 31, 2019 and 2020 associated with interest rate fluctuations, for every 0.25% increase in market interest rates, profit before tax for financial assets with floating rates would increase by NT\$5,259,000 and NT\$9,445,000, respectively. If the market interest rate decreased by 0.25%, the resulting amounts would be the same but in negative values.

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

- (1) The Company regularly evaluates bank deposit/borrowing rates, obtains average market rates, and closely liaises with banks to strive for the most favorable deposit/borrowing rates.
- (2) In the future, the Company will use various financing channels for fundraising in a timely manner, depending on the operating conditions and capital requirements.

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

The Group's exchange rate risk relates primarily to operating activities (when the currency used for revenue or expenses differs from the Company's functional currency) and net investments in foreign operations. The Group is primarily affected by fluctuations in the exchange rates with the U.S. dollar (USD) and Renminbi (RMB). Based on the sensitivity analysis of the Group's foreign exchange rate risk for the U.S. dollar and Renminbi currencies as of December 31, 2020, the amount of increase/decrease in profit before tax associated with net assets/liabilities, in a situation where the New Taiwan dollar (NTD) had weakened 5% against the respective currencies, is shown in the table below:

Unit: NTD thousands

	Impact of USD	Impact of RMB
Effect on Profit and Loss or Equity	59,478	2,699

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

- (1) The Company's finance department maintains frequent communication with the foreign exchange departments of correspondent financial institutions to collect information on exchange rate changes on a constant basis and to keep abreast of international exchange rate trends and changes, in order to proactively respond to negative effects from exchange rate

fluctuations. The Company manages its forward exchange transactions and foreign exchange settlements with reference to exchange rate movements.

(2) The finance department submits monthly internal assessment reports on net foreign currency asset (liability) positions that require hedging to the Company's management, for the purpose of determining hedging measures to be taken.

(3) The use of foreign currency from the sale of products in/to foreign countries to pay for foreign currency payables arising from the purchase of materials can hedge part of the exchange rate risk by taking advantage of the natural hedging feature. Therefore, the Company only has to use other instruments for net foreign currency assets (liabilities); examples include the purchase and sale of forward exchange, depending on the exchange rate fluctuations to hedge the risk of exchange rate changes in a timely manner.

3. Effects on the Company's profits/losses from changes in the inflation rate, and response measures to be taken in the future

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

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

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

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

The Company's derivatives transactions policy remains conservative and prudent, and is not used for arbitrage or speculative purposes, so there is no significant market risk. Thus, in addition to following laws and regulations of the competent authorities and generally accepted accounting principles, the Company has established the Procedures for the Acquisition or Disposal of Assets, as approved by the shareholders' meeting, to regulate procedures for engaging in derivatives transactions.

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

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

products, and master key factors such as talent, capital, and technology to pursue a leading R&D position.

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

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

(5) Effects from the Company's Financial Operations of Developments in Science and Technology as Well as Industrial Change, and Response Measures to Be Taken

The Company stays constantly aware of technological changes and developments in the industry in which it operates, and quickly grasps industry dynamics. Additionally, the Company is constantly enhancing its R&D capabilities, applying for patents to protect its various innovative concepts and designs, and actively expanding its market applications for the future. Hence, changes in technology and the industry have a positive impact on the Company.

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

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

(7) Expected Benefits and Possible Risks Associated with Any Mergers or Acquisitions, and Mitigation Measures Being or to Be Taken: None.

(8) Expected Benefits and Possible Risks Associated with Any Plant Expansion, and Mitigation Measures Being or to Be Taken: None.

(9) Risks Associated with Any Consolidation of Sales or Purchasing Operations, and Mitigation Measures Being or to Be Taken

1. Risks from Consolidated Purchasing Operations

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

2. Risks from Consolidated Sales Operations

The Company sells its products primarily through dealers, mobile phone module manufacturers, and panel manufacturers, and sells to major mobile phone brands in Japan in addition to the mobile phone market in China. The Company sells its products to a wide range of end-user customers through dealers, module, and panel manufacturers. In 2020, no single customer accounted for 25% or more of net operating revenues, and thus there is no risk of over-reliance on a single customer or high customer concentration.

(10) Effects Upon and Risks to the Company in the Event a Major Quantity of Shares Belonging to a Director, Supervisor, or Shareholder Holding Greater than a 10 Percent Stake in the Company Being Transferred or Otherwise Changing Hands; and Mitigation Measures Being or to Be Taken:

None.

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

(12) Litigious and Non-litigious Matters

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

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

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

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

(13) Information Security Risks and Mitigation Measures Being or to Be Taken

With the globalization of the Internet, network security risks has become a major concern in enterprises. It is especially significant in the IC design industry, where the outflow of technology has to be prevented while at the same time intellectual achievements must be presented. As a result, the Company has set up information security policies and specific management plans for information security operations, such as strengthening protection measures to avoid unauthorized internal/external access and virus invasion, improving backup policies and conducting recovery tests and drills, monitoring for abnormalities, etc. The goal is to implement risk management on information security, protect the Company's trade secrets and intellectual property, and achieve sustainable business development.

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

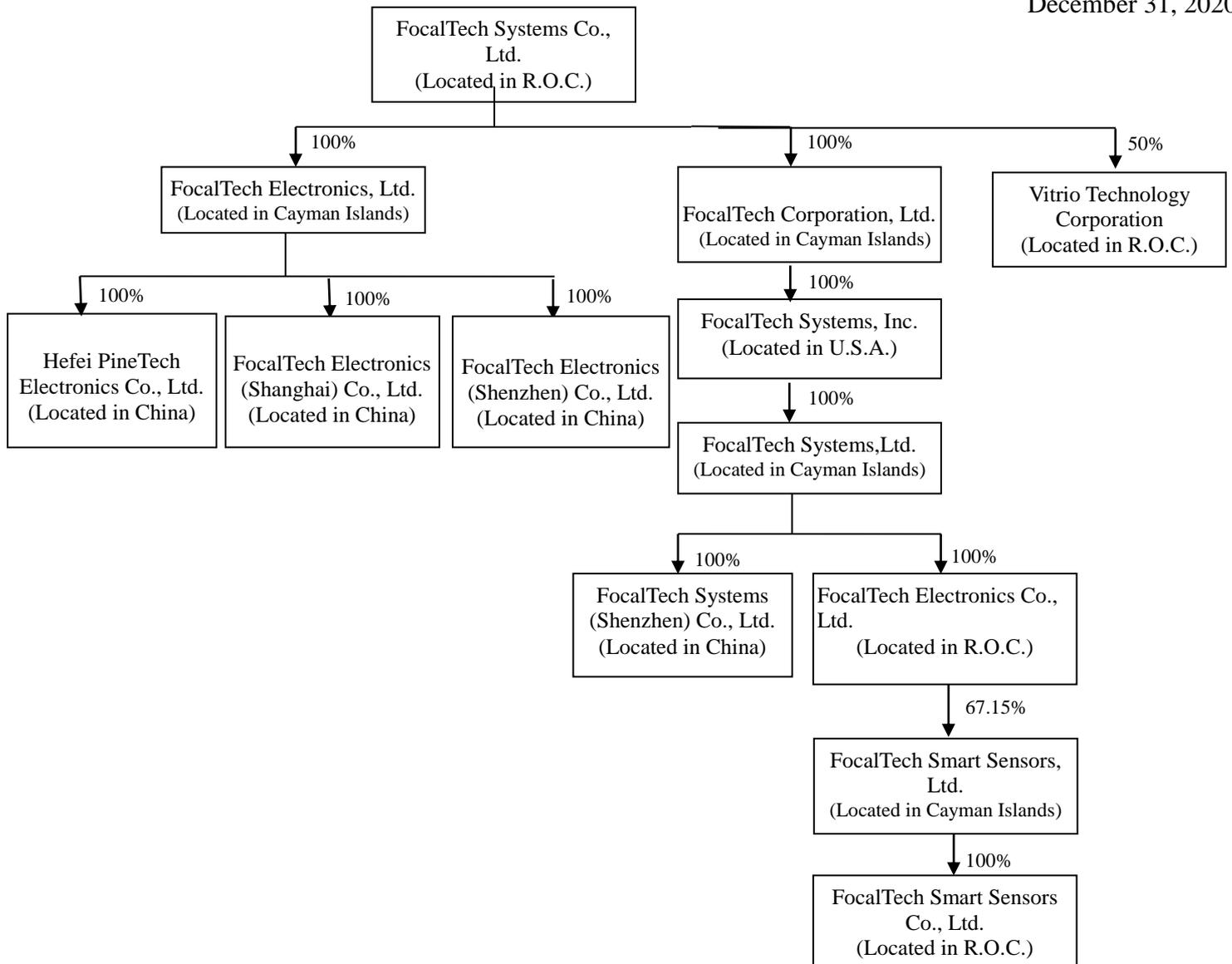
**7. Other Important Matters: None.**

## VIII. Special Disclosure

### 1. Information regarding the Company's Affiliates

#### (1) Organization Chart of the Company's Affiliates

December 31, 2020



(2) Profiles of the Company's Affiliates

December 31, 2020; Unit: NT\$ thousand/Foreign currency: thousands

Name of Enterprise	Date of establishment	Address	Paid-in Capital	Major operations
FocalTech Corporation, Ltd.	July 2012	Cayman Islands	TWD 7,059,264	Investment holding
FocalTech Systems, Inc.	October 2005	U.S.A.	USD 102,293	Investment holding
FocalTech Systems, Ltd.	October 2005	Cayman Islands	USD 23,350	Investment holding
FocalTech Electronics, Ltd.	August 2014	Cayman Islands	USD 100	Investment holding
FocalTech Systems (Shenzhen) Co., Ltd.	April 2006	China	USD 37,000	Design and R&D of consumer electronic chips
FocalTech Electronics (Shenzhen) Co., Ltd.	March 2015	China	USD 2,300	R & D, production management and sales of consumer electronic chips
FocalTech Electronics (Shanghai) Co., Ltd.	November 2014	China	USD2,000	Sales service of consumer electronic chips
FocalTech Electronics Co., Ltd.	June 2006	R.O.C.	TWD 20,000	Customs declaration for import and export of consumer electronic chips
FocalTech Smart Sensors Co., Ltd.	July 2016	R.O.C.	TWD87,085	R & D, production management and sales of consumer electronic chips
Hefei PineTech Electronics Co., Ltd.	July 2015	China	RMB30,000	R & D and sales of consumer electronic chips
FocalTech Smart Sensors, Ltd.	December 2017	Cayman Islands	USD9,115	Investment holding
Vitrio Technology Corporation	September 2020	R.O.C.	TWD 2,840	R & D, production management and sales of consumer electronic chips

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

(4) Industries and Business Covered by the Company and Affiliates

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

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

December 31, 2020

Name of Enterprise	Title	Name or representative	Status of shareholding	
			Quantity	Ratio of Shareholding
FocalTech Corporation, Ltd.	Director	Genda J. Hu	—	—
FocalTech Systems, Inc.	Director	Genda J. Hu	—	—
FocalTech Systems, Ltd.	Director	Genda J. Hu	—	—
FocalTech Electronics, Ltd.	Director	Genda J. Hu	—	—
FocalTech Systems (Shenzhen) Co., Ltd.	CEO President Supervisor	Genda Hu Genda Hu Hsiao-Peng Kuo	—	—
FocalTech Electronics (Shenzhen) Co., Ltd.	Executive Director President Supervisor	Genda Hu Genda Hu Hsiao-Peng Kuo	—	—
FocalTech Electronics (Shanghai) Co., Ltd.	Executive Director President Supervisor	Genda Hu Genda Hu Ya-Tzu Tseng	—	—
FocalTech Electronics Co., Ltd.	Chairman Director Director Supervisor	Genda Hu James Liao Hsing-Chuan Chung Chiung-Ju Chou	—	—
FocalTech Smart Sensors Co., Ltd.	Chairman Director Director Supervisor	James Liao Ya-Tzu Tseng Hsing-Chuan Chung Pei-Hsin Wu	—	—
Hefei PineTech Electronics Co., Ltd.	Chairman President Director Director Supervisor	Wei-Ching Hou Wei-Ching Hou James Liao Lien-Kuo Wang Hsiao-Wen Liu	—	—
FocalTech Smart Sensors, Ltd.	Chairman	James Liao	405,000	1.45%
	Director	GWAA LLC(Designated representative:Pei-Tzu Wu)	375,000	1.34%
	Director	FocalTech Electronics Co., Ltd. (Designated representative: Ching-Kai Chang)	18,813,050	67.15%
	Director	FocalTech Systems Co., Ltd.(Designated representative: Jui-Cheng Hsu)	-	-
	Director	Chou-Hao Tsai	-	-
	Director	Yen Shen	-	-
	Director	FocalTech Electronics, Ltd.	-	-
Vitrio Technology Corporation	Chairman Director Director Director Supervisor Supervisor	Ming-Tuo Yu Jui-Cheng Hsu Yu-Hsuan Lin Pei-Tzu Wu Chia-Chi Chang James Liao	—	—

(6) Operation Result of Each Affiliate:

December 31, 2020; Earnings per share are expressed in NTD, while others are expressed in NT\$ thousand

Name of Enterprise	Capital	Total assets	Total liabilities	Net Worth	Operating revenue	Operating profit	Profit or loss for the year (after tax)	Earnings per share (loss) (NT\$) Earnings per share (after tax)
FocalTech Corporation, Ltd.	7,059,264	2,980,445	6,250	2,974,195	-	(8,117)	26,164	Note 1
FocalTech Electronics, Ltd.	2,848	1,990,350	427,472	1,562,878	800,665	(91,016)	2,732	Note 1
FocalTech Smart Sensors, Ltd.	259,602	123,949	128,160	(4,211)	-	(25,134)	(86,850)	(3.10)
FocalTech Systems, Inc.	2,913,300	3,165,667	316,648	2,849,019	25,117	(552)	35,774	Note 1
FocalTech Systems, Ltd.	665,010	3,449,701	526,737	2,922,964	1,460,591	(17,637)	34,840	Note 1
FocalTech Systems (Shenzhen) Co., Ltd.	1,053,764	1,374,378	97,071	1,277,307	431,537	15,012	20,761	Note 2
FocalTech Electronics (Shenzhen) Co., Ltd.	65,504	237,034	178,760	58,274	296,586	11,770	13,801	Note 2
FocalTech Electronics (Shanghai) Co., Ltd.	56,960	49,786	14,036	35,750	72,658	3,460	2,032	Note 2
FocalTech Electronics Co., Ltd.	20,000	144,340	-	144,340	1,921	238	(20,731)	Note 1
FocalTech Smart Sensors Co., Ltd.	87,085	47,259	249,298	(202,039)	190	(72,155)	(62,102)	Note 1
Vitrio Technology Corporation	2,840	5,786	1,615	4,171	483	(5,769)	(5,769)	(20.31)
Hefei PineTech Electronics Co., Ltd.	130,944	229,285	12,140	217,145	48,744	(14,855)	57,091	Note 2

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

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

**2. Private placement of securities in the most recent year and up to the date of publication of the annual report: Not applicable**

**3. Subsidiaries' holding or disposal of the Company's shares in the most recent year and up to the date of publication of the annual report: Not applicable**

**4. Other necessary supplementary notes: None**

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

## Attachment 1

### REPRESENTATION LETTER

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

Very truly yours,

FocalTech Systems Co., Ltd.



By

Genda James Hu

Chairman



March 29, 2021

## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

We have audited the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

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

Key audit matters for the Group's consolidated financial statements in the current period are stated as follows:

#### Sales Revenue

The sales revenue of Integrated Driver Controller is the main indicator of financial and business performance evaluated by investors and the management. It possibly exist the pressure to achieve the

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financial target, and it might result in the risk of the occurrence of sales revenue. Therefore, the sales revenue of Integrated Driver Controller is listed in the Key Audit Matters in 2020.

Refer to Notes 4,21 for the accounting policy, accounting estimation and disclosure information.

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

1. We evaluated the design of internal control related to sales and collection cycle and the implement of the internal control.
2. We obtained customer ranking list in 2020, and analyze the differences of customers and its sales amount.
3. We analyzed if the sales quantities, sales revenue and gross margin by products existed material exception.
4. We sampled purchase orders, shipping documents bills of lading, and collection records in revenue breakdown to ensure the occurrence of sales revenue.

### **Other Matter**

We have also audited the parent company only financial statements of FocalTech Systems Co., Ltd. as of and for the years ended December 31, 2020 and 2019 on which we have issued an unmodified opinion.

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

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

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and

obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 29, 2021

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

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

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

## FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

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

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# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

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

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

(Concluded)

**FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
(In Thousands of New Taiwan Dollars)

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

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

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# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

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

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# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

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

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

(Concluded)

# FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

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

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### 1. GENERAL INFORMATION

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

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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

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

The evaluation of fair value could be classified into level 1 to level 3 based on the degree of the observable intensity and importance of related input value:

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

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

Current assets include:

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

Current liabilities include:

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

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

##### d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Applicable adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Total comprehensive income of the subsidiaries is attributed both to the shareholders of the parent and the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing

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controlling over the subsidiaries are accounted as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their interests in the subsidiaries respectively. The amount adjusted for the non-controlling interests and the difference between fair value and the consideration paid or received are recognized directly in equity and attributed to shareholders of the parent.

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

e. Foreign currencies

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

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

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

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

f. Inventories

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

g. Property, plant and equipment

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

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

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

h. Goodwill

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

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

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

i. Intangible assets

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

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

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

j. Impairment of tangible and intangible assets other than goodwill

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

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

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

k. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or

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

1) Financial assets

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

i) Measurement category

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

A. Financial asset at FVTPL

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

Any dividends, interest earned and gain or loss arising from the remeasurement is recognized in profit or loss at fair value. The determination methodology of fair value of financial instruments states in Note 29.

B. Financial assets at amortized cost

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

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

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

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

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

C. Investments in debt instruments at FVTOCI

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

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

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

ii) Impairment of financial assets

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

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

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

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

iii) Derecognition of financial assets

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

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

2) Equity instruments

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

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

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

i) Subsequent measurement

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

ii) Derecognition of financial liabilities

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

l. Provisions

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

m. Revenue recognition

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

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

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

n. Lease

2020

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

The Group as lessee

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

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o. Government Grants

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

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

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

q. Share-based payment arrangements

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

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

r. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. In addition, a

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deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

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

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

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

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

### 3) Current and deferred tax for the year

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

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

### Impairment of Goodwill

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

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## 6. CASH AND CASH EQUIVALENTS

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

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Demand deposits	0.001%-0.35%	0.001%-0.35%
Time deposits	0.1%-0.35%	1.56%-2.32%

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

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

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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## 9. OTHER FINANCIAL ASSETS

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

## 10. TRADE RECEIVABLES, NET

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

The average credit period on sales of goods was 60-120 days. In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group recognizes the allowance loss for accounts receivable based on expected credit losses during the duration. The expected credit losses on trade receivables are estimated by using an allowance matrix which references customer default records, customer's current financial position, and general economic conditions of the industry. Due to the past experiences, there is no significant difference among the loss patterns of different customer groups. Therefore, the allowance matrix does not further distinguish the customer groups, and only sets the expected credit loss rate based on the overdue days of trade receivable.

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

### December 31, 2020

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 181 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$1,593,485</u>	<u>\$ 40,401</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 1,633,900</u>

### December 31, 2019

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 181 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$1,420,085</u>	<u>\$ 374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,420,459</u>

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## 11. INVENTORIES

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

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

## 12. SUBSIDIARIES

Subsidiaries included in the consolidated financial statement were as follows:

<b>Investor</b>	<b>Investee</b>	<b>Nature of Activities</b>	<b>Proportion of Ownership</b>	
			<b>December 31 2020</b>	<b>2019</b>
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd. FocalTech Electronics, Ltd.	Investment activity Investment activity	100% 100%	100% 100%
FocalTech Systems Co., Ltd. and FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	67.15% (a)	67.15%
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	Investment activity	100%	100%
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Investment activity	100%	100%
FocalTech Systems, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd. FocalTech Electronics Co., Ltd.	Design and research of integrated circuits Import and export of integrated circuits	100% 100%	100% 100%
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd. FocalTech Electronics (Shenzhen) Co., Ltd. Hefei PineTech Electronics Co., Ltd.	Sales support and post-sales service for affiliates' IC products Research, development, manufacturing and sale of integrated circuits Research, development and sale of integrated circuits	100% 100% 100%	100% 100% 100%

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

## 13. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings</b>	<b>Development Equipment</b>	<b>Office Equipment</b>	<b>Information Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,375,563	\$ 192,558	\$ 15,970	\$ 42,675	\$ 38,956	\$ 1,665,722
Additions	578	99,552	54	1,520	-	101,704
Effect of foreign currency exchange	( 53,180 )	( 6,450 )	( 476 )	( 1,574 )	( 568 )	( 62,248 )

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

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

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

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

#### 14. GOODWILL

	<b><u>For the Year Ended December 31</u></b>	
	<b>2020</b>	<b>2019</b>
Ending balance	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>

Considering the synergy of integration of LCD driver and touch controller under the industry trend, the reverse merger was triggered by FocalTech Corporation, Ltd. on January 2, 2015, resulting the goodwill of \$3,237,268 thousand. In 2018, the impacts of market improper competition and the shortage of wafer supply made the company a serious market share decline, which is expected to influence the market shares and gross margins in the future. Therefore, the recoverable amount from IDC (Integrated Driver Controller) less than the carrying value so the Company recognized the impairment loss of \$2,000,000 thousand. In 2019, based on the market growth and market share gain in smartphone market, the Group estimated cash

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flows from sales of IDC (Integrated Driver Controller), and the recoverable amount exceeded the carrying value. Therefore, the Group did not recognize any impairment on goodwill.

The recoverable amount is calculated by IDC projected net cash flows, discounted at 15.45% and 10.66% for the years ended December 31, 2020 and 2019, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin .

## 15. OTHER INTANGIBLE ASSETS

	<b>Licenses and Franchises</b>	<b>Software</b>	<b>Patents</b>	<b>Trademark</b>	<b>Total</b>
<u>Cost</u>					
Balance at January 1, 2019	\$ 130,393	\$ 157,801	\$ 76,714	\$ 74,000	\$ 438,908
Additions	-	825	-	-	825
Effect of foreign currency exchange differences	( 2,674)	( 3,656)	( 10)	-	( 6,340)
Balance at December 31, 2019	<u>\$ 127,719</u>	<u>\$ 154,970</u>	<u>\$ 76,704</u>	<u>\$ 74,000</u>	<u>\$ 433,393</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2019	\$ 95,724	\$ 133,210	\$ 31,376	\$ 29,600	\$ 289,910
Amortization expense	16,296	18,704	7,786	7,400	50,186
Effect of foreign currency exchange differences	( 2,344)	( 3,538)	( 10)	-	( 5,892)
Balance at December 31, 2019	<u>\$ 109,676</u>	<u>\$ 148,376</u>	<u>\$ 39,152</u>	<u>\$ 37,000</u>	<u>\$ 334,204</u>
Carrying amounts at December 31, 2019	<u>\$ 18,043</u>	<u>\$ 6,594</u>	<u>\$ 37,552</u>	<u>\$ 37,000</u>	<u>\$ 99,189</u>
<u>Cost</u>					
Balance at January 1, 2020	\$ 127,719	\$ 154,970	\$ 76,704	\$ 74,000	\$ 433,393
Additions	-	147	-	-	147
Effect of foreign currency exchange differences	( 5,457)	( 6,870)	4	-	( 12,323)
Balance at December 31, 2020	<u>\$ 122,262</u>	<u>\$ 148,247</u>	<u>\$ 76,708</u>	<u>\$ 74,000</u>	<u>\$ 421,217</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2020	\$ 109,676	\$ 148,376	\$ 39,152	\$ 37,000	\$ 334,204
Amortization expense	17,660	3,057	7,786	7,400	35,903
Effect of foreign currency exchange differences	( 5,206)	( 6,890)	4	-	( 12,092)
Balance at December 31, 2020	<u>\$ 122,130</u>	<u>\$ 144,543</u>	<u>\$ 46,942</u>	<u>\$ 44,400</u>	<u>\$ 358,015</u>
Carrying amounts at December 31, 2020	<u>\$ 132</u>	<u>\$ 3,704</u>	<u>\$ 29,766</u>	<u>\$ 29,600</u>	<u>\$ 63,202</u>

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

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

## 16. SHORT-TERM BORROWINGS

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

## 17. TRADE PAYABLES

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

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

## 18. OTHER PAYABLES

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

## 19. RETIREMENT BENEFIT

### a. Defined contribution plans

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

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b. Defined benefit plans

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

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Present value of defined benefit obligation	\$ 42,275	\$ 45,235
Fair value of plan assets	( 18,909)	( 21,157)
Net defined benefit liability	<u>\$ 23,366</u>	<u>\$ 24,078</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2019	\$ 45,590	(\$ 19,494)	\$ 26,096
Service cost			
Current service cost	125	-	125
Net interest expense (income)	<u>570</u>	( 248)	<u>322</u>
Recognized in profit or loss	<u>695</u>	( 248)	<u>447</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	( 627)	( 627)
Actuarial loss - changes in financial assumptions	1,421	-	1,421
Actuarial loss - experience adjustments	( 2,471)	-	( 2,471)
Recognized in other comprehensive income	( 1,050)	( 627)	( 1,677)
Contributions from the employer	<u>-</u>	( 788)	( 788)
Balance at December 31, 2019	<u>45,235</u>	( 21,157)	<u>24,078</u>
Service cost			
Current service cost	126	-	126
Net interest expense (income)	<u>452</u>	( 215)	<u>237</u>
Recognized in profit or loss	<u>578</u>	( 215)	<u>363</u>
Remeasurement			

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Return on plan assets (excluding amounts included in net interest)	-	( 619)	( 619)
	1,436	-	1,436
Actuarial loss - changes in financial assumptions	1,151	-	1,151
Actuarial loss - experience adjustments	( 2,327)	-	( 2,327)
Recognized in other comprehensive income	260	( 619)	( 359)
Contributions from the employer	-	( 716)	( 716)
Benefits paid	( 3,798)	3,798	-
Balance at December 31, 2020	<u>\$ 42,275</u>	<u>(\$ 18,909)</u>	<u>\$ 23,366</u>

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

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

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Discount rate	0.8%	1%
Expected rate of salary increase	4.5%	4.5%

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Discount rate		
0.25% increase	(\$ 1,501)	(\$ 1,422)
0.25% decrease	<u>\$ 1,566</u>	<u>\$ 1,481</u>
Expected rate of salary increase		
1% increase	<u>\$ 6,441</u>	<u>\$ 6,141</u>
1% decrease	(\$ 5,567)	(\$ 5,334)

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

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isolation of one another as some of the assumptions may be correlated.

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

## 20. EQUITY

### a. Share capital

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Numbers of shares authorized (in thousands)	<u>500,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>210,353</u>	<u>299,676</u>
Shares issued	<u>\$ 2,103,532</u>	<u>\$ 2,996,759</u>

### b. Capital surplus

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

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

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

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

### c. Retained earnings and dividend policy

The amendments to the Company's Articles of Incorporation had been approved by the Company's shareholders in its meeting held on June 20, 2019, which stipulate that earnings distribution may be

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made on a quarterly basis after the close of each quarter.

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

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

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

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

See Note 23(d) for policy stipulated in the Articles of Incorporation regarding to the remuneration for employees and directors.

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

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

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

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

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

d. Treasury stock

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

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

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

e. Non - controlling interests

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

**21. REVENUE**

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

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## 22. NET INCOME

### a. Finance costs

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

### b. Depreciation and amortization

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

### c. Employee benefits expense

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

### d. The remuneration to employees and directors

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

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compensation and remuneration to directors for the year ended December 31, 2020 are as follows:

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

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

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

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

## 23. INCOME TAXES

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

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

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

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

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Income tax expense recognized in profit or loss \$ 173,639 \$ 25,319  
The company's research and development expenditure is expected to offset the corporate income tax by 30%, so the effective tax rate is 14% after considering the deduction effect.

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

b. Current tax assets and liabilities

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Current tax assets( recorded as other current assets)		
Tax refund receivable	\$ 2,050	\$ 1,788

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Current tax liabilities		
Income tax levied on accumulated overseas undistributed earnings (i)	\$ 316,119	\$ 354,833
Income tax payable	117,002	8,339
Total	\$ 433,121	\$ 363,172

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

c. Deferred tax assets and liabilities

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

2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Obsolete of inventory	\$ 89,699	\$ (18,363)	\$ -	\$ -	\$ 71,336
Others	2,111	(6,011)	(50)	-	(3,950)
	91,810	(24,374)	(50)	-	67,386
Loss carryforwards	28,972	11,423	-	219	17,768
	\$ 120,782	\$(35,797)	\$ (50)	\$ 219	\$ 85,154
<u>Deferred tax liabilities</u>					
Intangible assets	\$ 10,290	\$ (2,058)	\$ -	\$ -	\$ 8,232
Temporary differences					
Investment income recognized from foreign investees	23,247	21,734	-	-	44,981
	\$ 33,537	\$ 19,676	\$ -	\$ -	\$ 53,213

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2019

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

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

Loss carryforwards as of December 31, 2020 comprised of:

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

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

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

f. Income tax assessments

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

**24. EARNINGS (LOSS) PER SHARE**

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Unit: NT\$ Per Share

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

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

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

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

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

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

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

## 25. SHARE-BASED PAYMENT ARRANGEMENTS

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

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

### a. Employee stock option plan

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

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

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

### 2020

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

### 2019

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

As of December 31, 2020, the valid and outstanding employee stock option plans are as following:

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

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

#### b. Shares Buy Back Program

Information about the Company buyback its shares as follows:

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Items	The date of board of directors approved	Buyback shares (In thousand share)	Transferred shares (In thousand share)	Adjustment due to capital reduction (In thousand share)	Shares not transferred yet (In thousand share)	Transferred price (in dollar)
The 2nd Shares Buy Back Program	2016/4/28	5,000	5,000	-	-	\$ 26.53
The 3rd Shares Buy Back Program	2017/5/12	6,808	6,808	-	-	36.11
The 4th Shares Buy Back Program	2018/7/26	8,000	7,848	( 46 )	106	33.81 (Adjusted)
The 5th Shares Buy Back Program	2018/8/23	7,689	6,544	( 473 )	672	34.09 (Adjusted)

Information about Shares Buy Back Programs is as follows:

The 2nd Shares Buy Back Program			The 3rd Shares Buy Back Program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2016/10/28	2,624	\$ 11.26	2017/07/24	3,198	\$ 12.85
2017/02/24	50	11.26	2018/07/26	3,515	-
2018/02/08	120	4.20	2019/05/07	95	-
2018/04/24	255	4.30			
2018/07/26	1,765	-			
2019/05/07	186	-			
Total	5,000		Total	6,808	

The 4th Shares Buy Back Program			The 5th Shares Buy Back Program		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2020/03/20	7,848	\$ 11.26	2019/05/07	4,651	\$ -
			2019/11/08	60	-
			2020/03/20	1,399	3.70
			2020/11/06	434	1.90
Total	7,848		Total	6,544	

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

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

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

c. Options of the share transfer plan granted were measured by using the Black-Scholes pricing model

Compensation cost recognized for share-based payments above in 2020 and 2019 were as follows:

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

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

## 26. Equity transactions with non - controlling interests

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

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

## 27. OPERATING LEASE ARRANGEMENTS

### The Group is Lessee

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

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

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

## 28. CAPITAL MANAGEMENT

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

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

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The Group was not restricted to other external capital requirements.

## 29. FINANCIAL INSTRUMENTS

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

The management believes the carrying amounts of financial assets and financial liabilities not measured of fair value approximate their fair values or cannot be reliably measured.

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

#### 1.) Fair value hierarchy

##### December 31, 2020

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

##### December 31, 2019

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

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

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

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

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

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

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

The unlisted equity investment is measured by the market approach, which decides fair value by referring to the recent financing activities of investees or the market transaction prices and status of the similar companies. The Company had carefully evaluated and selected the suitable evaluation method, but the use of different evaluation models or fair values may result in different evaluation results.

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 234,662	\$ 56,354
Amortized cost (Note 1)	7,203,983	6,597,902
Financial assets at FVTOCI		
Investments in debt instruments	247,974	181,373
<u>Financial liabilities</u>		
Amortized cost (Note 2)	3,782,549	3,335,028

1) The amounts include financial instruments measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other financial assets and refundable deposits, booked in other non-current assets.

2) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, trade and other payables and deposits received.

d. Financial risk management objectives and policies

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

The board of directors is solely responsible for established and monitored the framework of risk management of the Group, the board of directors authorized the chairman develop and monitored the risk management policy of the Company with the operation center of the Group, and regularly reported the situation to the board of directors.

The Group's financial risk management policies are developed for identifying and analyzing the

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financial risks to the Group, evaluating the impacts of the financial risks, and executing the financial-risk aversion policies. The financial risk management is periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Group is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Group's board of directors monitors the management on managing the compliance to the financial risk management policies and procedures and reviews the appropriateness of risk management structure. To assist the board of directors, the internal auditors perform period and exceptional reviews on the controls and procedures of financial risk management and report the result of reviews to the board of directors.

#### 1) Market risk

The major financial risks from the Company's operation were foreign currency exchange risk referred to i) and interest rate risk referred to ii).

##### i) Foreign currency risk

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

##### Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit and other equity associated with New Taiwan dollars strengthen 5% against the relevant currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

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

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

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

##### ii) Interest rate risk

The Group was exposed to interest risk arising from fixed rate time deposits, bond investments

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

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

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

#### Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis was prepared assuming the amount of the assets outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2020 and 2019 would decrease/increase by \$9,445 thousand and \$5,259 thousand, respectively.

## 2) Credit risk

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

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

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

#### Credit risk management for investments in debt instruments

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

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

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of December 31, 2020</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 247,974</u>

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>	<u>Expected Credit Loss Ratio</u>	<u>Carrying Amount as of December 31, 2019</u>
Performing	The debtor with low credit risk and fully capable paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 181,373</u>

### 3) Liquidity risk

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

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

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

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

#### December 31, 2020

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

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December 31, 2019

	<b>On Demand or Less than 1 Year</b>	<b>1-5 Years</b>
Non-interest bearing	<u>\$ 2,940,668</u>	<u>\$ 394,360</u>
ii) Financing facilities		
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Unsecured bank line of credits		
Amount used	\$ 495,665	\$ -
Amount unused	<u>204,335</u>	<u>800,000</u>
	<u>\$ 700,000</u>	<u>\$ 800,000</u>
Secured bank loans credits		
Amount used	\$ 43,648	\$ -
Amount unused	<u>392,832</u>	<u>-</u>
	<u>\$ 436,480</u>	<u>\$ -</u>

### 30. TRANSACTIONS WITH RELATED PARTIES

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

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

### 31. ASSETS PLEDGED AS COLLATERAL

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

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

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### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

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

### 33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed.

The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2020

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 147,429	28.48 (USD:NTD)	\$ 4,198,767
USD	2,459	6.5249 (USD:RMB)	70,018
RMB	12,369	0.1533 (RMB:USD)	53,988
<u>Financial liabilities</u>			
Monetary items			
USD	105,765	28.48 (USD:NTD)	3,012,178
USD	2,354	6.5249 (USD:RMB)	67,049

December 31, 2019

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 55,218	29.98 (USD:NTD)	\$ 1,655,432
USD	6,641	6.9762 (USD:RMB)	199,101
RMB	7,588	0.1433 (RMB:USD)	32,610
<u>Financial liabilities</u>			
Monetary items			
USD	38,218	29.98 (USD:NTD)	1,145,788
USD	5,644	6.9762 (USD:RMB)	169,222

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

### 35. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 3)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
- 9) Trading in derivative instruments (None)
- 10) Others: The business relationship between the parent and the subsidiaries and significant transactions between them: (Table 4)
- 11) Information on investees (Table 5)

b. Information on investments in mainland China

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

c. Information of major shareholder

List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder: (Table 7)

### 36. SEGMENT INFORMATION

a. Operating segments

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

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

b. Revenue from major products and services

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

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

c. Geographical information

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

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

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

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

d. Information about major customers

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

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

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

**FocalTech Systems Co., Ltd.**

**FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Amount Actually Drawn	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)	Note
													Item	Value			
1	Focaltech Systems, Ltd.	FocalTech Systems Co., Ltd.	Other receivables	Yes	\$ 1,708,800 (USD 60,000)	\$ 1,708,800 (USD 60,000)	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	\$ -	\$ 2,922,964	\$ 2,922,964	Note 3

Note 1: The items are numbered as follows:

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

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

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

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

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

## FocalTech Systems Co., Ltd.

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

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

Note 1: The items are numbered as follows:

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

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

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

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

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

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

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

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## FocalTech Systems Co., Ltd.

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2020

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

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

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

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

**FocalTech Systems Co., Ltd.**

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

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

Note 1: The items are numbered as follows:

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

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

Note 3:

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

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

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**FocalTech Systems Co., Ltd.**

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

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

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

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

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

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

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

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

**FocalTech Systems Co., Ltd.**

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

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

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

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

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

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

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

**TABLE 7****FocalTech Systems Co., Ltd.****INFORMATION ON MAJOR SHAREHOLDERS  
DECEMBER 31, 2020**

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

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

## Attachment 2

### INDEPENDENT AUDITORS' REPORT

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

#### Opinion

We have audited the accompanying balance sheets of FocalTech Systems Co., Ltd. (the "Company") as of December 31, 2020 and 2019, and the related statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2020 and 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### Basis for Opinion

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

#### Key Audit Matters

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

Key audit matters for the Company's financial statements in the current period are stated as follows:

#### Sales Revenue

The sales revenue of Integrated Driver Controller is the main indicator of financial and business performance evaluated by investors and the management. It possibly exist the pressure to achieve the financial target, and it might result in the risk of the occurrence of sales revenue. Therefore, the sales revenue of Integrated Driver Controller is listed in the Key Audit Matters of 2020.

Refer to Notes 4,21 for the accounting policy, accounting estimation and disclosure information.

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

1. We evaluated the design of internal control related to sales and collection cycle and the implement of the internal control.
2. We obtained customer ranking list in 2020, and analyze the differences of customers and its sales amount.
3. We analyzed if the sales quantities, sales revenue and gross margin by products existed material

exception.

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

### **Responsibilities of Corporate Management and Governance hierarchy For the Financial Statements**

Management Level is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the

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Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 29, 2021

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

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 4 and 6)	\$ 2,455,926	21	\$ 841,430	9
Trade receivables, net (Note 4 , 9 and 29)	1,445,186	12	540,554	6
Inventories (Note 4 and 10)	1,215,281	11	617,115	7
Other financial assets (Note 4 and 8)	170,880	2	-	-
Other current assets (Note 22and 29)	162,403	1	241,020	3
Total current assets	5,449,676	47	2,240,119	25
<b>NON-CURRENT ASSETS</b>				
Financial asset at fair value through profit or loss - non-current (Note 4 and 7 )	97,139	1	27,849	-
Investments accounted for using equity method (Note 4 and 11)	4,537,073	39	5,121,499	58
Property, plant and equipment (Note 4 and 12)	15,226	-	19,408	-
Goodwill (Notes 4 , 5 and 13)	1,237,268	11	1,237,268	14
Other intangible assets (Notes 4 and 14)	59,498	-	75,107	1
Deferred income tax assets (Notes 4 and 22)	65,898	1	101,745	1
Other non-current assets	145,604	1	112,550	1
Total non-current assets	6,157,706	53	6,695,426	75
<b>TOTAL</b>	<b>\$ 11,607,382</b>	<b>100</b>	<b>\$ 8,935,545</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 15)	\$ 480,000	4	\$ -	-
Trade payables (Note 16 and 29)	1,936,299	17	700,543	8
Other payables (Note 17)	339,556	3	190,912	2
Current tax liabilities (Note 4 and 22)	108,514	1	-	-
Other current liabilities(Note 20 and 29)	360,915	3	161,003	2
Total current liabilities	3,225,284	28	1,052,458	12
<b>NON-CURRENT LIABILITIES</b>				
Deferred income tax liabilities (Notes 4 and 22)	53,213	1	33,537	1
Net defined benefit liabilities - non-current (Notes 4 and 18)	23,366	-	24,078	-
Guarantee deposits received	482,276	4	117,594	1
Other non-current liabilities	10,400	-	10,400	-
Total non-current liabilities	569,255	5	185,609	2
Total liabilities	3,794,539	33	1,238,067	14
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 19 and 24)</b>				
<b>Share capital</b>				
Ordinary shares	2,103,532	18	2,996,759	33
<b>Capital surplus</b>				
Additional paid-in capital	4,725,445	41	5,037,671	57
Treasury shares	69,361	1	48,662	1
Changes in ownership interests in subsidiaries	-	-	-	-
Employee share options	14,903	-	25,510	-
Employee share options - expired	33,933	-	33,534	-
Total capital surplus	4,843,642	42	5,145,377	58
Undistributed earnings (deficits to be offset)	1,012,301	8	(183,307)	(2)
<b>Other equity</b>				
Exchange differences from translating the financial statements of foreign operations	(125,038)	(1)	4,057	-
Unrealized loss on financial assets at fair value through other comprehensive income	2,722	-	1,750	-
Total other equity	(122,316)	(1)	5,807	-
Treasury shares	(24,316)	-	(267,158)	(3)
Total equity	7,812,843	67	7,697,478	86
<b>TOTAL</b>	<b>\$ 11,607,382</b>	<b>100</b>	<b>\$ 8,935,545</b>	<b>100</b>

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

## FOCALTECH SYSTEMS CO., LTD.

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

	2020		2019	
	Amount	%	Amount	%
REVENUE (Note 4 ,20 and 29)	\$ 11,410,350	100	\$ 2,901,766	100
COSTS OF SALES (Notes 4,10,21 and 29)	<u>(8,811,546)</u>	<u>(77)</u>	<u>(1,944,861)</u>	<u>(67)</u>
GROSS PROFIT	<u>2,598,804</u>	<u>23</u>	<u>956,905</u>	<u>33</u>
OPERATING EXPENSES (Notes 21,24, 26 and 29)				
Selling and marketing expenses	(186,571)	(2)	(102,450)	(4)
General and administrative expenses	(225,572)	(2)	(157,957)	(5)
Research and development expenses	<u>(958,867)</u>	<u>(8)</u>	<u>(625,866)</u>	<u>(22)</u>
Total operating expenses	<u>(1,371,010)</u>	<u>(12)</u>	<u>(886,273)</u>	<u>(31)</u>
OPERATIONS INCOME	<u>1,227,794</u>	<u>11</u>	<u>70,632</u>	<u>2</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 21)	(1,892)	-	(1,152)	-
Share of loss of subsidiaries and joint ventures(Note4)	(16,072)	-	(229,956)	(8)
Interest income (Note 4)	6,297	-	14,045	1
(Loss) gain on financial assets and liabilities at fair value through profit or loss (Notes 4)	(2,484)	-	372	-
Loss on disposal of investments (Notes 4)	(40,928)	(1)	-	-
Other gains and losses, net (Notes 29)	21,144	-	8,345	-
Loss on foreign currency exchange(Note 4)	<u>(17,880)</u>	<u>-</u>	<u>(22,880)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(51,815)</u>	<u>(1)</u>	<u>(231,226)</u>	<u>(8)</u>
INCOME (LOSS) BEFORE INCOME TAX	1,175,979	10	(160,594)	(6)
INCOME TAX EXPENSE (Notes 4 and 22)	<u>(163,987)</u>	<u>(1)</u>	<u>(14,655)</u>	<u>-</u>
NET INCOME (LOSS)	<u>1,011,992</u>	<u>9</u>	<u>(175,249)</u>	<u>(6)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 18)	359	-	1,677	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 22)	<u>(50)</u>	<u>-</u>	<u>(235)</u>	<u>-</u>
	<u>309</u>	<u>-</u>	<u>1,442</u>	<u>-</u>

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

## FOCALTECH SYSTEMS CO., LTD.

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

	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	\$ (128,123)	(1)	\$ (141,357)	(5)
Total other comprehensive Loss (net of income tax)	<u>(127,814)</u>	<u>(1)</u>	<u>(139,915)</u>	<u>(5)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 884,178</u>	<u>8</u>	<u>\$ (315,164)</u>	<u>(11)</u>
EARNINGS (LOSS) PER SHARE (Note 23)				
Basic	<u>\$ 3.97</u>		<u>\$ (0.63)</u>	
Diluted	<u>\$ 3.73</u>			

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

(Concluded)

**FOCALTECH SYSTEMS CO., LTD.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
(In Thousands of New Taiwan Dollars)

	Share Capital		Retained Earnings(Accumulated Deficits)		Other Equity			Total Equity
	Ordinary Shares	Capital Surplus	Legal Reserve	Undistributed Earnings (Deficits to be offset)	Exchange Differences from Translating Financial Statement of Foreign Operations	Unrealized gains(losses) from financial assets measured at fair value through other comprehensive income	Treasury Shares	
BALANCE, JANUARY 1, 2019	\$ 2,987,432	\$ 6,551,481	\$ 186,154	\$ (1,434,755)	\$ 149,454	\$ (2,290)	\$ (393,203)	\$ 8,044,273
Legal reserve used to cover accumulated deficits	-	-	(186,154)	186,154	-	-	-	-
Capital surplus used to cover accumulated deficits	-	(1,248,601)	-	1,248,601	-	-	-	-
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	(150,000)
Net loss for the year ended December 31, 2019	-	-	-	(175,249)	-	-	-	(175,249)
Other comprehensive income for the year ended December 31, 2019, net of income tax	-	-	-	1,442	(145,397)	4,040	-	(139,915)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	(173,807)	(145,397)	4,040	-	(315,164)
Treasury stock transferred to employees (Note 19 and 24)	-	-	-	-	-	-	126,045	126,045
Decrease in ownership interests in subsidiaries (Note 25)	-	(20,448)	-	(9,500)	-	-	-	(29,948)
Compensation cost of employee share options (Note 19 and 24)	-	9,787	-	-	-	-	-	9,787
Issue of ordinary shares under employee share options (Note 19 and 24)	9,327	3,158	-	-	-	-	-	12,485
BALANCE AT DECEMBER 31, 2019	2,996,759	5,145,377	-	(183,307)	4,057	1,750	(267,158)	7,697,478
Capital surplus used to cover accumulated deficits	-	(183,307)	-	183,307	-	-	-	-
Cash distribution from additional paid-in capital	-	(150,000)	-	-	-	-	-	(150,000)
Net income for the year ended December 31, 2020	-	-	-	1,011,992	-	-	-	1,011,992
Other comprehensive loss for the year ended December 31, 2020, net of income tax	-	-	-	309	(129,095)	972	-	(127,814)
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	1,012,301	(129,095)	972	-	884,178
Reduction of capital (Note 19)	(899,721)	-	-	-	-	-	5,191	(894,530)
Treasury stock transferred to employees (Note 19 and 24)	-	1,228	-	-	-	-	237,651	238,879
Compensation cost of employee share options (Note 19 and 24)	-	21,279	-	-	-	-	-	21,279
Issue of ordinary shares under employee share options (Note 19 and 24)	6,494	9,065	-	-	-	-	-	15,559
BALANCE AT DECEMBER 31, 2020	\$ 2,103,532	\$ 4,843,642	\$ -	\$ 1,012,301	\$ (125,038)	\$ 2,722	\$ (24,316)	\$ 7,812,843

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

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

# FOCALTECH SYSTEMS CO., LTD.

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

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax from continuing operation	\$ 1,175,979	\$ (160,594)
Adjustments for:		
Depreciation expenses	10,567	14,286
Amortization expenses	15,609	16,254
Loss (gain) on financial assets and liabilities at fair value through profit or loss	2,484	(372)
Finance costs	1,892	1,152
Interest income	(6,297)	(14,045)
Compensation cost of employee share options	12,433	4,934
Share of loss of subsidiaries and joint ventures	16,072	229,956
Loss on disposal of investments	40,928	-
Reversal of write-down of inventories	(131,157)	(70,676)
Changes in operating assets and liabilities		
Increase in financial assets mandatorily classified as at fair value through profit or loss	(112,702)	(5,348)
Trade receivables	(904,632)	76,101
Inventories	(467,009)	(10,474)
Other current assets	77,154	(218,289)
Trade payables	1,235,756	394,331
Other payables	148,644	5,265
Other current liabilities	199,706	146,943
Net defined benefit liabilities	(353)	(341)
Cash generated from operations	1,315,074	409,083
Interest paid	(1,686)	(1,152)
Income tax paid	-	(1,199)
Net cash generated from operating activities	<u>1,313,388</u>	<u>406,732</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments accounted for using equity method	(4,970)	(90,885)
Proceeds from disposal of investments accounted for using equity method	2,847	-
Proceeds from the capital reduction of investments accounted for using the equity method	451,200	-
Purchase of property, plant and equipment	(6,385)	(2,941)
Increase in other financial assets	(170,880)	-
Increases in other non-current assets	(33,054)	(99,425)
Interest received	<u>7,760</u>	<u>13,156</u>
Net cash generated (used) from investing activities	<u>246,518</u>	<u>(180,095)</u>

(Continued)

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# FOCALTECH SYSTEMS CO., LTD.

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

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Increases in short-term borrowings	\$ 480,000	\$ -
Increase in guarantee deposits received	364,682	11,554
Cash dividends paid	(150,000)	(150,000)
Capital reduction payments to shareholders	(894,530)	-
Proceeds from issuance ordinary shares under employee share options	15,559	12,485
Treasury stock transferred to employees	<u>238,879</u>	<u>126,045</u>
Net cash generated in financing activities	<u>54,590</u>	<u>84</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,614,496	226,721
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>841,430</u>	<u>614,709</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,455,926</u>	<u>\$ 841,430</u>

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

(Concluded)

# FOCALTECH SYSTEMS CO., LTD.

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

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### 1. GENERAL INFORMATION

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

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the annual reporting period beginning on or after January 1, 2023.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. Statement of compliance

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

The present Financial Report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

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

The evaluation of fair value could be classified into level 1 to level 3 based on the degree of the observable intensity and importance of related input value:

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

When preparing the financial statements, the Company accounts for subsidiaries by using the equity method. In order to maintain the consistency of amounts of net income, other comprehensive income and equity attributable to shareholders of the parent between the consolidated financial statements and parent company financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted by the accounts of investments accounted for using equity method, share of profits of subsidiaries and share of other comprehensive income of subsidiaries in the parent company only financial statements.

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

Current assets include:

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

Current liabilities include:

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

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

d. Foreign currencies

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

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

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

For the purpose of presenting financial statements, the functional currencies of the Company and the Group entities (including subsidiaries in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

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

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing the control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of loss of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further loss, if any.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount (net of amortization or depreciation) before any impairment loss recognized. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profit or loss resulting from downstream transactions is eliminated in full in the parent company only financial statements. Profit and loss resulting from upstream transactions and transactions between subsidiaries is recognized only to the extents that are not related to the interests between the Company and subsidiaries.

g. Property, plant and equipment

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

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

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

h. Goodwill

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

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

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

i. Intangible assets

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

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

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

j. Impairment of tangible and intangible assets other than goodwill

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

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

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

k. Financial instruments

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

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

4) Financial assets

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

iv) Measurement category

The Company's financial assets include those measured at FVTPL, and at amortized cost.

D. Financial asset at FVTPL

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

Any dividends, interest earned and gain or loss arising from the remeasurement is recognized in profit or loss at fair value. The determination methodology of fair value of financial instruments states in Note 28.

E. Financial assets at amortized cost

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

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash

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

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

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

v) Impairment of financial assets

At the end of each reporting period, the impairment loss is recognized by expected credit loss method for financial assets at amortized cost (including trade receivables).

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

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

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

vi) Derecognition of financial assets

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

When a financial asset carried at amortized cost is derecognized in its entirety, the difference between the asset's carrying amount and the consideration is recognized in profit or loss.

5) Equity instruments

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

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

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6) Financial liabilities

i) Subsequent measurement

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

ii) Derecognition of financial liabilities

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

l. Provisions

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

m. Revenue recognition

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

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

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

n. Lease

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

The Company as lessee

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

o. Employee benefits

1) Short-term employee benefits

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

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## 2) Retirement benefits

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

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

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

## p. Share-based payment arrangements

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

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

## q. Taxation

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

### 1) Current tax

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

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

### 2) Deferred tax

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

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

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

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

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

3) Current and deferred tax for the year

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

**5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

Impairment of Goodwill

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

**6. CASH AND CASH EQUIVALENTS**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash on hand	\$ 381	\$ 377
Checking accounts and demand deposits	2,455,545	421,333
Cash equivalent (time deposits with original maturities less than three months)	<u>-</u>	<u>419,720</u>
	<u>\$ 2,455,926</u>	<u>\$ 841,430</u>

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

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	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Demand deposits	0.001%-0.35%	0.001%-0.35%
Time deposits	-	2.2%-2.24%

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

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Mandatorily at fair value through profit or loss (FVTPL)		
Listed preferred shares	\$ 72,186	\$ 10,931
Private Funds	<u>24,953</u>	<u>16,918</u>
	<u>\$ 97,139</u>	<u>\$ 27,849</u>

**8. OTHER FINANCIAL ASSETS**

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Time deposits with original maturities less than three months	<u>\$ 170,880</u>	<u>\$ -</u>
Market rate intervals	0.37%	-

**9. TRADE RECEIVABLES, NET**

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Trade receivables	<u>\$ 1,455,186</u>	<u>\$ 540,554</u>

The average credit period on sales of goods was 60-120 days. In order to minimize credit risk, management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

The Company recognizes the allowance loss for accounts receivable based on expected credit losses during the duration. The expected credit losses on trade receivables are estimated by using an allowance matrix which references customer default records, customer's current financial position, and general economic conditions of the industry. Due to the past experiences, there is no significant difference among the loss patterns of different customer groups. Therefore, the allowance matrix does not further distinguish the customer groups, and only sets the expected credit loss rate based on the overdue days of trade receivable.

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

December 31, 2020

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 181 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$1,404,771</u>	<u>\$ 40,401</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 1,445,186</u>

December 31, 2019

	<u>Non Past Due</u>	<u>Overdue 1-60 Days</u>	<u>Overdue 61-180 Days</u>	<u>Overdue Over 181 Days</u>	<u>Total</u>
Expected credit loss rate	0%	0%	0%	0%	0%
Gross carrying amount and Amortized cost	<u>\$540,180</u>	<u>\$ 374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540,554</u>

**10. INVENTORIES**

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Finished goods	\$ 311,159	\$ 198,145
Work in progress	812,109	304,486
Raw materials and supplies	<u>92,013</u>	<u>114,484</u>
	<u>\$ 1,215,281</u>	<u>\$ 617,115</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2020 and 2019 was \$8,811,546 thousand and \$1,944,861 thousand, included gain from price recovery of inventory of \$131,157 thousand and \$70,676 thousand for the years ended December 31, 2020 and 2019, respectively.

**11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Investments in subsidiaries	<u>\$ 4,537,073</u>	<u>\$ 5,121,499</u>

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Unlisted companies		
FocalTech Corporation, Ltd.	\$ 2,974,195	\$ 3,002,990
FocalTech Electronics, Ltd.	1,562,878	2,071,743
FocalTech Smart Sensors, Ltd.	<u>-</u>	<u>46,766</u>
	<u>\$ 4,537,073</u>	<u>\$ 5,121,499</u>

	<u>Proportion of Ownership and Voting Rights</u>	
	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Unlisted companies		
FocalTech Corporation, Ltd.	100%	100%

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FocalTech Electronics, Ltd.	100%	100%
FocalTech Smart Sensors, Ltd.(a)	-	50.06%

a. FocalTech Smart Sensors, Ltd. is owned solely by FocalTech Electronics Co., Ltd. in 2020, which was originally held by The Company and FocalTech Electronics Co., Ltd.

The share of profit or loss and other comprehensive income of these subsidiaries accounted for using the equity method recognized in 2019 and 2020 financial statements were based on the audited subsidiaries' financial statements of the corresponding periods.

## 11. PROPERTY, PLANT AND EQUIPMENT

	Development Equipment	Office Equipment	Leasehold Improve- ments	Total
<u>Cost</u>				
Balance at January 1, 2019	\$ 70,226	\$ 304	\$ 16,878	\$ 87,408
Additions	<u>2,941</u>	<u>-</u>	<u>-</u>	<u>2,941</u>
Balance at December 31, 2019	<u>\$ 73,167</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ 90,349</u>
<u>Accumulated depreciation</u>				
Balance at January 1, 2019	\$ 39,991	\$ 231	\$ 16,433	\$ 56,655
Depreciation	<u>13,768</u>	<u>73</u>	<u>445</u>	<u>14,286</u>
Balance at December 31, 2019	<u>\$ 53,759</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ 70,941</u>
Carrying amounts at December 31, 2019	<u>\$ 19,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,408</u>
<u>Cost</u>				
Balance at January 1, 2020	\$ 73,167	\$ 304	\$ 16,878	\$ 90,349
Additions	6,385	-	-	6,385
Disposals	<u>( 5,001)</u>	<u>-</u>	<u>-</u>	<u>( 5,001)</u>
Balance at December 31, 2020	<u>\$ 74,551</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ 91,733</u>
<u>Accumulated depreciation</u>				
Balance at January 1, 2020	\$ 53,759	\$ 304	\$ 16,878	\$ 70,941
Depreciation	10,567	-	-	10,567
Disposals	<u>( 5,001)</u>	<u>-</u>	<u>-</u>	<u>( 5,001)</u>
Balance at December 31, 2020	<u>\$ 59,325</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ 76,507</u>
Carrying amounts at December 31, 2020	<u>\$ 15,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,226</u>

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

Development equipment	4 years
Office equipment	4 years
Leasehold improvements	1-4 years

Property, plant and equipment were not been pledged as collateral.

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### 13. GOODWILL

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 1,237,268	\$ 1,237,268
Impairment loss	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 1,237,268</u>	<u>\$ 1,237,268</u>

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

The recoverable amount is calculated by IDC projected net cash flows, discounted at 15.45% and 10.66% for the years ended December 31, 2020 and 2019, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin .

### 14. OTHER INTANGIBLE ASSETS

	<b>Licenses and Franchises</b>	<b>Software</b>	<b>Patents</b>	<b>Trademark</b>	<b>Total</b>
<u>Cost</u>					
Balance at January 1, 2019 and December 31, 2019	\$ 18,657	\$ 8,445	\$ 76,478	\$ 74,000	\$ 177,580
<u>Accumulated amortization</u>					
Balance at January 1, 2019	\$ 17,262	\$ 8,217	\$ 31,140	\$ 29,600	\$ 86,219
Amortization expense	840	<u>228</u>	<u>7,786</u>	<u>7,400</u>	<u>16,254</u>
Balance at December 31, 2019	<u>\$ 18,102</u>	<u>\$ 8,445</u>	<u>\$ 38,926</u>	<u>\$ 37,000</u>	<u>\$ 102,473</u>
Carrying amounts at December 31, 2019	<u>\$ 555</u>	<u>\$ -</u>	<u>\$ 37,552</u>	<u>\$ 37,000</u>	<u>\$ 75,107</u>
<u>Cost</u>					
Balance at January 1, 2020 and December 31, 2020	\$ 18,657	\$ 8,445	\$ 76,478	\$ 74,000	\$ 177,580
<u>Accumulated amortization</u>					
Balance at January 1, 2020	\$ 18,102	\$ 8,445	\$ 38,926	\$ 37,000	\$ 102,473
Amortization expense	<u>423</u>	<u>-</u>	<u>7,786</u>	<u>7,400</u>	<u>15,609</u>
Balance at December 31, 2020	<u>\$ 18,525</u>	<u>\$ 8,445</u>	<u>\$ 46,712</u>	<u>\$ 44,400</u>	<u>\$ 118,082</u>

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Carrying amounts at December 31, 2020	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ 29,766</u>	<u>\$ 29,600</u>	<u>\$ 59,498</u>
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Other intangible assets were amortized on a straight-line basis over the estimated useful lives as follows:

Licenses and franchises	5 years
Software	3 years
Patents	9-10 years
Trademark	10 years

#### 15. SHORT-TERM BORROWINGS

	<u>December 31</u>	
	2020	2019
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 480,000</u>	<u>\$ -</u>
Market rate intervals	0.88%~1.06%	-

#### 16. TRADE PAYABLES

	<u>December 31</u>	
	2020	2019
Trade payables	\$ 1,397,089	\$ 668,113
Trade payables-related party	<u>539,210</u>	<u>32,430</u>
	<u>\$ 1,936,299</u>	<u>\$ 700,543</u>

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

#### 17. OTHER PAYABLES

	<u>December 31</u>	
	2020	2019
Payable for salaries and bonus	\$ 238,059	\$ 110,306
Payable for labor, health and social insurance	12,450	12,450
Reserve for litigations	32,052	25,806
Payable for professional services and others	<u>56,995</u>	<u>42,350</u>
	<u>\$ 339,556</u>	<u>\$ 190,912</u>

#### 18. RETIREMENT BENEFIT

##### a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

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b. Defined benefit plans

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

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Present value of defined benefit obligation	\$ 42,275	\$ 45,235
Fair value of plan assets	( <u>18,909</u> )	( <u>21,157</u> )
Net defined benefit liability	<u>\$ 23,366</u>	<u>\$ 24,078</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2019	<u>\$ 45,590</u>	( <u>\$ 19,494</u> )	<u>\$ 26,096</u>
Service cost			
Current service cost	125	-	125
Net interest expense (income)	<u>570</u>	( <u>248</u> )	<u>322</u>
Recognized in profit or loss	<u>695</u>	( <u>248</u> )	<u>447</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	( 627 )	( 627 )
Actuarial loss - changes in financial assumptions	1,421	-	1,421
Actuarial loss - experience adjustments	( <u>2,471</u> )	-	( <u>2,471</u> )
Recognized in other comprehensive income	( <u>1,050</u> )	( <u>627</u> )	( <u>1,677</u> )
Contributions from the employer	<u>-</u>	( <u>788</u> )	( <u>788</u> )
Balance at December 31, 2019	<u>45,235</u>	( <u>21,157</u> )	<u>24,078</u>
Service cost			
Current service cost	126	-	126
Net interest expense (income)	<u>452</u>	( <u>215</u> )	<u>237</u>
Recognized in profit or loss	<u>578</u>	( <u>215</u> )	<u>363</u>
Remeasurement			
Return on plan assets (excluding amounts	-	( 619 )	( 619 )

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included in net interest)			
Actuarial loss - changes in financial assumptions	1,151	-	1,151
Actuarial loss -demographic assumptions	1,436	-	1,436
Actuarial loss - experience adjustments	( 2,327 )	-	( 2,327 )
Recognized in other comprehensive income	<u>260</u>	( <u>619</u> )	( <u>359</u> )
Contributions from the employer	-	( 716 )	( 716 )
Benefits paid	( 3,798 )	<u>3,798</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 42,275</u>	( <u>\$ 18,909</u> )	<u>\$ 23,366</u>

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

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

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Discount rate	0.8%	1%
Expected rate of salary increase	4.5%	4.5%

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

	<u>December 31</u>	
	<u>2019</u>	<u>2019</u>
Discount rate		
0.25% increase	(\$ 1,501)	(\$ 1,422)
0.25% decrease	<u>\$ 1,566</u>	<u>\$ 1,481</u>
Expected rate of salary increase		
1% increase	<u>\$ 6,441</u>	<u>\$ 6,141</u>
1% decrease	(\$ 5,567)	(\$ 5,334)

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

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

## 19. EQUITY

### a. Share capital

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

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Numbers of shares authorized (in thousands)	<u>500,000</u>	<u>500,000</u>
Shares authorized	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>210,353</u>	<u>299,676</u>
Shares issued	<u>\$ 2,103,532</u>	<u>\$ 2,996,759</u>

### b. Capital surplus

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

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

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

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

### c. Retained earnings and dividend policy

The amendments to the Company's Articles of Incorporation had been approved by the Company's

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shareholders in its meeting held on June 20, 2019, which stipulate that earnings distribution may be made on a quarterly basis after the close of each quarter.

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

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

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

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

See Note 21(d) for policy stipulated in the Articles of Incorporation regarding to the remuneration for employees and directors.

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

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

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

NT\$183,307 thousand from additional paid-in capital for loss offsetting as well as the cash distribution of NT\$150,000 thousand, i.e. NT\$0.50291032 per share, from additional paid-in capital of share issue

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premium had been approved in the Company's shareholders' meeting on June 20, 2020.

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

d. Treasury stock

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

The detailed information for other Shares Buy Back Programs could be found in Note 24 (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.

**20. REVENUE**

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
IC for human and machine interface devices	\$ 11,366,680	\$ 2,445,648
Service revenue	<u>43,670</u>	<u>456,118</u>
	<u>\$ 11,410,350</u>	<u>\$ 2,901,766</u>
 <u>Contract balances</u>		
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Contract liabilities (classified as current liabilities)		
Sales of goods	<u>\$ 106,683</u>	<u>\$ 2,998</u>

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## 21. NET INCOME

### a. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest on deposits	\$ 1,078	\$ 1,150
Interest on bank loans	<u>814</u>	<u>2</u>
	<u>\$ 1,892</u>	<u>\$ 1,152</u>

### b. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Property, plant and equipment	\$ 10,567	\$ 14,286
Intangible assets	<u>15,609</u>	<u>16,254</u>
	<u>\$ 26,176</u>	<u>\$ 30,540</u>
An analysis of depreciation and amortization by function		
Operating costs	\$ 722	\$ 1,299
Operating expenses	<u>25,454</u>	<u>29,241</u>
	<u>\$ 26,176</u>	<u>\$ 30,540</u>

### c. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Post-employment benefits		
Defined contribution plans	\$ 25,596	\$ 26,189
Defined benefit plans (see Note 18)	363	447
Share-based payments (see Note 24)	12,433	4,934
Other employee benefits	<u>833,872</u>	<u>647,418</u>
Total employee benefits expense	<u>\$ 872,264</u>	<u>\$ 678,988</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 94,586	\$ 83,197
Operating expenses	<u>777,678</u>	<u>595,791</u>
	<u>\$ 872,264</u>	<u>\$ 678,988</u>

### d. The remuneration to employees and directors

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

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accrued employees' compensation and remuneration to directors for the year ended December 31, 2020 are as follows:

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

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

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

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

## 22. INCOME TAXES

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

	<u>For the Year Ended December 31</u>	
	2020	2019
Current tax		
In respect of the current year	\$ 108,514	\$ -
Adjustments for prior years	<u>-</u>	<u>1,199</u>
	<u>108,514</u>	<u>1,199</u>
Deferred tax		
In respect of the current year	54,139	14,308
Adjustments for prior years	<u>1,334</u>	<u>( 852)</u>
	<u>55,473</u>	<u>13,456</u>
Income tax expense recognized in profit or loss	<u>\$ 163,987</u>	<u>\$ 14,655</u>

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

	<u>For the Year Ended December 31</u>	
	2020	2019
Income (loss) before tax from continuing operations	<u>\$1,175,979</u>	<u>\$ (160,594)</u>
Income tax expense (benefit) calculated at the statutory rate and the effective tax rate	\$ 164,637	\$ (22,483)
Nondeductible expenses in determining taxable income	5,730	-
Tax effect of earnings to be distributed by subsidiaries	21,734	4,597
Unrecognized temporary differences	(29,448)	32,194
Adjustments for prior years' tax	<u>1,334</u>	<u>347</u>

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Income tax expense recognized in profit or loss	\$ <u>163,987</u>	\$ <u>14,655</u>
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The company's research and development expenditure is expected to offset the corporate income tax by 30%, so the effective tax rate is 14% after considering the deduction effect.

b. Current tax assets and liabilities

	<b><u>For the Year Ended December 31</u></b>	
	<b>2020</b>	<b>2019</b>
Current tax assets( recorded as other current assets)		
Tax refund receivable	\$ <u>2,032</u>	\$ <u>1,788</u>

c. Recognized in other comprehensive income

	<b><u>For the Year Ended December 31</u></b>	
	<b>2020</b>	<b>2019</b>
Deferred tax		
Remeasurement of defined benefit plans	\$ <u>50</u>	\$ <u>235</u>

d. Deferred tax assets and liabilities

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

2020

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Obsolete of inventory	\$ 89,699	\$ (18,363)	\$ -	\$ 71,336
Others	<u>623</u>	<u>(6,011)</u>	<u>(50)</u>	<u>(5,438)</u>
	90,322	(24,374)	(50)	65,898
Loss carryforwards	<u>11,423</u>	<u>(11,423)</u>	-	-
	<u>\$ 101,745</u>	<u>\$(35,797)</u>	<u>\$ (50)</u>	<u>\$ 65,898</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Intangible assets	\$ 10,290	\$ (2,058)	\$ -	\$ 8,232
Investment income recognized from foreign investees	<u>23,247</u>	<u>21,734</u>	-	<u>44,981</u>
	<u>\$ 33,537</u>	<u>\$ 19,676</u>	<u>\$ -</u>	<u>\$ 53,213</u>

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2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Obsolete of inventory	\$ 109,571	\$ (19,872)	\$ -	\$ 89,699
Others	(484)	1,342	(235)	623
	<u>109,087</u>	<u>(18,530)</u>	<u>(235)</u>	<u>90,322</u>
Loss carryforwards	<u>3,810</u>	<u>7,613</u>	<u>-</u>	<u>11,423</u>
	<u>\$ 112,897</u>	<u>\$(10,917)</u>	<u>\$ (235)</u>	<u>\$ 101,745</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Intangible assets	\$ 12,348	\$ (2,058)	\$ -	\$ 10,290
Investment income recognized from foreign investees	<u>18,650</u>	<u>4,597</u>	<u>-</u>	<u>23,247</u>
	<u>\$ 30,998</u>	<u>\$ 2,539</u>	<u>\$ -</u>	<u>\$ 33,537</u>

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

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

- f. Income tax assessments

The Company's tax returns until 2018 have been assessed by the tax authorities.

### 23. EARNINGS (LOSS) PER SHARE

Unit: NT\$ Per Share

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

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

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

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

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

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

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

## 24. SHARE-BASED PAYMENT ARRANGEMENTS

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

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

### a. Employee stock option plan

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

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

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

Employee Stock Option Plan	<u>2020</u>									
	Beginning	Balance	Options unvested		Options exercised		Options expired		Ending Balance	
	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)	Quantity of Options	Weighted-average Exercise Price (NT\$)
2006	805,599	\$ 23.49	-	\$ -	( 407,400)	\$ 29.68	-	\$ -	398,199	\$ 26.65
2015	677,500	12.20	-	-	(242,000)	14.33	( 38,000)	13.56	397,500	15.90

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## 2019

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

As of December 31, 2020, the valid and outstanding employee stock option plans are as following:

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

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

#### d. Shares Buy Back Program

Information about the Company buyback its shares as follows:

Items	The date of board of directors approved	Buyback shares (In thousand share)	Transferred shares (In thousand share)	Adjustment due to capital reduction (In thousand share)	Shares not transferred yet (In thousand share)	Transferred price (in dollar)
The 2nd Shares Buy Back Program	2016/4/28	5,000	5,000	-	-	\$ 26.53
The 3rd Shares Buy Back Program	2017/5/12	6,808	6,808	-	-	36.11
The 4th Shares Buy Back Program	2018/7/26	8,000	7,848	( 46 )	106	33.81 (Adjusted)
The 5th Shares Buy Back Program	2018/8/23	7,689	6,544	( 473 )	672	34.09 (Adjusted)

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Information about Shares Buy Back Programs transferred is as follows:

<u>The 2nd Shares Buy Back Program</u>			<u>The 3rd Shares Buy Back Program</u>		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2016/10/28	2,624	\$ 11.26	2017/07/24	3,198	\$ 12.85
2017/02/24	50	11.26	2018/07/26	3,515	-
2018/02/08	120	4.20	2019/05/07	95	-
2018/04/24	255	4.30			
2018/07/26	1,765	-			
2019/05/07	186	-			
Total	<u>5,000</u>		Total	<u>6,808</u>	

<u>The 4th Shares Buy Back Program</u>			<u>The 5th Shares Buy Back Program</u>		
Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)	Employee subscription base date	Shares transferred (In Thousands)	The fair value of the right to subscribe (NT\$)
2020/03/20	7,848	\$ 3.30	2019/05/07	4,651	\$ -
			2019/11/08	60	-
			2020/03/20	1,399	3.70
			2020/11/06	434	1.90
Total	<u>7,848</u>		Total	<u>6,544</u>	

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

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

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

- e. Options of the share transfer plan granted were measured by using the Black-Scholes pricing model

Compensation cost recognized for share-based payments above in 2020 and 2019 were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Employee share option plans	\$ -	\$ 241
Shares buyback program	<u>\$ 12,433</u>	<u>\$ 4,693</u>

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	<u>\$ 12,433</u>	<u>\$ 4,934</u>
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**For the Year Ended December 31**

	<b>2020</b>	<b>2019</b>
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Capital surplus - employee share options	<u>\$ 12,433</u>	<u>\$ 4,934</u>
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**25. Equity transactions with non - controlling interests**

In November 2019, the Company ownership interest over FocalTech Smart Sensors, Ltd. increase to 50.06% from 42.34% Due to capital injection and no pro rata subscription in new shares.

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

**26. OPERATING LEASE ARRANGEMENTS**

**The Company is Lessee**

The Company and its subsidiaries have lease contracts for office, plant and some office equipment, which would be expired before September 2021. Above mentioned lease contracts are short-term lease agreement, and the Company applies practical expedients so the Company does not recognize right-of-use assets and lease liabilities. The amount of short-term commitment which the Company apply practical expedients is \$9,140 thousand.

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

**For the Year Ended December 31**

	<b>2020</b>	<b>2019</b>
--	-------------	-------------

lease payment	<u>\$ 22,726</u>	<u>\$ 23,150</u>
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**27. CAPITAL MANAGEMENT**

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

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

The Company was not restricted to other external capital requirements.

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## 28. FINANCIAL INSTRUMENTS

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

The management believes the carrying amounts of financial assets and financial liabilities not measured of fair value approximate their fair values or cannot be reliably measured.

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

#### 1.) Fair value hierarchy

##### December 31, 2020

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial asset at FVTPL</u>				
Listed preferred shares	\$ 72,186	\$ -	\$ -	\$ 72,186
Private funds	<u>-</u>	<u>-</u>	<u>24,953</u>	<u>24,953</u>
Total	<u>\$ 72,186</u>	<u>\$ -</u>	<u>\$ 24,953</u>	<u>\$ 97,139</u>

##### December 31, 2019

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial asset at FVTPL</u>				
Listed preferred shares	\$ 10,931	\$ -	\$ -	\$ 10,931
Private funds	<u>-</u>	<u>-</u>	<u>16,918</u>	<u>16,918</u>
Total	<u>\$ 10,931</u>	<u>\$ -</u>	<u>\$ 16,918</u>	<u>\$ 27,849</u>

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

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

	<b><u>For the Years Ended in December 31</u></b>	
	<b>2020</b>	<b>2019</b>
<u>Financial assets at FVTPL</u>		
Balance, beginning of year	\$ 16,918	\$ 11,589
Purchases	10,000	5,355
Disposals	-	( 7 )
Recognized in profit or loss(other income or loss)	( <u>1,965</u> )	( <u>19</u> )
Balance, end of year	<u>\$ 24,953</u>	<u>\$ 16,918</u>

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

The unlisted equity investment is measured by the market approach, which decides fair value by referring to the recent financing activities of investees or the market transaction prices and status of the similar companies. The Company had carefully evaluated and selected the suitable evaluation method, but the use of different evaluation models or fair values may result in different evaluation results.

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c. Categories of financial instruments

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 97,139	\$ 27,849
Amortized cost (Note 1)	4,217,596	1,494,534
<u>Financial liabilities</u>		
Amortized cost (Note 2)	3,238,131	1,009,049

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

d. Financial risk management objectives and policies

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

The board of directors is solely responsible for established and monitored the framework of risk management of the Company, the board of directors authorized the chairman develop and monitored the risk management policy of the Company with the operation center of the Group, and regularly reported the situation to the board of directors.

The Company's financial risk management policies are developed for identifying and analyzing the financial risks to the Company, evaluating the impacts of the financial risks, and executing the financial-risk aversion policies. The financial risk management is periodically reviewed to reflect changes to the market and the operations. Through the internal controls, such as training and setting up managing requirements and procedures, the Company is engaged in developing a disciplined and constructive control environment, in order to have all employees understand own responsibilities.

The Company's board of directors monitors the management on managing the compliance to the financial risk management policies and procedures and reviews the appropriateness of risk management structure. To assist the board of directors, the internal auditors perform period and exceptional reviews on the controls and procedures of financial risk management and report the result of reviews to the board of directors.

1) Market risk

The major financial risks from the Company's operation were foreign currency exchange risk referred to i) and interest rate risk referred to ii).

iii) Foreign currency risk

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The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Company at the end of the reporting period are shown in Note 31.

Sensitivity analysis

The Company was mainly exposed to the U.S. dollar. The following table details the Company's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit and other equity associated with New Taiwan dollars strengthen 5% against the relevant currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	<b>USD Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss/ equity	<u>\$ 67,415</u> (i)	<u>\$ 29,008</u> (i)

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

iv) Interest rate risk

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

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value interest rate risk		
Financial assets	<u>\$ 170,880</u>	<u>\$ 419,720</u>
Financial liabilities	<u>\$ 480,000</u>	<u>\$ -</u>
Cash flow interest rate risk		
Financial assets	<u>\$ 2,454,853</u>	<u>\$ 421,333</u>

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. A 25 basis point increase

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or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and the Company hold all variables constantly, the Company's post-tax profit for the year ended December 31, 2020 and 2019 would decrease/increase by \$6,137 thousand and \$1,053 thousand, respectively.

## 2) Credit risk

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

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

As of December 31, 2020, the Company's five largest customers took 69% of total trade receivables, the remaining transactions with a large number of unrelated customers, thus, no significant concentration of credit risk was observed.

## 3) Liquidity risk

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

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

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

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

December 31, 2020

	<b>On Demand or Less than 1 Year</b>	<b>1-5 Years</b>
Non-interest bearing	\$ 2,275,649	\$ 482,276
Fixed interest rate liabilities	<u>480,206</u>	<u>-</u>
	<u>\$ 2,755,855</u>	<u>\$ 482,276</u>

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December 31, 2019

	<b>On Demand or Less than 1 Year</b>	<b>1-5 Years</b>
Non-interest bearing f ii) Financing facilities	<u>\$ 891,455</u>	<u>\$ 117,594</u>

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

## 29. TRANSACTIONS WITH RELATED PARTIES

Except for information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

### a. Related party name and category

<u>Related Party Name</u>	<u>Related Party Category</u>
FocalTech Systems, Ltd.	Subsidiary
FocalTech Electronics, Ltd.	Subsidiary
FocalTech Smart Sensors, Ltd.	Subsidiary

### b. Sales of goods

<b>Line Item</b>	<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Sales	Subsidiaries		
	FocalTech Systems, Ltd.	\$ 43,670	\$ 433,048
	Others	<u>-</u>	<u>23,070</u>
		<u>\$ 43,670</u>	<u>\$ 456,118</u>

The Company provided research and development and manufacturing management services and charged for revenues according to contracts.

### c. Purchases of goods

<b>Line Item</b>	<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Purchase	Subsidiaries		
	FocalTech Electronics, Ltd.	\$ -	\$ 243,174
	Others	<u>46,550</u>	<u>-</u>
		<u>\$ 46,550</u>	<u>\$ 243,174</u>

Purchases were made by the Company at market prices and conditions similar with the non-related parties.

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d. Payables to related parties

Line Item	Related Party Category/Name	December 31	
		2020	2019
	Subsidiaries		
Trade payables	FocalTech Electronics, Ltd.	\$ 518,851	\$ 19,063
	Others	20,359	13,367
		<u>\$ 539,210</u>	<u>\$ 32,430</u>

The outstanding trade payables to related parties are unpledged.

e. Prepayments (accounted for other current assets)

Line Item	Related Party Category/Name	December 31	
		2020	2019
	Subsidiaries		
Prepayments	FocalTech Smart Sensors, Ltd.	\$ 85,440	\$ -

f. Advances (accounted for other current liabilities)

Line Item	Related Party Category/Name	December 31	
		2020	2019
	Subsidiaries		
Advances	FocalTech Systems, Ltd.	\$ 247,263	\$ 154,595

The Company accounted for service revenue from related parties in advance.

g. Other transactions with related parties

The Company provides guarantee services to its subsidiaries, and charged for 802 thousand service revenue in 2019. Please refer to Table 2.

h. Compensation of key management personnel

	For the Year Ended December 31	
	2020	2019
Long-term employee benefits	\$ 15,450	\$ 16,646
Short-term employee benefits	40,107	29,618
Post-employment benefits	459	540
Share-based payments	<u>2,689</u>	<u>1,990</u>
	<u>\$ 58,705</u>	<u>\$ 48,794</u>

### 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

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

### 31. 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

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disclosed.

The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2020

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items USD	\$ 144,584	28.48 (USD:NTD)	\$ 4,117,740
Monetary items USD	159,307	28.48 (USD:NTD)	4,573,073
<u>Financial liabilities</u>			
Monetary items USD	97,242	28.48 (USD:NTD)	2,769,444

December 31, 2019

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items USD	\$ 51,829	29.980 (USD:NTD)	\$ 1,553,825
Monetary items USD	170,831	29.980 (USD:NTD)	5,121,499
<u>Financial liabilities</u>			
Monetary items USD	32,477	29.980 (USD:NTD)	973,667

### 32. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 3)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)

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- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
  - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
  - 9) Trading in derivative instruments (None)
  - 10) Information on investees (Table 4)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 5)
  - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (None)
- c. Information of major shareholder

List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder: (Table 6)

**FocalTech Systems Co., Ltd.**

**FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Amount Actually Drawn	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)	Note
													Item	Value			
1	Focaltech Systems, Ltd.	FocalTech Systems Co., Ltd.	Other receivables	Yes	\$ 1,708,800 (USD 60,000)	\$ 1,708,800 (USD 60,000)	\$ -	-	The need for short-term financing	\$ -	Operating capital	\$ -	-	\$ -	\$ 2,922,964	\$ 2,922,964	Note 3

Note 1: The items are numbered as follows:

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

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

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

Note 3: The exchange rate is US\$1=\$28.48 on December 31, 2020.

## FocalTech Systems Co., Ltd.

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

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

Note 1: The items are numbered as follows:

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

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

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

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

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

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

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

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**FocalTech Systems Co., Ltd.**

**MARKETABLE SECURITIES HELD**

**DECEMBER 31, 2020**

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

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2019				Note
				Shares	Carrying Value	Percentage of Ownership	Fair Value	
FocalTech Systems Co., Ltd.	<u>Shares</u>							
	Fubon Financial Holding Co., Ltd. Preferred Shares B	-	Financial assets at fair value through profit or loss – non-current	170,000	\$ 10,625	0.03%	10,625	
	WT MICROELECTRONICS CO., LTD. Preferred Shares A	-	Financial assets at fair value through profit or loss – non-current	1,268,000	61,561	0.94%	61,561	
	<u>Beneficiary certificates</u>							
	CDIB Capital Growth Partners	-	Financial assets at fair value through profit or loss – non-current	-	20,016	0.66%	20,016	
	CDIB Capital Healthcare Ventures II		Financial assets at fair value through profit or loss – non-current	-	4,937	0.96%	4,937	

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

**FocalTech Systems Co., Ltd.**

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

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

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

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

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

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

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

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

**TABLE 5**  
**FocalTech Systems Co., Ltd.**

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

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

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

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

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

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

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

**FocalTech Systems Co., Ltd.**

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

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

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

# FocalTech Systems Co., Ltd.

## THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

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Item	Statements Index
Major Accounting Items in Assets, Liabilities and Equity	
Major accounting items in assets, liabilities and equity	
Statement of cash and cash equivalents	1
Statement of accounts receivable, net	2
Statement of inventories	3
Statement of changes in property, plant and equipment	Note 12
Statement of changes in accumulated depreciation of property, plant and equipment	Note 12
Statement of changes in intangible assets	Note 14
Statement of deferred tax assets	Note 22
Statement of changes in investments accounted for using equity method	4
Statement of short-term loans	5
Statement of accounts payables	6
Major accounting items in profit or loss	
Statement of revenues	7
Statement of operating costs	8
Statement of operating expenses	9
Statement of employee benefit, depreciation and amortization by function	10

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**FocalTech Systems Co., Ltd.****STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Description</b>	<b>Amount</b>
Petty cash and cash on hand	Including EUR 3 thousand @35.02, HKD 3 thousand @3.673,RMB 7 thousand @4.3648 , JPY 530 thousand @0.2763 ,USD 1 thousand @28.48 and NTD 50 thousand	\$ <u>381</u>
Cash in banks		
Checking accounts and current accounts		161,123
Foreign currency current accounts	Including USD 80,518 thousand @28.48 ,JPY 3,976 thousand @0.2763 and EUR 5 thousand @35.02	<u>2,294,422</u>
		<u>2,455,545</u>
		<u>\$ 2,455,926</u>

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**FocalTech Systems Co., Ltd.**

**STATEMENT OF ACCOUNTS RECEIVABLE, NET**

**DECEMBER 31, 2020**

**(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Client A	\$ 319,286
Client B	234,958
Client C	184,242
Client D	153,181
Client E	99,186
Others (Note)	<u>454,333</u>
	1,445,186
Less: Allowance for doubtful accounts	<u>-</u>
	<u><u>\$ 1,445,186</u></u>

Note: The amount of each individual client included in others does not exceed 5% of the account balance.

**FocalTech Systems Co., Ltd.**

**STATEMENT OF INVENTORIES**

**DECEMBER 31, 2020**

**(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>	
	<b>Book value</b>	<b>Net Realizable Value</b>
Finished goods	\$ 311,159	\$ 441,489
Work in process	812,109	1,099,771
Raw materials	<u>92,013</u>	<u>116,291</u>
	<u>\$1,215,281</u>	<u>\$1,657,551</u>

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## FocalTech Systems Co., Ltd.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD  
 FOR THE YEAR ENDED DECEMBER 31, 2020  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2020		Additions in Investment		Decrease in Investment		Share of Profit (Loss) of the Investee	Other Comprehensive Income	Other Adjustment	Balance, December 31, 2019			Collateral	Note
	Shares (In thousand)	Amount	Shares (In thousand)	Amount	Shares (In thousand)	Amount (Note)				Percentage of Ownership	Shares	(%)		
Unlisted companies														
FocalTech Corporation, Ltd.	5,491	\$3,002,990	-	\$ -	-	\$ -	\$ 26,164	\$ (63,805)	\$ 8,846	5,491	100	\$2,974,195	Nil	Note1
FocalTech Electronics, Ltd	3 shares	2,071,743	-	-	( 1)	( 451,200)	2,732	(60,397)	-	2 shares	100	1,562,878	Nil	
FocalTech Smart Sensors, Ltd.	14,025	46,766	-	-	( 14,025)	( 2,847)	(39,998)	(3,921)	-	-	-	-		
Vitrio Technology Corporation	-	-	142	4,970	-	( -)	(4,970)	-	-	142	50	-	Nil	
		<u>\$5,121,499</u>		<u>\$ 4,970</u>		<u>\$(454,047)</u>	<u>\$(16,072)</u>	<u>\$(128,123)</u>	<u>\$ 8,846</u>			<u>\$4,537,073</u>		

Note 1 : Other adjustment is compensation cost of employee share options, \$8,846 thousand .

**FocalTech Systems Co., Ltd.****STATEMENT OF SHORT-TERM LOANS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

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Type	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Credit Amounts	Collateral
<u>Bank credit loan</u>					
Mega Bank	\$ 100,000	2020/10/23~ 2021/4/21	0.88	\$ 200,000	Nil
Far Eastern Int'l Bank	280,000	2020/12/14~ 2021/1/14	1.00	300,000	Nil
Land Bank of Taiwan	<u>100,000</u>	2020/12/14~ 2021/1/14	1.06	<u>200,000</u>	Nil
Total	<u>\$ 480,000</u>			<u>\$ 700,000</u>	

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**FocalTech Systems Co., Ltd.****STATEMENT OF ACCOUNTS PAYABLES****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Account payable-related party	
FocalTech Electronics, Ltd.	\$ 518,851
Others(Note)	<u>20,359</u>
	<u>539,210</u>
Account payable-others	
Vendor A	\$ 330,715
Vendor B	259,208
Vendor C	238,294
Vendor D	188,063
Vendor E	163,205
Vendor F	152,842
Others (Note)	<u>64,762</u>
	<u>1,397,089</u>
	<u>\$1,936,299</u>

Note: The amount of each individual vendor included in others does not exceed 5% of the account balance.

**FocalTech Systems Co., Ltd.**

**STATEMENT OF REVENUES  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Quantity (in thousand units)</b>	<b>Amount</b>
Net sales		
IC for human and machine interface devices	307,299	\$ 11,458,620
Service revenue	-	43,670
Less: Sales discounts		85,122
Sales returns		<u>6,818</u>
		<u>\$ 11,410,350</u>

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**FocalTech Systems Co., Ltd.****STATEMENT OF OPERATING COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Raw materials, beginning of year	\$ 114,484
Raw materials purchased	6,997,513
Transferred to expenses	( 17,606)
Raw materials balance, end of year	( <u>92,013</u> )
Raw materials used	7,002,378
Manufacturing expenses	<u>2,484,530</u>
Manufacturing cost	9,486,908
Work in process, beginning of year	304,486
Transferred to expenses and others	( 88,211)
Work in process, end of year	( <u>812,109</u> )
Cost of finished goods	8,891,074
Finished goods, beginning of year	198,145
Finished goods purchased	217,121
Transferred to expenses and others	( 183,635)
Finished goods, end of year	( <u>311,159</u> )
Operating costs	<u>\$ 8,811,546</u>

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**FocalTech Systems Co., Ltd.****STATEMENT OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Selling Expenses</b>	<b>General and Administrative Expenses</b>	<b>Research and Development Expenses</b>
Payroll	\$ 121,997	\$ 100,368	\$ 480,560
Rent expense	-	22,551	-
Freight	10,677	127	1
Mask expense	-	-	117,077
Consumables	-	-	126,710
Sample expense	26,364	-	-
Welfare	-	11,814	-
Professional service fees	10,012	23,434	10,864
Management fees of the Science Park Administration	-	22,139	-
Others (Note)	<u>17,521</u>	<u>45,139</u>	<u>223,655</u>
	<u>\$ 186,571</u>	<u>\$ 225,572</u>	<u>\$ 958,867</u>

Note: Expected credit loss is included and the amount of each item in others does not exceed 5% of the account balance.

## FocalTech Systems Co., Ltd.

**STATEMENT OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION BY FUNCTION  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)**

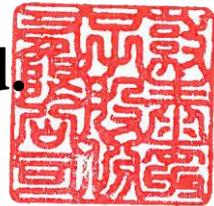
	2020			2019		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefit						
Salary and bonus	\$ 78,898	\$ 688,695	\$ 768,593	\$ 69,508	\$ 521,549	\$ 591,057
Labor and health insurance	7,200	33,656	40,856	6,842	34,129	40,971
Pension	5,170	20,789	25,959	4,642	21,994	26,636
Board compensation	-	14,230	14,230	-	6,400	6,400
Others	2,318	20,308	22,626	2,205	11,719	13,924
	<u>\$ 94,586</u>	<u>\$ 777,678</u>	<u>\$ 872,264</u>	<u>\$ 83,197</u>	<u>\$ 595,791</u>	<u>\$ 678,988</u>
Depreciation	<u>\$ 722</u>	<u>\$ 9,845</u>	<u>\$ 10,567</u>	<u>\$ 1,299</u>	<u>\$ 12,987</u>	<u>\$ 14,286</u>
Amortization	<u>\$ -</u>	<u>\$ 15,609</u>	<u>\$ 15,609</u>	<u>\$ -</u>	<u>\$ 16,254</u>	<u>\$ 16,254</u>

Note 1: In 2020 and 2019, the Company had 392 and 396 employees, respectively. There were 7 and 6 non-employee directors, respectively.

Note 2: Listed Company at Taiwan Stock Exchange and over-the-counter company at Taipei Exchange should disclose additional information below:

- a. The average amount of employee benefit for the years ended December 31, 2020 and 2019 was NT\$2,229 thousand and NT\$1,725 thousand, respectively.  
 (“Total employee benefit - Total board compensation”/“Total employee headcount - Total non-employee director headcount”)
- b. The average amount of salary and bonus for the years ended December 31, 2020 and 2019 was NT\$1,996 thousand and NT\$1,516 thousand, respectively.  
 (Total salary and bonus/“Total employee headcount - Total non-employee director headcount”)
- c. The average salary and bonus increased by 31.73% year over year.  
 (“Average salary and bonus in current year - Average salary and bonus in previous year”/Average salary and bonus in previous year)
- d. The Company did not have supervisors for the years ended December 31, 2020 and 2019. Therefore, there was no compensation to the supervisors.
- e. The compensation paid to board of directors and the executive officers is based on their contribution and market trends. It is reviewed by the Compensation Committee. The compensation paid to the employees is based on their contribution and market trends.

**FocalTech Systems Co., Ltd.**



**Chairman : Genda Hu**

